

THE SECOND ANNUAL BOARD OF DIRECTORS
HUMAN CAPITAL INSTITUTE

STRENGTHENING THE BOARD CONNECTION

CTPartners

“Human capital is as large a performance lever as is financial capital. Great companies have a strong culture, a strong focus on talent, and an understanding of what it takes to win in the marketplace.”

— Kenneth I. Chenault, Chairman and CEO of the American Express Company

WELCOMING REMARKS

“Strengthening the Board Connection: The Second Annual Board of Directors Human Capital Institute” was convened on April 5, 2011, by CTPartners in New York City. The daylong event, which focused on a series of timely and essential issues facing the global business community, brought together a distinguished group of panelists and attendees from leading corporations, financial institutions, academia, and nonprofit organizations from around the world.



Brian Sullivan

Brian Sullivan, CEO of CTPartners, the global executive search firm, welcomed all participants, while providing thanks to a blue-chip group of sponsors that included Booz & Co., Steven Hall & Partners, the NACD, and TIAA-CREF, which hosted the impressive gathering in its headquarters.

“I am confident that today’s discussions and panelists will give us all some fresh, new, insightful perspectives on global boards, human capital, and the role that the Chief Human Resources Officer can play in supporting and enhancing corporate performance,” Mr. Sullivan emphasized.

He then turned the microphone over to **Daniel Kaplan**, a Managing Partner with CTPartners who leads the firm’s Human Resources Practice. As Mr. Kaplan commented, “It’s exciting to be here. At last year’s event, the First Annual Institute, we looked for strategies that would build bridges between boards and human resources executives, and we did that by bringing all the key constituencies under one roof to talk about the goals, the issues, and the obstacles that still exist. Just 12 months later, the agenda has evolved, in large part because we are already seeing significant changes. Boards are increasingly expecting and demanding more from CHROs, and more and more CHROs are rising to the challenge.”



Daniel Kaplan

Keith Meyer, who serves as a Vice Chairman of CTPartners and Global Head of its CEO & Board Practice, concluded the welcoming remarks by noting that the Institute’s organizers had “stepped back a few months ago to think about what the



Keith Meyer

past 10 years have taught us, with developments that included the first decade of negative shareholder returns since the 1930s. The decade began with the dotcom collapse, was followed by 9/11, and ended with us pulling ourselves out of the great recession. It’s essential to change this trajectory. And it’s gatherings like these, of the best and the brightest, that will help us develop strategies for building and preserving enterprise value while incorporating the perspectives of regulators, the board, HR, investors, and other key constituents.”

PROJECT 2020: TRANSFORMING BOARD PERFORMANCE

Robert Kaplan, a Professor of Management Practice at Harvard Business School, launched the day's discussion with pointed observations about the importance of board culture. While discussions about board under-performance tend to center on process, said Mr. Kaplan, he argued that board culture is the larger influencer of board performance. Prior to joining Harvard Business School in 2005, Mr. Kaplan served as Vice Chairman of The Goldman Sachs Group, Inc. He is Co-Chairman of Draper, Richards and Kaplan, a global venture philanthropy firm, and is also an advisor to a number of companies.

