

THE HONORABLE BARBARA HACKMAN FRANKLIN

WBL 10th Anniversary Summit

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Remarks as Delivered

- **HOW I entered the Board world** and what things were like when I joined my first board, which was Aetna, in late 1979. There were not many women on boards then. The ones who were there were mostly from academia or philanthropic activities. My background was a mix of business (HBS, corporate at the Singer Company and Citibank) and government, which included White House staff and Commissioner of the USCPSC. I had just left my Commissioner role after 6-1/2 years. That Commissioner role had caused me to be visible to some in the business community. Other board offers which came about the same time as Aetna's were Dow Chemical and Westinghouse. I didn't know much about boards...they were not a topic of conversation or comment in the media. So, I went to NYC to visit with the CEO of Citibank (Walter Wriston) to ask his advice. His advice was this: There are 2 questions to ask about a prospective board: (1) Is management competent to run the company? (2) Are managements values – ethics – the same as yours? If you cannot answer yes to both those questions, don't do it. This advice stands up well today.

I joined all 3 of those boards within the year...and as I look back, this was rather challenging. I was the only woman. There was a generational difference --some of the men were old enough to be my father, and in the case of one of them, they didn't much like government types, especially regulators.

The chairman of one of them said they were putting in a 10 year rule...meaning after 10 years of service, they would evaluate how I was doing and decide whether I should continue. Because, he said, "If you turn out to be a turkey, we don't want you here for 30 years." (The implication is that they wouldn't mind having a turkey for 10 but not 30.) I passed the 10 year test and it is one of the boards to which I returned after being Secy of Commerce. That rule disappeared.

Subsequently I joined more boards and altogether in my career I have served on 14 public company boards and 2 private company boards. (Not all at the same time, of course.) A variety of industry sectors: insurance of various kinds, including health; chemicals, nuclear power, broadcasting, consumer finance, biotechnology, retailing, home furnishings, heavy machinery, hospitality, wholesale food, computing and business outsourcing, construction.

■ **My board career spans much of what I see that has changed in corporate governance.**

We can remind ourselves about what corporate governance is -- **a tripartite check and balance system. Boards set corporate policy, hire and compensate the CEO, and oversee performance; CEO's run the company; shareholders elect the board of directors. Over time the balance of power shifts.**

In the early days **CEO's clearly dominated.** Directors were mostly passive. **Then in the 1980's shareholders began to wake up and large institutions began to recognize their latent power.** ISS was formed; Council of Institutional Investors and the raiders who engaged in hostile takeovers caused board to make faster decisions. Then, directors began to be sued and that caused directors to wake up a bit more.

Through the '90's directors began to be more assertive.

Then the scandals in 2001 – Enron, WorldCom – Sarbanes Oxley was the governmental response. Then the power balance shifted toward directors giving more impetus to exercise the authority directors already have. (Examples: majority of independent directors, executive sessions of outside directors without management present, audit committees selecting audit firm and lead partner.)

Now there is a swing to more shareholder power. **Say on pay, a shareholder advisory vote over executive compensation, is now mandatory, thanks to the Dodd-Frank bill. Proxy access – a rule which would give shareholders direct access to the company's proxy, to put candidates for the board directly onto it.** Those in the shareholder activist community believe this is a “game changer”.

If proxy access comes to pass...we'll see what the DC Circuit Court decides by summer...then this would be in effect for the 2012 proxy season. Over the next few years, we will have to find the new balance of power equilibrium.

Now much more attention paid to who is on boards, how qualified they are, and the media covers what happens in boardrooms. They love to get the inside scoop. All the machinations that have taken place at Hewlett Packard would be a good example.

■ **Turn now to the status of women on boards...The question posed: What will change the face of corporate governance? The obvious answer is MORE WOMEN. There are more women now but there is a great deal of room for improvement.**

According to Catalyst women held 15.7% of Fortune 500 board seats in 2010, a slight gain 0.5 percent over 2009. This is the fifth report where the women in leadership remained flat. More than 50% of boards had at least 2 women directors. 20% had 3 or more. 12% had none. Same is true of the leadership roles.

12% audit committee chairs; 11.5% compensation committee chairs; 16.9% nominating and governance committee chairs – the only one that kept pace with the number of women on the board

Slightly more than 2% of women were board chairs. Only 8.8% of lead directors were women.

Ethnicity...women of color...of 2010 women, 19% women of color...70% had zero women of color

The flatness of the trend is bothersome.

Why?

- Still not enough women in leadership positions in business 7.6 % of top earner positions...and boards do tend to look for business people.
- Boards got smaller in the last decade.
- More done by search firms...and they don't always have enough women in their lists
- There is still resistance to women in such leadership positions. It's not articulated. It's just there. An illustration – and it happened at a board meeting last week. 4 women were standing in a circle talking at a cocktail hour. One of the men came by and said, "What are you doing – plotting the revolution?" He said it with a smile, but the fact that he said is revealing. Quite often something like this happens. What we were talking about is the problem with shoes when we packing to travel.

