

**THE HONORABLE BARBARA HACKMAN FRANKLIN**  
**“RESTORING PUBLIC TRUST IN CAPITALISM – THE DIRECTOR’S ROLE”**  
**SINGAPORE INSTITUTE OF DIRECTORS CONFERENCE**  
**SINGAPORE SEPTEMBER 12, 2012**  
**REMARKS DELIVERED BY VIDEO**

Good morning. My congratulations to the Singapore Institute of Directors (SID) for putting together such a robust and relevant conference agenda. I had very much looked forward to being with you in person and to being back in Singapore again. But I have a painful tear in the rotator cuff of my right shoulder. This has caused my doctors to tell me to stay home in Washington -- no travel for the immediate future. So, the video is the next best thing. I extend warmest greetings to all of you gathered for this annual conference. And I include in that greeting my friends from Malaysia’s MACD who I believe are also in the room. I was to have visited with them in Kuala Lumpur after this conference and have had to postpone that visit as well. This is my loss since I am missing the opportunity to meet, discuss, and learn from you.

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**Let us turn to today’s topic: Restoring public trust in capitalism – the director’s role.**

First, let me say that I believe in capitalism. We know that there are different styles of capitalism being practiced today but I am specifically talking about market capitalism. And in particular, the American brand of market capitalism, with which I have the most experience.

Throughout history capitalism has created economic growth and jobs. It has spurred innovation, increased living standards, and lifted millions out of poverty. But we must also acknowledge that capitalism is not perfect. The industry it spawned has degraded our planet, displaced workers because of trade or competition, and caused a growing gap between rich and poor. Yet to paraphrase Sir Winston Churchill’s famous quote about forms of government...“that democracy is the worst form of government except for all those other forms that have been tried from time to time.” The same can be said of capitalism. It is the worst economic system except for all the others that have been tried from time to time.

In recent history every time there is an economic crisis or a major scandal, capitalism has come under attack. The result has been new approaches to make the system work better and/or more governmental involvement.

The Great Depression in the 1930's in the US caused great concern and out of this traumatic era came governmental action, new regulatory approaches, such as the creation of the Securities and Exchange Commission (SEC) and new safety nets, such as social security.

In the past decade it was the scandals involving Enron, WorldCom and various others that caused capitalism to be questioned again. These scandals caused corporate governance to become a political issue, and the result was the Public Company Accounting Reform and Investor Protection Act of 2002, commonly known as Sarbanes-Oxley, named for the two major sponsors. It beefed up the responsibility of audit committees, provided stiff criminal penalties for fraud, and brought new rules to increase director independence.

And now, once again, the financial meltdown of 2008 has provoked the most sustained questioning of capitalism that I can recall. The US government has stepped in. Besides the stimulus measures, bailouts of automobile companies and some others, another result is the Wall Street Reform and Consumer Protection Act of 2010, known as Dodd-Frank, named for the two major sponsors. This is the most sweeping financial reform legislation in 50 years, requiring 240 new rules, many of which impact public companies.

As a result, public trust and confidence in our capitalistic system are suffering. In the most recent annual Gallup Honesty and Ethics poll, business executives were at a low point but at least above car salesmen, telemarketers, lobbyists and members of Congress.

Business executives really means all of us – directors as well as management. Many people do not yet understand the distinction between management and the board of directors. So, it follows that all of us have a responsibility to defend capitalism and work to make it perform better.

### **What can companies do?**

Public companies are expected to make a profit for their shareowners and to do the best they can for their other stakeholders. However, in today's world, this isn't enough. Many recent books put forth ideas about what we must do to save and improve capitalism, and there is a lot of

discussion now going on in the US business circles. One book I like by three Harvard Business School professors is entitled: *Capitalism at Risk –Rethinking the Role of Business*.

The bottom line is that expectations for company performance have been raised. That will be true well into the future, and public companies must deliver. That is why the smartest companies are paying attention to such things as -- protecting the environment, improving health and safety, supporting the communities where they operate and do business, and bringing greater diversity to their workforces, managements, and boards. These companies are putting forth sustainability goals, producing sustainability reports and using other vehicles to be more transparent about what they are doing and aspiring to do. Let me cite some real live examples without actually naming the companies: A consumer goods company pledging to improve the health of 1 billion people on the planet. A large retailer setting a goal to acquire all energy from renewable sources. A manufacturing company sending water scarcity solutions to countries in Africa. A chemical company pledging to reduce emissions dramatically.

Actions like this are not only good for people, they are also good business. Being socially responsible can build and add luster to a company's brand, and that has its own rewards.