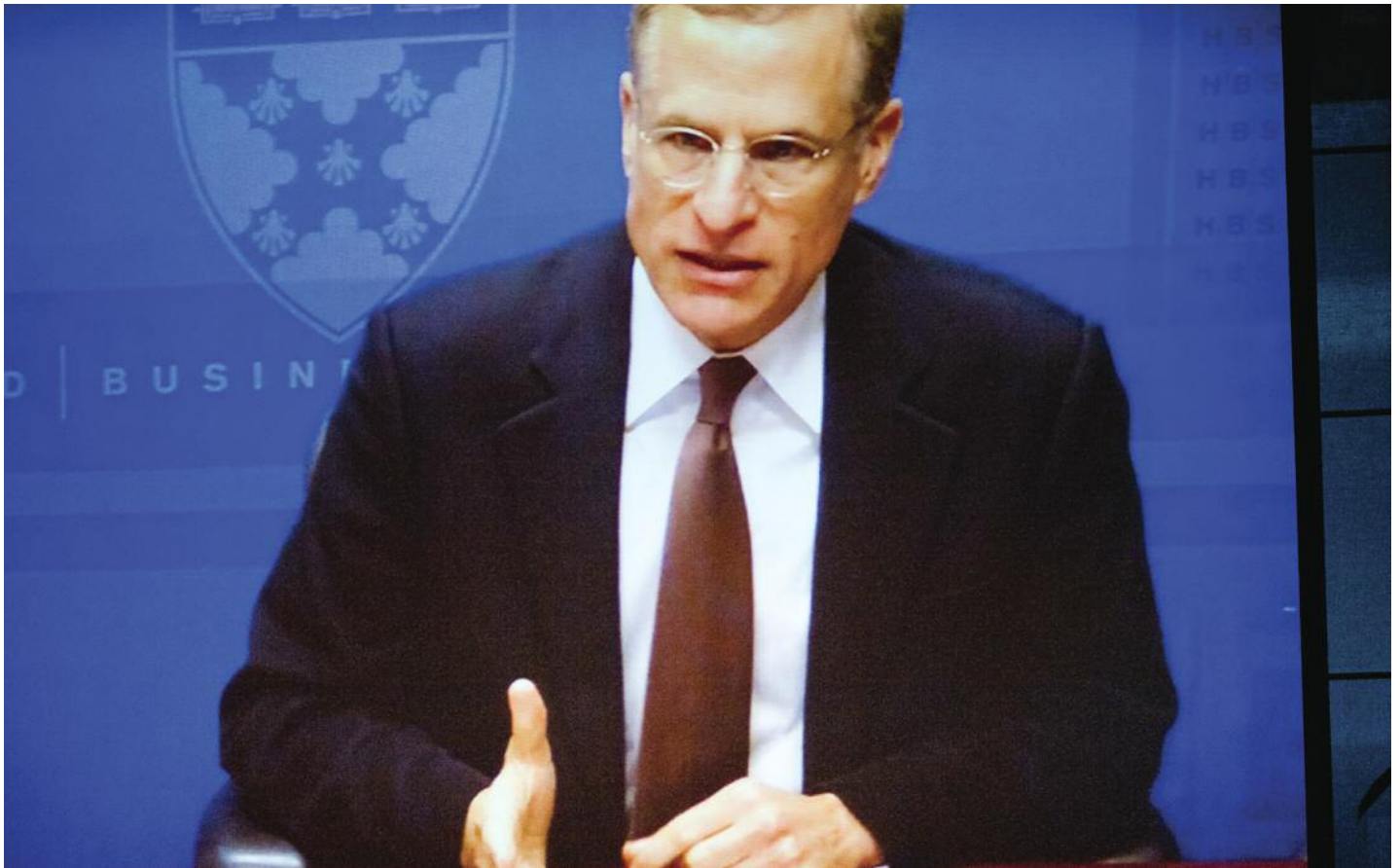
"A board is a work group," Mr. Kaplan said. "Like any high-performing work group, it needs strong leadership and an effective culture. The culture of a board has a huge impact upon whether or not a board is successful."

Mr. Kaplan shared a series of questions that he often asks board chairs and directors, including, "What is the culture of your board?" He will also ask directors how the board spends its time. Very often, he asserted, boards

devote the majority of their time and attention to legal processes, management reports, and processes driven by board committees. While this is necessary, they need to also create space for key issues to be framed and debated.

Topics that should be debated by the board include business strategy, performance assessments of the CEO and top executives, and the CEO succession plan, he added. These debates should allow room for questioning and disagreement between board members. "Boards often do not have an issue with effective board processes, but rather with too little time for debate regarding key issues facing the company," said Mr. Kaplan.

Mr. Kaplan suggests that board members ask themselves whether they can state the vision and top three to five priorities for the company. Can they state the biggest challenge facing the company, and identify related areas of vulnerability? And can directors describe and grade the leadership style of the CEO, not solely based upon financial metrics, but also based upon organizational effectiveness? Can they do the same for the top five corporate executives? "Many directors might not be able to do this, typically because their board does not spend enough time meeting executives, framing key issues, asking questions, and debating,"



Robert Kaplan

said Mr. Kaplan. He added that boards sometimes shy away from useful 360-degree evaluations of the CEO, as the CEO might bristle at the suggestion of this type of process.

Finally, Mr. Kaplan asks directors if they would be able to change the way the board operates. Can they see an avenue for them to effect changes in the board's functioning? He commented, "Some directors are not sure they could change their board culture, and they are not certain they would be willing to make the waves needed to try."

Mr. Kaplan urged conference attendees to ask these questions of the conference panelists and participants, and perhaps jar some preconceived notions about board behavior and performance.

