

The Nominating and Governance Committee: *Best Practices in Uncertain Economic Times*

NACD New England

March 10, 2009



1

Setting the Stage

Panelists

- ◆ **Lloyd Campbell**
 - ◆ Consultant with Spencer Stuart, New York
 - ◆ Leads Governance Committees on two of his Board roles – Argyle Security and Spartech Corporation
 - ◆ Board Member of The Guardian Life Insurance Company of America and previously served on the Boards of Alderwoods Group and Georgetown University.
- ◆ **Cynthia Feldmann**
 - ◆ Board Member and Audit Committee of STERIS Corporation
 - ◆ Member Nominating & Governance Committee and Chair of the Audit Committee of Hayes Lemmerz International Inc.
 - ◆ Board Member serving on the Technology and Quality Committee of Hanger Orthopedic Group
- ◆ **Robert Hallagan**
 - ◆ Vice Chairman and Managing Director of Korn/Ferry International.
 - ◆ Co-founded The Center for Board Leadership, a joint venture with The National Association of Corporate Directors
 - ◆ Director of ResCare, Inc. and Berkshire Life Insurance Company.

Moderator

- ◆ **Theo Sharp, Managing Director, Pearl Meyer & Partners**

2

Setting the Stage

Scrutiny of Corporate Governance Has Been Steadily Increasing

- ◆ **External Events**
 - ◆ Sarbanes-Oxley era
 - ◆ Various executive compensation events
 - ◆ Financial markets meltdown
- ◆ **Rise of External Influencers**
 - ◆ Congress
 - ◆ RiskMetrics (CGQ)
 - ◆ Glass-Lewis
 - ◆ Institutional Investors
- ◆ **Increasing Regulation**
 - ◆ SEC requirements for Board composition and processes
 - ◆ Overhaul of SEC executive compensation disclosure
 - ◆ Sarbanes-Oxley
 - ◆ NYSE and NASDAQ requirements

3

Setting the Stage

Reacting to the Scrutiny

- ◆ **Examine**
 - ◆ Policies
 - ◆ Processes
 - ◆ Makeup
- ◆ **Enlist**
 - ◆ Experts
 - ◆ Advisors
 - ◆ Directors
 - ◆ Management
- ◆ **Execute**
 - ◆ Don't just check-the-box
 - ◆ Stay true to the policies and process of the Board
- ◆ **Evaluate**
 - ◆ Board performance
 - ◆ Committee performance
 - ◆ Individual performance
 - ◆ Management performance

4

Setting the Stage

An Important Component...And Today's Topic

- ◆ **Nominating and Governance Committees**
 - ◆ What are the responsibilities of the Committee?
 - ◆ What are its most important duties?
 - ◆ What is the most effective makeup of the Committee?
- ◆ **On Tap This Morning**
 - ◆ Identification and nomination of new Directors
 - ◆ Orientation and continuing development of Directors
 - ◆ Board evaluation
- ◆ **A Funny Thing Happened On The Way To Breakfast**

5

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6

Board Succession – Identifying Gaps

Companies now begin a director search by thoughtfully identifying the skills that are needed on the board, assessing the existing skill sets and identifying the gaps.

Spencer Stuart Board Profile™

[COMPANY NAME]	Professional Background										
	Ag	Insid	CEO/President	Fema	Diversit	Financi	Operatio	Technolo	Internatio	Marketi	Regulator
Board Members		er	Active	l	y	al	ns	gy	nal	ng	of
			Retire	e							Governme
			d								nt

7

Board Succession - Composition

- ◆ **Profile of new directors continues to shift:**
 - ◆ Fewer active CEOs – 31% vs. 49% in 1998
 - ◆ More retired CEOs – 16% vs. 6% in 1998
 - ◆ More other corporate executives (e.g., division managers and functional unit leaders) – 19% vs. 9% in 1998
 - ◆ Many newcomers - 24% are first-time independent directors
- ◆ **Skills most sought by boards include:**
 - ◆ Active CEO/COO – 58%
 - ◆ Retired CEO/COO – 40%
 - ◆ Financial expertise – 57%
 - ◆ Industry expertise – 41%
 - ◆ International expertise – 39%
 - ◆ Technology expertise – 24%
 - ◆ Marketing expertise – 21%
 - ◆ Regulatory/government expertise – 13%
 - ◆ HR expertise – 6%