Otherwise, if businesses do not step up to the challenge of doing more for the planet and for its people, then often government steps in. In my experience, government is not as efficient or innovative as private sector companies which have a strong motivation to create, produce, and get ahead. So, to me, more government is not the answer – we are. Companies and business people are the answer. It is up to our companies to make capitalism work better for the benefit of our shareowners, our stakeholders, our employees, our customers, our communities, and yes, our countries. And we as directors must help and encourage them.

### **Now, what can we do as directors?**

We have a unique role, as we all know. The board of directors provides policy guidance, hires the CEO and tracks company performance. The CEO runs the company, and the shareowners elect the directors. Because we directors have a key role in helping the companies we serve to be financially successful, we, therefore, also have a role in buttressing our capitalistic system and making it perform better. As the public expectation for corporate behavior has been elevated; so, too, has the public expectation for director performance. This is the new normal.

Specifically, here are five suggestions about what we directors can do:

- **First, be the best we can be in the boardroom. Be a leader by example.** Bring every ounce of our experience, wisdom, objectivity, good judgment and high integrity to the board table. The volatile and uncertain times we are in require it, and public awareness of our high standards can help to build back trust in capitalism.
- **Secondly, stress the “tone at the top”, a culture which is ethical, and rewards integrity.** This culture must start at the top with the CEO and the board and flow down through the entire organization. The internal control systems must work well, too, but the critical ingredient for long term ethical behavior is the culture. Audit committees are often the overseers of tone at the top but the full board should be involved. Nothing loses public trust faster than scandal, fraud, corruption, and greed. We compliment Singapore for being noted by Transparency International as one of the best, most “clean” places for business. Keep it up. In my experience, maintaining the ethical culture takes constant vigilance.
- **Three, build a strong, diverse board, which values openness and candor.** Make sure the group process, through which decisions are made, works well. The group process and how well it works is one of the under-emphasized aspects of board performance. Directors must trust and respect each other, be willing to speak their minds, and have no other agenda other than the well being of the enterprise. Essential, too, is a leader of the independent directors who is respected and trusted by the directors as well as by the CEO and who is skilled at building consensus and making sure all voices are heard. If the board group process works well, it will be much more effective at guiding the company to perform well financially and do good for the public at the same time.
- **Four, push for corporate social responsibility actions to be embedded in company strategy.** That means there would be goals and milestones to measure progress on those actions the company decides to take. In other words, this is simply “management by objectives” applied to corporate social responsibility. While many companies have such goals, too often the board doesn’t track progress on a regular basis. So, ask the CEO for periodic reports to monitor progress on these actions the same way the board gets reports to monitor financial performance. And then, reward progress. Include among the metrics on

which executive compensation is based some measures that track progress on corporate social responsibility actions. In the US, for example, some companies have compensation metrics that relate to improving safety or diversity -- in addition to the usual financial measures.

- **Finally, stay current.** Continuing education for each of us is a necessity today. We need continuing education about business practices, locally and globally, about corporate governance and about corporate social responsibility. That's why you are at this conference. This fast moving global arena will continue to be competitive, volatile, and often uncertain. We as directors must keep up. We cannot afford to be stuck in the practices and mindsets of the past.

**Please know that NACD is your partner.**

We want to be helpful and hopefully, inspiring. We want to build a closer relationship with SID. We have a variety of resource materials compiled through our 35 year history. They are available through our website and by request. We have many educational offerings too. If you happen to be in the US, come see us. You have an open invitation to visit the headquarters or attend an event. In July NACD moved in to new offices in Washington, on Pennsylvania Avenue, not far from the White House. We needed larger space because we are growing so fast. We now have 13,000 members with more joining every day. And we are proudly celebrating the 35<sup>th</sup> year since NACD's founding.

Before closing I want to say a few words about diversity, one of my favorite subjects. We know it is a hot topic globally, especially gender diversity in the boardroom. Each year NACD produces a Blue Ribbon Commission report on a key boardroom topic. This year's report is entitled "Diversity: Moving from Interest to Action". I reviewed the final draft yesterday, and the report will be released at our annual conference in October in Washington. This report defines diversity broadly to include gender and ethnic identity as well as experience and skill set. I have seen firsthand the power of diversity in the boardroom. I have seen decision making sharpened and enriched when there are many voices, thoughts, and different perspectives around the board table. Increasing diversity is not only the right thing to do. It can boost competitiveness and our capitalistic system.

**Conclusion: I believe in capitalism.**

So, let me conclude by saying once again: I believe in capitalism. I have faith in capitalism to continue to bring economic growth, jobs, and prosperity to people all over the world. But it is up to us, as directors, to help improve the performance of the companies we serve by encouraging and monitoring their actions of corporate social responsibility. If we join together and push for this, I truly believe our collective efforts will be noticed. And trust and confidence in capitalism will be growing again.

Thank you. Have a wonderful and productive day and my very best wishes to each and every one of you.

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