"Some directors are not sure they could change their board culture, and they are not certain they would be willing to make the waves needed to try." — Robert Kaplan

Responding to a series of questions from attendees, Mr. Kaplan said that some boards should spend more time evaluating top leadership and avoid "micromanaging" management duties. Regarding the industry knowledge of independent directors, he argued that while, in some cases, directors may lack the background or engagement level to fully understand the company's business, more often a director's lack of understanding stems from the company's failure to provide directors with sufficient information, or the directors' reluctance to press for more information. When asked about the value of CHROs as board members, Mr. Kaplan replied, "Every board needs someone pressing the Chair and CEO for board visibility into the performance of top officers."

On the topic of split CEO/Chairman roles, Mr. Kaplan said a split must be examined in light of the specific situation, industry, company, and leader involved. It is more important to consider in regulated industries, such as financial services, than in non-regulated industries. But if he had to make a hard and fast choice, Mr. Kaplan would suggest consideration of splitting the role as "superb CEOs are often not great board Chairs. These are two different jobs. Combining the two has sometimes given us very uneven board leadership."

(For additional insights from Robert Kaplan, please see page 16.)

THE INVESTOR'S VIEW OF 2020

Turning attention to the shareholder perspective, **Tyler Mathisen**, who serves at CNBC as Co-Anchor of "Power Lunch" and as Vice President of Strategic Editorial Initiatives, hosted a thought-provoking discussion with participants that included **James D. Awad**, Managing Director, Zephyr Management, L.P., and former Chairman of Awad Asset Management; **Patricia Chadwick**, Founder and President of Ravengate Partners LLC, and a Director of AMICA Mutual Insurance Co., ING mutual funds, and Wisconsin Energy Corp.; and **Oliver Niedermaier**, Ph.D., President and CEO of DF King Worldwide, as well as a Non-Executive Director of UK-based The Equiniti Group, and Non-Executive Board Member of the LMU Entrepreneurship Center at the Ludwig-Maximilians-Universität München.



Tyler Mathisen

Mr. Mathisen noted, "We've just been through a remarkably challenging decade. And one thing we can all agree upon is the strong likelihood that the current decade will bring us more challenges." He asked panelists, "When we think about the recent financial crisis, what did we learn? What are its lasting changes? And, most importantly, what impact will this have on boards in terms of their interactions with shareholders?"

Mr. Awad began by recalling that "two years ago, we were reacting to a financial crisis which resulted in tremendous value destruction. I think that we all continue to ask ourselves, could it happen again? And as board directors, we also ask ourselves, what can we do to prevent that?"

And there are other legacies of the crisis, he stated. "When someone is asked to serve on a board, he or she wants to know: Who else is going to be on the board? Will the directors be adequately protected? Is the company's reporting process timely and transparent? And, how are directors compensated for what is a big commitment during a time of increasing risks?" Meanwhile, Mr. Awad added, "shareholders have plenty of questions as well. They are very focused on the directors, their qualifications, and how they are paid. And the overall context for this is an environment in which regulators are less tolerant and more willing to be proactive."

"Is that a bad thing?" Mr. Mathisen asked. Ms. Chadwick commented, "This is clearly an environment in which some people are nervous about coming onto a board. But ➤

there are still people who are very talented and very interested in taking on this challenge and trying to make a difference. And I believe that if directors are performing their jobs as they should, they have no need to fear shareholder litigation.” She paused, and then emphasized, “We began this discussion by talking about the financial crisis, but the reality is, most companies around the world are not, and never were, teetering on the brink of collapse. Many have strong balance sheets



“This is clearly an environment in which some people are nervous about coming onto a board. But there are still people who are very talented and very interested in taking on this challenge and trying to make a difference.”

— Patricia Chadwick



stated. “They need a short-term plan for CEO succession, in case the CEO dies unexpectedly. They need a longer-term plan which will prepare for the CEO to retire at some fixed date in the future. They don’t need to disclose all the details to investors, but they do need to convey that this is being addressed by the board in a thoughtful manner.”

Dr. Niedermaier concluded, “There are certainly cases in which it is tough to stand up to a CEO, especially if that CEO is long-tenured or perhaps even a CEO-founder. That’s why you need the right people to be serving on the board, people who are smart, strong, and capable of asking difficult questions. They will engage with the key issues like succession planning and risk management. And I believe that the strongest directors also will be committed to communicating more effectively with institutional shareholders.”



