

THE HONORABLE BARBARA HACKMAN FRANKLIN
NATIONAL ASSOCIATION OF CORPORATE DIRECTORS 2011
NACD 24TH ANNUAL BOARD LEADERSHIP CONFERENCE
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REMARKS AS DELIVERED

Welcome

Good afternoon and a warm welcome to the 24th NACD Annual Board Leadership Conference. We are thrilled that so many of you are here – nearly 800 participants. You represent 41 states and more than 1400 corporate boards. You represent all 22 NACD chapters. You represent 16 other countries: Bermuda, Brazil, Canada, Cayman Islands, Colombia, Gambia, Germany, Korea, Kuwait, Japan, Malaysia, Mexico, New Zealand, Saudi Arabia; South Africa, and the United Kingdom. A special greeting to all of you who have traveled from other countries to be with us. Your presence is proof that corporate governance is indeed global.

Uncertain World – High Expectations for Directors

We gather today at a time when expectations for director performance are higher than ever, when our work as directors is more vital than ever, and when our wisdom, good judgment, and integrity are more needed than ever. This is more profound now than at any time I recall in the 30 years I have served on corporate boards.

We can sum this up in the words of my favorite philosopher. In the words of Yogi Berra, “If the world were perfect, it wouldn’t be.”

That is true. The world is not perfect. The cover of this week’s *Economist Magazine* literally screams in red letters, “Be Afraid. Until politicians actually do something about the world economy, Be Afraid.”

We *are* in a very uncertain and volatile time, globally. Here in the US, we are recovering from the financial crisis and the recession -- though economic growth is not robust as we would like. Unemployment is too high. Our unsustainable federal budget deficit and debt situations are being addressed; but confidence -- consumer and business -- is quite depressed. And we have a Presidential and Congressional election next year.

There are sovereign debt problems in the euro zone. Global growth has slowed. Stock markets worldwide are gyrating. We seem to be experiencing more natural disasters, and there is still the threat of terrorist attacks.

Add to this mix in the US the more complex regulatory environment. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) was passed last year and is the most sweeping financial reform legislation in 50 years. It requires more than 240 new rules, many of which are still evolving. The great majority of them apply to public companies and some directly impact boards of directors.

One now in effect is “say-on-pay”. As we know, this requires non-binding advisory shareholder votes on the compensation of executives. Another one now in effect is the “whistleblower” rule through which individuals can be rewarded if they provide high-quality tips to the Securities and Exchange Commission (SEC) which lead to successful enforcement actions.

And then there was the SEC’s proxy access rule which would have allowed shareholders to place candidates, under certain conditions, directly onto a company’s proxy ballot. That rule was rejected by the DC Circuit Court of Appeals in September, and the SEC says it does not intend to appeal. However, we should be mindful that there is still “private ordering” meaning that shareholders can bring forth resolutions to the company asking for a bylaw change which allows proxy access.

Stay tuned. There is much more to unfold on both fronts -- the global business environment and governmental rule making. I’m an optimist by nature and always believe there will be good outcomes and the world economy will come through this and be healthier than before.

The Balance of Power in the Boardroom

Let’s digress for a moment and reflect on what we do – what being a director means. The corporate governance model in the US is a system of checks and balances. The board hires and fires the CEO, makes policy, and oversees performance. The CEO manages the company. The shareholders elect the board. It’s a tripartite balance of power. That power balance has shifted in various ways over the years, sometimes overt, sometimes subtle.

First came the era of CEO domination; then in the 1980's shareholders woke up and made their presence felt; then after the passage of the Sarbanes-Oxley Act (SOX) in 2002, we directors assumed more power. More recently, there is the push for more shareholder influence. But no matter where you stand to view what's going on in governance, one thing is very clear: directors today are expected to be smarter and more vigilant.

We directors are expected to step up our performance – I believe we absolutely are equal to the challenge. In the words of Yogi Berra, “It gets late early out here.”