8

Board Succession - Turnover

- ◆ On average, boards are older and directors serve shorter terms than 10 years ago:
- ◆ 26% of boards have average age of 64 or older vs. 14% in 1998;
- ◆ 74% of boards now have mandatory retirement ages, up from 45% in '98;
- ◆ 72% have set mandatory retirement age at 72 or older vs. 37% in '98;
- ◆ 66% have one-year terms, up from 39 percent in '98.

CEO Succession

- ◆ CEO succession discussed by 61% of boards annually.
- ◆ 86% of boards now have emergency succession plan.
- ◆ 71% have a long-term succession plan.
- ◆ More than half of survey respondents – up from 20% last year – say the full board has primary responsibility for CEO succession planning. Other companies charge the compensation committee (24%) or nominating/governance committee (21%) with this task.
- ◆ Many boards benchmark internal candidates against external ones.
- ◆ Boards are seriously trying to get to know internal candidates.
- ◆ Many boards ask top internal candidates to make presentations to the board (88%) and to attend board meetings regularly (70%).

◆ Cynthia Feldmann

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Bringing the new member in....

Need to know.....



- History & Location
- Organization & Management
- Strategy
- Industry & Competition
- Governance
- Culture
- Compliance
- Accounting

Board performance depends on each member and all members



Reconciling the concerns of stakeholders and respecting views of colleagues

Short term vs. long term

Shareholder vs. other constituencies

Entrepreneurial drive vs. risk profile

Specifics vs. perspective

13

Board Meetings Depend on Energy



GROUP DYNAMICS

Team function

Respect views

Contribution

Healthy discussion

BOARD INPUTS

Information provided

Preparation Level

Outside Training

Diversity of Voices

14

Board Development - like education - is never done



- ◆ Evaluation
- ◆ Training
- ◆ Retreats
- ◆ Site visits



15



◆ Robert Hallagan

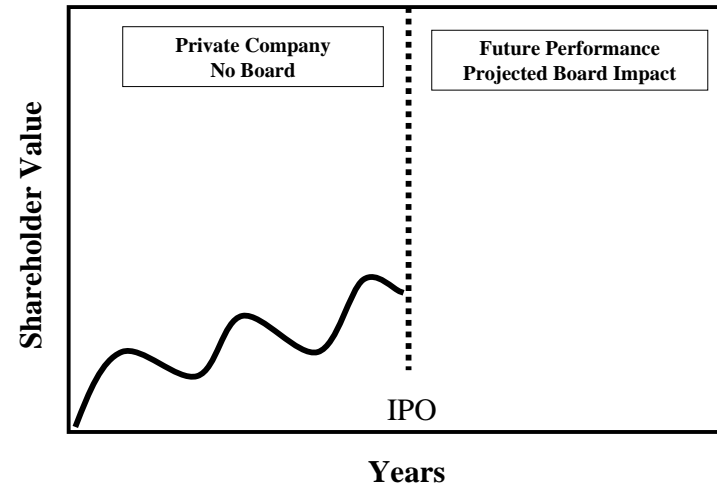
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16