Top: Patricia Chadwick; above, left to right: Oliver Niedermaier, James D. Awad

and strong management teams. Most directors have lived up to their responsibility, which is to advise management, not to run the company.”

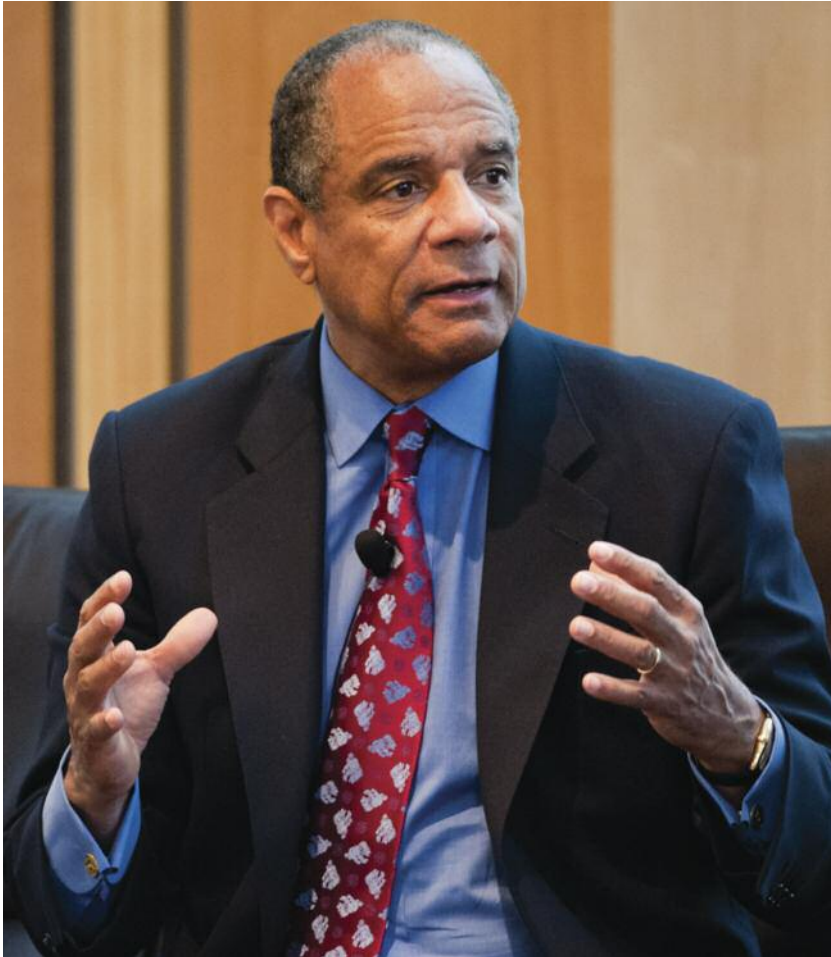
Dr. Niedermaier observed, “When one considers what has happened in recent years, it seems that, from a regulatory perspective, there has been a shifting of power and responsibility from management to the boards. During this period following the financial crisis, that balance has shifted somewhat again from boards to investors. We all need to adjust to this shift.”

The conversation moved to succession planning, a hot topic for investors and regulators alike. “Boards have a responsibility to be constantly thinking about this, which means, among other things, conducting an ongoing review of the company’s succession plan,” Ms. Chadwick

Left to right: James D. Awad, Oliver Niedermaier

TRAILBLAZER AWARD

Keith Meyer, Vice Chairman and Global Head of CTPartners' CEO & Board Practice, presented the Trailblazer Award to **Kenneth I. Chenault**, the Chairman and CEO of the American Express Co. The award recognizes superior leadership in building meaningful collaboration between board directors and human resources leaders.



Kenneth I. Chenault

After expressing his sincere thanks for the Institute's recognition on behalf of his colleagues at American Express, Mr. Chenault offered a few remarks. He noted that April marks his tenth year as Chairman and CEO of American Express, and that he also serves as a director of IBM and The Procter & Gamble Co. Mr. Chenault then shared a definition of leadership from Napoleon Bonaparte, joking, "Although I don't want to end up like Napoleon, I think about this daily. 'The role of a leader is to define reality and give hope.' I stay focused on this."

Guarding a company's reputation and brand is a top

priority for boards, Mr. Chenault said, and meeting new regulatory burdens should be viewed as part of that job. Directors also should stay focused on risk management, making sure they understand not only the nature of the risk but the magnitude of the risk. And given the continuous interaction and responsiveness required of boards today, directors need to raise the comfort level for working together and with management both inside and outside of the boardroom.