■ There is a compelling case to be made for having more women in boardrooms...and especially a critical mass of women.

Besides sheer brain power, a critical mass of women will change the discussion and the outcome, quite often. Wellesley study of several years ago: 3 women on a board are critical mass. More collaborative style...willing to ask the tough questions and take a stand, especially if it's an ethical type question. This is definitely my experience. (2 of my boards today have 4 women...and 1 other one will, too.)

Women's brains may be physiologically different from men's. Years ago there was an anthropological study which compared the brain of a woman to the brain of a goose. . The conclusion of course that the man's brain is different and superior. We all said at the time: Impossible...all human brains are identical. Well, not really. The source of this is research conducted by the late neuropsychologist, Dr. Roger Sperry from Caltech for which he and his colleagues received a Nobel Prize. The human brain has two halves – the left and the right. The left is the verbal, analytic side; the right is non-verbal, perceives linkages, space perception, and adds emotional content. This is where intuition and creativity come from. The two halves are connected by the corpus callosum and, as I understand it, this functions slightly differently in women. Women have more input from the right side all the time, even when we are doing left brain,

analytic tasks which we spend most of our working time doing. A somewhat different perspective is the result. This is important and I believe contributes to a better thought process when making decisions. (One of the more challenging things in my career, spent so much with left-brain oriented men, is to provide rationale for something I know through intuition and experience but must find a rationale for this to persuade the left-brain oriented men I am working with.)

- **YOU are part of the answer...we need more women on boards, who are talented, experienced, and prepared. My message is: get prepared. Be prepared.**

(1) **Understand what boards do...** Today boards are very engaged in strategy, risk assessment, and succession planning for the CEO and the top team. Compensation is a key issue. It's continuing to be a political issue. Bottom line: return to shareholders and fairness to other stakeholders.

(2) **Know what you would bring to the board table**, in addition to good judgment and superb integrity and your experience...What are your special skills, your special experience or expertise...do you have operating experience? Do you have great knowledge of our health care system and the changes being made? Do you have IT experience, financial experience...or what?

(3) **Let people who are on boards know you are available**; Chairing networking not for profit boards are good experience – knowing how to function in a collegial environment, knowing how to ask probing questions nicely, and be non confrontational.

- Plug in with Exec recruiters do much more board work than was the case when I first joined boards. Boards look often for people who fill some skill gap, which is aligned with strategy

- **When you are approached by a board...**ask the 2 questions I earlier mentioned and then add a couple more. How does the CEO deal with the board --is there candor, give and take? Or is this an imperial CEO? Who is on the board? Are they people you want to be associated with? Are there women?

- **Once you are on a board:**

(1) Understand the businesses of the company and how the company makes money; this takes constant work. What is the strategy? What are the risks related to that strategy? How strong is the management team? How strong is the bench? Succession planning for the CEO? Bond with the other women...but don't expect you will always agree. Be able to relate your experience and special skills to the businesses of the company.

(2) Understand that this is a collegial process... you are part of a group...and the group often has to arrive at consensus to make decisions. Intend to be a

player...not a go along for the ride type. Know what the most important issues are to take a stand on. Don't be afraid to ask challenging questions in a non-confrontational style...this takes both courage and diplomatic skill.

(3) Stay current on things going the business environment which could impact the company. Obviously for a health insurer the past couple years, health reform was major; for a global company, the things happening in the Middle East can pose challenges. Know what is going on globally because there are often impacts now readily seen.

(4) Keep abreast of the latest trends and activities in governance because it is changing landscape.

HERE IS WHERE NACD can be your partner, can help you...what we have to offer...education offerings, research, and voice of the director. Annual conference is key; it's October 3&4, here in DC.

■ **Conclusion**...Being on boards of directors today can be challenging. We live in a fast moving world, as you all know. So being a director is a bigger job than when I first joined boards. And it's more important and more relevant now. Board of directors contribute to the very foundation of our great economy. Contribute to the US system of capitalism, something I fervently believe in. And our brand of capitalism and the companies that make it work – companies you work in -- are important to keeping our economy vibrant, strong, and innovative. The satisfaction of being a director is in knowing we are contributing to the greater good of our country's economic well-being. That, too, is national security.

■ **So, I wish you well as a director of a public company. Be the best** you can be. Let me conclude with the immortal words I first saw on a tee shirt in Churchill Canada. It's the spirit that counts.

My husband and I were there visiting polar bear country. A woman innkeeper met us at the airport. When we arrived at the inn, she checked us in... When we went to the restaurant, she took our order. Then she brought our food. Fabulous. That tee shirt read on the front: **BEHIND EVERY SUCCESSFUL WOMAN ...and on the back, IS HERSELF. That's the spirit. You can do it. Corporate America needs you and I wish you well in your careers and your forthcoming corporate board service.**

BHF

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