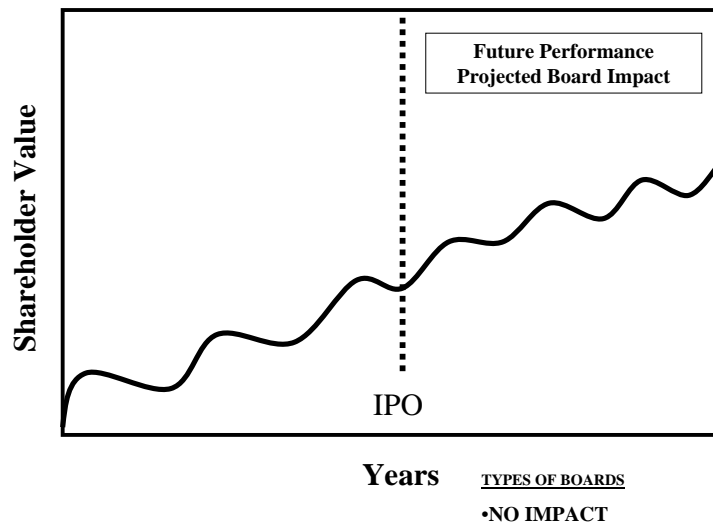
BOARD EVALUATIONS

- ◆ **GOOD NEWS** – Majority of firms do some form of Board Evaluation
 - ◆ Big change in ten years
- ◆ **BIG QUESTIONS** –
 - ◆ Do they work?
 - ◆ Have they become another check on compliance check list?
 - ◆ If a company has underperformed for ten years, is it possible they had good Board Evaluations for ten years?
 - ◆ Should the board of a company that has consistently underperformed for ten years resign?
- ◆ **A Fresh Look – Zero-base our thinking**
 - ◆ Is there a gold standard for a “High Performance Board?”

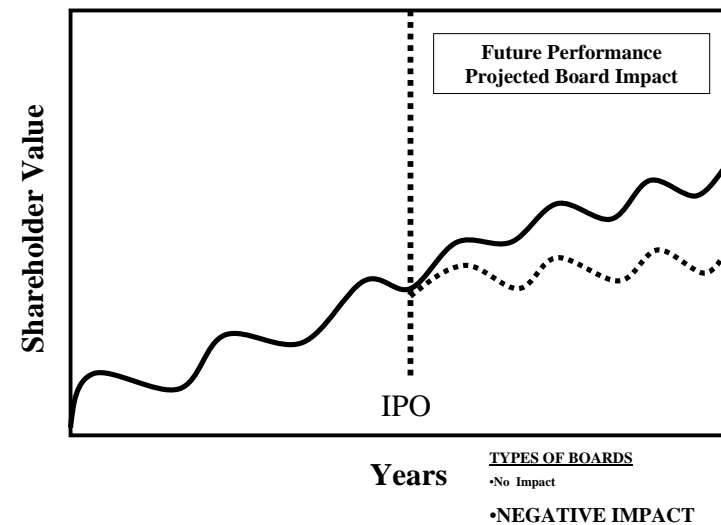
Zero Base Thinking Why Do We Exist?



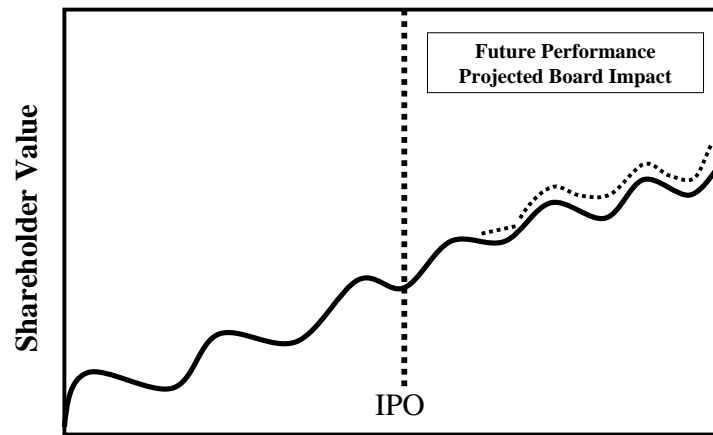
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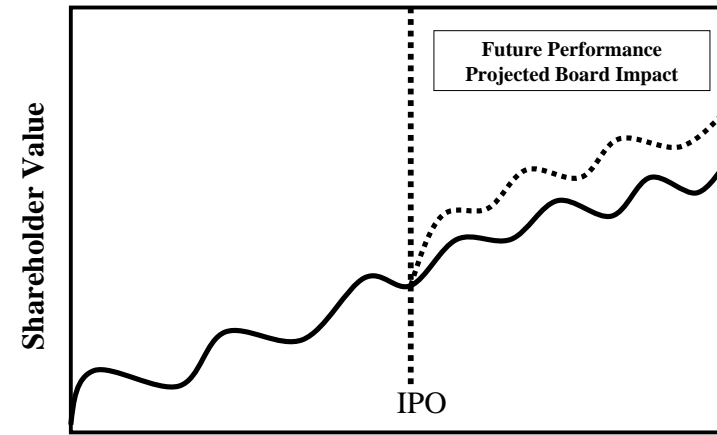
Years