Turning to the need for meaningful collaboration with the HR team, Mr. Chenault said, "I don't think boards have historically spent enough time on human capital. I need someone to talk to me about competencies in the organization, talent gaps, and how the company is working to develop talent. I need a partnership

"I don't think boards have historically spent enough time on human capital ... talent gaps, and how the company is working to develop talent."

— Kenneth I. Chenault

with human resources, just like I have a financial partner in the CFO. The HR leader can't be a bureaucrat who administers human resources. The HR leader must be a business leader."

He added, "Human capital is as large a performance lever as is financial capital. Great companies have a strong culture, a strong focus on talent, and an understanding of what it takes to win in the marketplace."

Kevin Cox, EVP, Human Resources, at American Express, then joined Mr. Chenault in a roundtable discussion. Recalling his first conversation with Mr. Chenault, Mr. Cox described how he was attracted by the company's great brand, its growth history, and the chance to work with Mr. Chenault. Mr. Cox said, "In HR, you can't do anything special without a great CEO relationship."

Mr. Chenault also recalled that meeting, stating that he asked probing questions to learn about Mr. Cox's values, business knowledge, leadership capabilities, and willingness to "push back." Mr. Chenault explained, "I was looking for consistency of words and actions. And I wanted constructive confrontation done in a respectful way." >



Left to right: Kenneth I. Chenault, Kevin Cox, Keith Meyer

Discussing the financial crisis, Mr. Chenault said that he told the board that his three objectives for 2008-09 were to stay liquid, stay profitable, and selectively invest in growth. “When you enter a crisis, you want to exit with a superior competitive position,” he noted. “The big issue for us was credit. The board discussions were very rigorous and needed to be. It was an incredibly healthy process.”

Mr. Cox noted, “Ken does not just sell the board on positives, but takes the opposite tact. He says, ‘Let me give you alternate, dire scenarios,’ to ensure there is a full discussion of the issues.”

Reinventing the company business model is a continuous effort at American Express, according to Mr. Chenault. He said, “The one constant in business today is change. Aspects of any business model could go away in 12 or 18 months. You want to become the company that can put your company out of business. Right now, we are reinventing the payments business, and I continually talk with the board about how we will drive the digital transformation of the company.”

An important aspect of that transformation is



Left to right: Kenneth I. Chenault, Keith Meyer

“Ken does not just sell the board on positives, but takes the opposite tact. He says, ‘Let me give you alternate, dire scenarios,’ to ensure there is a full discussion of issues.”

— Kevin Cox

bringing more digital know-how into the corporate ranks and the boardroom. “We have put a greater emphasis on succession planning, to build the layers of management,” said Mr. Chenault.



Kevin Cox

Mr. Cox noted, “Many boards have an awareness of talent issues, but these are not a priority. At American Express, we make space on the agenda to be able to talk about talent strategy, structure, key talent deployment, and other related matters.” Additionally, to be sure all opinions are fully heard, Mr. Cox seeks individual comment from board members outside of the boardroom, while also remaining accessible to respond to their questions.

The issue of “developing even better directors” is important from all perspectives, including investors, regulators, and of course, the corporation itself. Mr. Chenault described an HR-led “boot camp” to prepare incoming directors. The director gains “exposure to the business issues the company has faced over a multi-year period,” he said, adding, “This provides a great foundation for evaluating issues and opportunities the company will face in the coming years.”

Mr. Cox encouraged executives to seek board experience, which greatly enhances their skills and external perspective, and therefore better prepares them to deliver value to their organizations as well.

THE REGULATORY VIEW OF 2020

“We are victims of both our success and our excess,” said **Quentin Hardy**, Executive Editor of Forbes Media and a visiting lecturer at the School of Information at the University of California, Berkeley, as he introduced a discussion of the regulatory environment. As companies face relentless expansion of regulatory requirements, Hardy noted, “Government tends to make laws in the rearview mirror. Still, corporate reputation is an increasingly valuable object.



Quentin Hardy

Ensuring that compliance vigilance happens in an early and effective way falls to the board.”

The session panelists included **Steven Hall**, Founding Partner and Managing Director of Steven Hall & Partners, LLC, and a faculty member of the NACD; **David A. Katz**, a Corporate Partner with Wachtell, Lipton, Rosen & Katz, and a Senior Professional Fellow at the NYU Pollack Center for Law & Business; and **Michael S. Sirkin**, a Partner at Proskauer Rose LLP and co-author of the treatise, “Executive Compensation.”

