

NACD CONFERENCE -- BRC PANEL DISCUSSION

10-16-12

- Thank you. **The Diverse Board: Moving From Interest to Action. Welcome to an excellent panel**, all of whom were engaged in the BRC process. Curt Crawford, a co-chair, who is a computer whiz and builder of boards; Cari Dominguez, also a co-chair, who has served with distinction in our government, most recently as chairman of the EEOC; Sol Trujillo, who has been a CEO in 3 different countries around the world and who is also a chairman and director; Bonnie Gwin, who runs the board practice at Heidrick and Struggles, an executive search firm. **We are grateful to them for their participation and thank every one of the Commissioners and staff who made contributions to this final product.** Our hope is that this report will be useful to boards as they think about and work toward more diversity.
- I'll *begin with an overview* of the report and its findings and then I'll ask questions of the panel and then turn to the audience for questions. The report's findings:
- First, it's important to note that **this Commission views diversity as a business imperative – as a means to competitiveness.** A quote from the letter from the co-chairs: “A board’s performance relies on its understanding of the company and its operating environment. In today’s business landscape, the board cannot properly fulfill this responsibility without having directors who reflect the composition of its stakeholders, particularly its employees and customers. Put simply: corporations will not be able to build or maintain a successful enterprise that yields sustainable long-term shareholder value, without bringing a greater variety of perspectives into the boardroom.”
- **Diversity defined. Diversity can mean different things to different people. This Commission says that a comprehensive definition of diversity includes two fundamental elements: (1) identity, meaning gender, race, ethnicity, and (2) skills and experience. Therefore, there is flexibility** for each board to select a unique meaning for diversity depending on its needs. No cookie cutter approach.
- **Data shown in this report illustrate** that US boards have been slow to grasp this and act on it. We collectively are behind the curve. We have been in much the same situation here for the better part of 2 decades, especially with respect to gender, race, and ethnic diversity. One obvious question is why? That gets to the barriers to inclusion -- structural and social – in existence today which are enumerated in one of the chapters.
- Let me turn to the specific **findings in the report.** The Commission believes that approaches to building a diverse board will vary and diversifying may take many shapes. The diversifying should be **done methodically with the intent of finding the very best talent to complement the company’s strategy and needs.**
- **Whatever the approach taken by each board, this commission believes there are four actions** that should be taken by all boards, and these are:

1. **Review and evaluate board composition.** Diversity discussions should be rooted in strategy. Candid discussion on both issues will be crucial to understanding what the board needs. This implies that the board knows what it already has. The SEC in 2009 for the first time required boards to disclose their approach to diversity in board recruitment.
 2. **Expand horizons for seeking candidates.** Set targets for what is needed and hold the recruiters to it. They, in turn, should look in new places for candidates.
 3. **Improve director evaluations.** Board and individual director evaluations must be strengthened to spot underperformance and correct it.
 4. **Preserve, enhance or consider adding tenure-limiting mechanisms.** Pick the best ones for the company and then stick to them. These could be retirement ages, term limits.
- Finally, **the commission encourages board to consider going beyond required disclosure and provide shareholders with a thorough explanation of their director selection process.**
 - There are some **excellent cases in the Appendices, e.g. GM and Intel.**

BHF

10-16-12