TYPES OF BOARDS

- No Impact
- Negative Impact
- STRONG COMPLIANCE (OVERSIGHT BOARDS)**

21

Zero Base Thinking Why Do We Exist?



Years

TYPES OF BOARDS

- No Impact
- Negative Impact
- Strong Compliance (Oversight Boards)
- PERFORMANCE ENHANCER/STRATEGIC ASSET**

22

STRATEGIC ASSET & TRUE COMPETITIVE ADVANTAGE

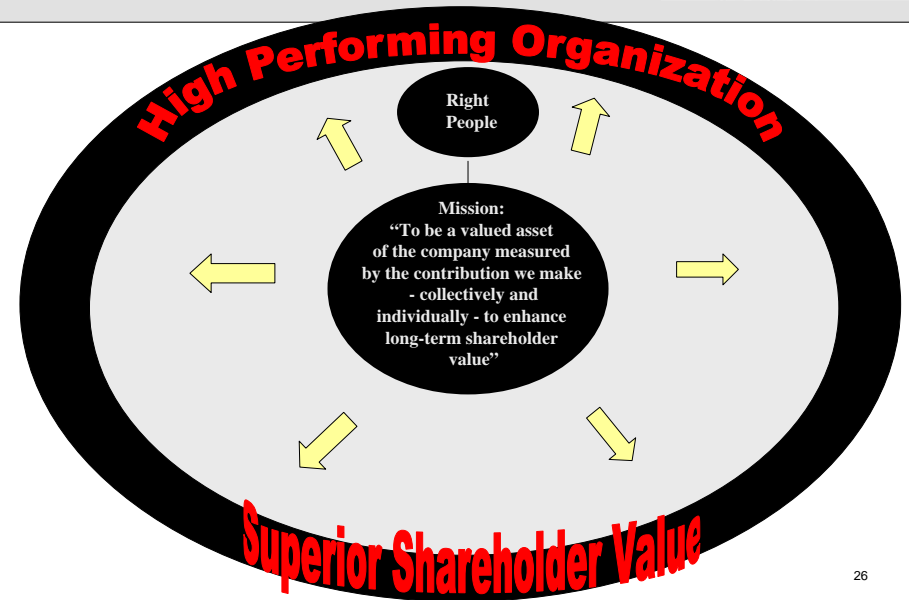
- ◆ Know Business and Competition
- ◆ Provide Intellectual Capital; Ideas, Networks, Best Practices
- ◆ Enhance Decisions By Rigor Of Analysis, Knowledge And Constructive Engagement
- ◆ Raise Bar - Expectations - High Standards
- ◆ Engage and Energize Leadership
- ◆ Help Attract Top Talent
- ◆ Hold Leadership Accountable
- ◆ Think Creatively About Compensation for "A" Players
- ◆ Board Meetings - Exciting, Challenging, And Enjoyable
- ◆ Attract Business
- ◆ Tough on Acquisition Decisions

Bottom Line: Can link their collective impact to ensuring company has maximized long-term shareholder value.

23

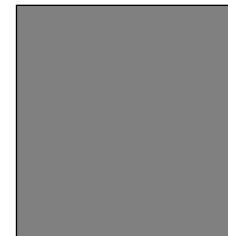
Before we jump into a Board evaluation – should we first build a model of Board that will consistently add value and be source of continuous competitive advantage, then benchmark ourselves against it?