Mr. Hardy first asked the panelists for their own perspectives regarding today’s regulatory environment. Mr. Hall offered a quick list of the onslaught of new regulations that have been put into effect since the 1990s, culminating with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Add in new accounting rules and the impact of proxy advisors, which Mr. Hall called a kind of unofficial regulation, and he asked, “Does someone just yell, ‘Enough is enough. We’re damaging the system.’ Or will this keep going?”

“There has been a sea change in the boardroom,” said Mr. Katz. “Over the last 40 years, we have moved from the imperial CEO and his country club friends to the other extreme of a compliance board, which is all about checking the boxes on regulatory matters with no time devoted to strategy.” Increased regulation and the growing time commitment of directorship have led directors to hold fewer board positions. “This has an impact, as directors then have reduced exposure and opportunity for cross-pollination of best practices,” Mr. Katz said. And in the end, he said, “Transparency means better understanding

what you see, not just writing longer descriptions with greater detail.”

Wondering aloud, Mr. Sirkin said, “I can’t understand why anyone would volunteer to serve on a compensation committee today. That committee can’t win, with the proxy advisory firms really constraining their use of business judgment.” He continued, “The compensation committee needs to be able to address the unique needs of the company and not be largely constrained by one-size-fits-all ‘rules’ created by the proxy advisors.” He recounted situations where the compensation committee starts out with an independent, business judgment position, but eventually concedes to the proxy advisory service guidelines. He added, “You must be a strong member of a compensation committee to say ‘This is what is right for our company,’ especially when it could result in negative votes for you on that board and other boards.”

Setting compensation for a new CEO is among the toughest challenges for a compensation committee and board today, noted Mr. Katz, adding, “No company wants to be out there leading the compensation charge, but they do want to do what it takes to attract great talent.” And in a risky situation, such as when a company might become involved in a takeover, he said, “The disclosure regulations and ISS environment make it harder to attract the management you want.” >



Michael S. Sirkin

“Over the last 40 years, we have moved from the imperial CEO and his country club friends to the other extreme of a compliance board, which is all about checking the boxes on regulatory matters with no time devoted to strategy.”

— David A. Katz



David A. Katz



Steven Hall

“Thirty years ago, a good CHRO was someone who would walk around the office, shake everyone’s hand Now CHROs are strategic partners.”

— Steven Hall

“I’m an optimist,” said Mr. Sirkin. “I believe that compensation arrangements are on a fulcrum. It had been too far in favor of the imperial CEO and has now swung back, but perhaps too far. Hopefully, a balance will be obtained. Say on pay is a sound idea,” he added, but he wonders whether it is practical. He asked, “How can people really evaluate the compensation arrangements for all of these companies?”

Asked whether there should be a regulatory requirement to split the CEO and Chairman roles, Mr. Hall replied, “Why can’t we let company owners decide this?” His fellow panelists agreed that the best course varies by company. And regarding the CHRO’s role in the boardroom, Mr. Hall said, “Thirty years ago, a good CHRO was someone who could walk around the office, shake everyone’s hand, and say their name. That role has changed dramatically; now CHROs are strategic partners.”

PEER-TO-PEER SESSIONS

To maximize the opportunity for dialogue between the Institute's participants, the conference luncheon included three breakout sessions, each coordinated around a core topic. After lunch, the three groups reconvened in the general meeting room where the moderators reported to all conference attendees on some of the key messages of their discussions.

Daniel Kaplan, Managing Partner and Global Head of the Human Resources Practice of CTPartners, hosted a lunch session on "Driving the Board's Human Capital Agenda," with panelists



Richard L. Antoine, President, National Academy of Human Resources, President of AO Consulting, LLC, and Vice Chair of the University of Wisconsin Foundation Board; **Dennis Donovan**, Senior Advisor, Cerberus Operations and Advisory Company, LLC, a Managing Director of The Traxis Group, B.V., and a Director of Tower International; **Dermot J. O'Brien**, EVP, Human Resources & Corporate Services, TIAA-CREF, and a member of the company's Executive Management Team; and **Jim Shanley**, former SVP, Head of Leadership Development, Bank of America.