Directors Meet the Challenge

Here are a few thoughts about what we must do:

- **The obvious: understand the businesses of the companies we serve and how they make money.** Understand the strategy and the risks and how they are managed and mitigated. Keep CEO and management succession always on the radar. Be vigilant about protecting the “tone at the top”. Keep the ever-changing external environment – economic, political, and competitive- sharply in our focus.
- **Build a strong, diverse board, with a culture of openness and candor.** Make sure the group process, through which decisions are made, works well. Choose a leader of the independent directors (a lead director or non-executive chairman) 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. This year's NACD Blue Ribbon Commission focused on The Effective Lead Director, and you'll hear more about that tomorrow morning.
- **Bring every ounce of our experience, wisdom, objectivity, good judgment, and high ethical standards to the board and its deliberations.**
- **Work energetically to do the very best job we can** to benefit shareholders, other stakeholders, and the enterprise as a whole.

Above all, **know that the work we all do to help build successful companies contributes to economic growth and our quality of life. Be proud to be a director.**

Current Issues Needing Our Attention

There are a couple specific challenges which need attention:

1. **Executive compensation.** This is, according to Yogi Berra, “Deja vu all over again.” Public concern about excessive CEO compensation just won’t go away. And even though this year’s say-on-pay votes were overwhelmingly positive, we shouldn’t take much comfort in that. At a time when our economy is troubled and unemployment is too high, I fear that some scandal or other spark could occur which would ignite a fire under the compensation once again. That would be an invitation to more government intervention in the boardroom. So, we must endeavor to pay for performance, not non performance – and **really mean it.**
2. **Diversity.** Diversity of thought, experience, skills, gender, and race. At NACD we have a focus on this right now. Two weeks ago I spoke at a New York session aimed at promoting more women on boards and coming up with ways to break through 15% barrier – that’s the percent of board seats now held by women. That percent has remained largely unchanged for the better part of a decade. I am a fervent believer in the power of diversity, broadly defined, because I have seen it firsthand. A more diverse group around the board table can bring new ideas and new ways of looking at old problems. This, together with enlightened leadership, can add value to any board deliberation and to the company.
3. **New technology.** I mean mobile, social, and cloud. The young people in my company think I am completely out to lunch about these technologies and how to use them. And so, I am valiantly trying to get up to speed, to understand, for example, how social media can be used to communicate with a company’s shareholders, customers, and employees, and to listen to them as well. This is the positive side.

But there is a flip side and that is the risk these technologies create. A company’s internal control structure must constantly run to keep up with advances. We directors need to run to keep up too if we are to do a proper oversight job of IT risk, thereby

helping the company guard against compromises of the company's systems which can result in theft of identity or intellectual property. This is a tall order for any of us over 30, but we must rise to the occasion.

As Yogi Berra would say, "Ninety percent of this game is half mental."

NACD Is Your Partner

Consider NACD your partner. We want to help you to be exemplary board leaders and give you tools to help you to be the best you can be. Ken Daly is our terrific president. The energetic NACD staff is at your service. We have:

- **Educational offerings**...courses, webcasts, webinars on topics of substance and governance. Commit to ongoing director education. Become an NACD Board Leadership Fellow.
- **Resources:** we have the best collection of governance materials on the planet going back nearly 25 years. When you are a member of NACD, this is just a phone call or website search away. The daily email news summary is one of my favorites.
- **Peer-to-peer convocations**, like this one, to provide networking opportunities
- **"Voice of the director" advocacy.** We are bringing the views of directors to the public policy process – where, otherwise, directors would have no voice at all. For example, we have commented on the SEC whistleblower rule proposal. Last week we commented on the Public Company Accounting Oversight Board's (PCAOB) possible revisions to the audit report. NACD is *the* not-for-profit membership organization, composed only of directors, nearly 11,000 strong. Using technology, we can tap into what you, our members, think about issues. So if you get these survey questions via email, answer them. They help us to formulate positions on your behalf.

Conclusion

Let me conclude with one more profound thought from my favorite philosopher. Yogi said, "If you don't know where you're going, you might not get there". I think we *do* know where we are going. We know, as directors, that we are doing vital work for our companies, our

shareholders, stakeholders, and indeed, our countries. And **we will continue to do that. Let's pledge to be the best we can be.**

I look forward to seeing you throughout the conference and wish you an illuminating and exciting time. Thank you for being here.

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