24

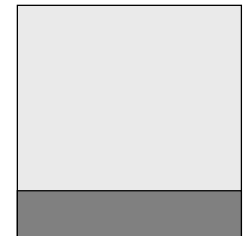


- ◆ Build a long term succession plan for Board that continuously aligns talent on Board with toughest future challenges of business
- ◆ End Entitlement

Board Intellectual Capital

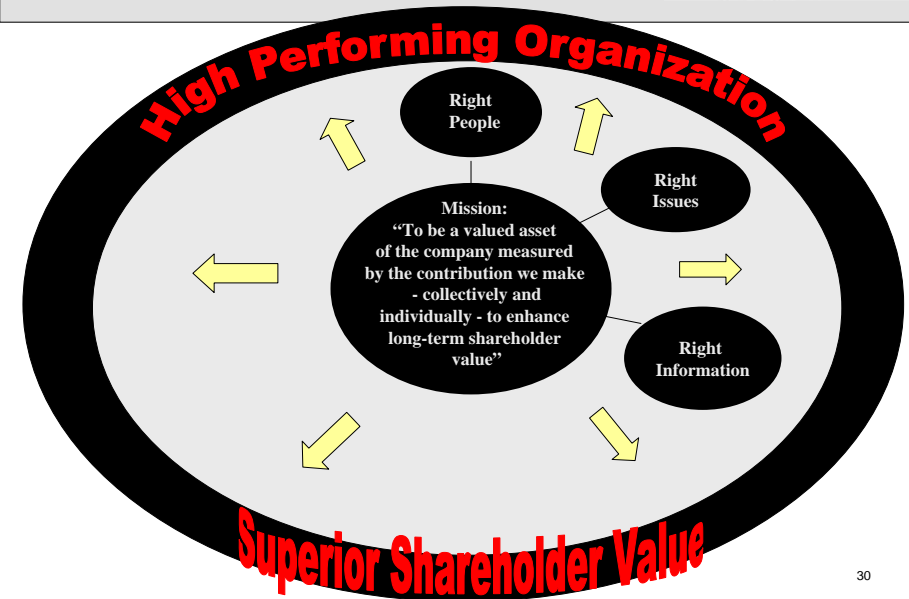


Board Objective Use It- Do Not Waste It



Right Issues

- ◆ Does 404 discussion drive shareholder value?
- ◆ What percentage of time now dedicated to compliance issues?
- ◆ What percentage of time dedicated to drivers of long term shareholder value?



Right Information

Pure Financial Information

VS.

Balanced Scorecard Approach

What are drivers of shareholder value? What are best metrics to track performance?





Where to Start -

Step I. Straight Talk - At the top - Full Board

Objectives:

- Honest assessment: what type of board are we now?
- Commitment to be the best - a strategic asset and source of competitive advantage

Step II. Put “Stake in the Ground”

Adopt - Powerful Mission Statement

“To be a valued asset of the company measured by the contribution we make - collectively and individually - to enhance long-term shareholder value”

Step III. Ensure focus and accountability

- Empower Governance Committee to make it happen – consider changing name to “Board Effectiveness Committee”
- Enhance Charter: “To establish continuous improvement process to ensure Board becomes source of competitive advantage and a strategic asset”
- Be sure leadership of Committee highly respected

Step IV. Logical Steps for Committee:

Full Board

- Develop consensus view of your model of “High Performance Board”
- Develop rigorous Board assessment process benchmarking against framework
 - One on one discussions not written survey – consider respected outside facilitator

Right People

- Develop long-term succession plan for Board – to include:
 - Alignment of critical skills to companies toughest strategies and operating challenges
 - Agreement on “Ideal Candidate Profile”
 - Adoption of individual assessment process that maintains collaborative spirit but enhances accountability, creates “Earn the Right Culture” and ends any sense of entitlement
 - Provide respectful process to transition Board Leadership and membership

**Step V. Rigorous action-oriented follow through and
monitoring**

- Consistent reporting - each Board meeting
- Annual - straight talk in-depth discussion