Up for discussion were a variety of issues, Mr. Kaplan reported, "including the essential importance of succession planning and 360-degree feedback relating to potential CEO candidates. Meanwhile, at a time when boards are expected to be involved with so much, participants stressed the need to control the board's calendar and rhythm of events. There was also a strong sense, throughout our discussion," he added, "that data can and should be our 'friend.' Data can be incredibly useful as it relates to people systems, including by strengthening the connection between human resources and corporate results. This helps the board understand the 'people' impact on the business as well as the value that a strategically-oriented HR leader can contribute."

Quentin Hardy, Executive Editor of Forbes Media, moderated a panel on "The Future Company: Where is the World Heading?" Panelists included **Laszlo Bock**, VP, People Operations, Google Inc., who was named *Human Resource Executive* magazine's "2010 HR Executive of the

Year;" **Susan Lyne**, Chairman, Gilt Groupe, Inc., and a Director of AOL; and **Nicholas A. Utton**, Chief Marketing Officer, E*Trade Financial Corp.

"At a time when there is a continuing acceleration upwards of information, which is also accelerating the speed of decision-making, we looked at the impact of this on how boards and CHROs are working and will work in the future," Mr. Hardy noted. "Boards are 'ping'ed by CEOs all the time, called all the time by CEOs, and they're

"Data can be incredibly useful as it relates to people systems ... strengthening the connection between human resources and corporate results."

— Daniel Kaplan

inundated by data. So directors need to develop rules and procedures for what they will look at and when, within a context in which the board and the company are effectively utilizing social media." He added, "The CIO's role is changing as well, with more focus on the information itself, including how one receives it, and where it will go."

Keith Meyer, CTPartners Vice Chairman and Global Head of the CEO & Board Practice, led a session on **>**



Richard L. Antoine



Quentin Hardy

“Directors need to develop rules and procedures for what they will look at and when, within a context in which the board and the company are effectively utilizing social media.”

— Quentin Hardy

“Establishing Open Communication and Debate in the Boardroom,” with panelists **Jon R. Katzenbach**, Senior Partner, Booz & Co., and the author of a number of books on management, including *The Wisdom of Teams* (with Douglas K. Smith); and **Michael S. McGavick**, CEO of XL Group plc, and Chairman of the Landesa Rural Development Institute.

“We talked about the challenge of establishing trust in the boardroom, creating what one of our participants referred to as a safe space for dialogue, debate, even healthy confrontation. Another question that surfaced was, ‘Is there a need to keep refreshing the board as the world keeps changing?’” Mr. Meyer said. If that need exists, as many of the participants agreed, Mr. Meyer asked, “Then how do you look for and find the right directors, those men and women who truly understand the company, its strategic vision and its culture, while also working well within the culture of the board?”



Clockwise from top left: Dennis Donovan, Laszlo Bock, Jim Shanley, Dermot J. O'Brien



“How do you look for and find the right directors, those men and women who truly understand the company ... while also working well within the culture of the board?”

— Keith Meyer

As he noted, certain key words resonated throughout the panels. Among them were *culture*, which was discussed in terms of both the culture of the company and the culture of the board—sometimes quite different matters; *foresight*; and *independence*. *Capability* was also an important theme, analyzed from the institutional, the board, the individual director, and the CHRO point of view.

Mr. Canner also focused on the concept of *attention*, commenting that, “participants have noted that it takes less energy for a

board to pay attention to what exists, rather than what doesn’t exist. That is, attending to what hasn’t happened, but might, or what hasn’t ever been an area of board focus in the past. Yet one message that has surfaced is that boards often deliver the greatest value by paying attention to, and asking questions about, those kinds of issues.”

POST-LUNCHEON REMARKS: BRIDGING THE ISSUES

Following up on the Peer-to-Peer Reports from the three luncheon discussion groups, **Niko Canner**, Senior Partner, Booz & Co., offered a quick recap of the morning’s core themes as a useful “bridge” between the morning and afternoon discussions.

THE CHRO'S VIEW OF 2020

The afternoon panels began with an invigorating discussion about how boards could, and should, partner with CHROs to create the global talent strategy that best supports the corporation's business model. The panel was moderated by **Michael Feiner**, a Professor of Management, Columbia Graduate School of Business, Senior Advisor-Human Capital with Irving Place Capital, and a Director of CTPartners. Panelists included **Laszlo Bock**, VP, People Operations, Google Inc., and a Director of Evolv; **Matthew W. Schuyler**, EVP and CHRO, Hilton Worldwide, and a Director of the Washington Humane Society; and **Laurie Siegel**, SVP Human Resources and Internal Communications, Tyco International, and a Director of CenturyLink, Inc., and the HR Policy Association.



Michael Feiner

Mr. Feiner commented, "Times have changed from the days when HR executives were mainly focused on the employee handbook and the company picnic. But what we see at American Express in terms of the partnership between the Chairman and the CHRO is still not representative of what's going on in many companies. So as we discuss building a partnership between a world-class CHRO and a company's board, let me ask, 'What does world-class HR look like?'"

Ms. Siegel emphasized, "World-class CHROs have the ability to focus. That's essential and you can see how valuable it is when you consider how much clutter is connected with HR at many corporations." What's equally important, she added, "is that the best CHROs know how to remain centered on matters relating to organizational effectiveness. There are hundreds of ways that companies may fail



Laszlo Bock

"At Google, we think of HR as a service organization. We're here to serve the CEO, the employees, and the board."

— Laszlo Bock

to achieve organizational effectiveness. HR can make a big difference in addressing the obstacles."

Mr. Bock explained, "At Google, we think of HR as a service organization. We're here to serve the CEO, the employees, and the board. Therefore, when it comes to hiring HR department members, we're looking for people who are intelligent and conscientious, with the humility to want to keep learning. But they also have to be people who understand that service mandate, and will bring a strong commitment to helping the company achieve its strategic objectives."

Mr. Schuyler noted that Hilton Worldwide experiences a turnover of nearly 200,000 employees each year, given the 30% turnover rate that is typical in the hospitality industry. Acknowledging that reality, he said, "The board first wants HR to perform as a workforce strategist, and secondly as a workforce steward. And risk management



“World-class CHROs have the ability to focus the best CHROs know how to remain centered on matters relating to organizational effectiveness.”

— Laurie Siegel

because that’s the way they’re used to thinking. As a result, we’ve been able to do exciting things, including one project in which we were able to improve in measurable ways the performance of a group that we identified as our lowest-performing managers. That’s the kind of thing that really drew me to HR: wanting to help accomplish important change within an organization, instead of just complaining about problems.”

Mr. Feiner noted, “Intellectual courage is a key attribute for a CHRO. You must be able to



Above: Laurie Siegel; right: Matthew W. Schuyler (on left), Michael Feiner

has become a regular topic, considering the large number of our employees and customers around the world.”

When asked by Mr. Feiner about the impact of private equity on board-CHRO interaction, Mr. Schuyler said, “Private equity boards tend to be even more analytical. They want a CHRO to back up positions with strong analytics. And that’s good. After all, there’s a gap in many HR departments: They probably have a ton of data, but are they just using it for reporting purposes or are they developing predictive analytics?” Although private equity is driving this change, Mr. Schuyler, who has an accounting background, expects more companies to embrace HR analytics. “And if they aren’t able to get what they need from their HR departments, they’ll turn to consultants.”

At Google, Mr. Bock explained, the HR team develops its data and analytics within a corporate culture that encourages HR professionals to continuously ask, and find ways to answer, value-added questions. “We often hire people who come from analytics or strategic consulting

tell the CEO when he or she is dead wrong.”

Agreeing, Ms. Siegel added that the CEO and board expect a CHRO to offer “expertise, a point of view, and candor.” She continued, “Throughout your career, you will encounter people who don’t believe in the value of HR. To work as an effective HR leader, you must master the power of influence.”

THE CHAIRMAN'S VIEW OF 2020

“Regulation and pending regulation shaped many of our conversations during the last few years,” said **Peter Gleason**, Managing Director and CFO for the National Association of Corporate Directors. “But from the NACD perspective, it is critical for boards not to ‘major in the minors’.”

Introducing a discussion of the challenges facing board chairs, Mr. Gleason, who also hosts “NACD BoardVision,” said, “Boards should not get bogged down in regulations. We have watched the focus shift from audit committees to



compensation committees and now to a focus on all three key committees, as the nominating and governance committee is also clearly in the spotlight. The Chairman's role is to keep the board focused on long-term, sustainable corporate performance.”

Joining Mr. Gleason in the discussion were **Michael J. Critelli**, President and CEO of Dossia Service Corp., and former Chairman and CEO of Pitney Bowes, Inc., as well as a Director of Eaton Corp. and Mollen Immunization Clinics; and **John Koskinen**, Non-Executive Chairman of the Board of Freddie Mac, and a Director of The AES Corporation and American Capital, Ltd.

When asked whether boards should include more insiders to enhance industry knowledge, Mr. Critelli said, “You need a mix of people with knowledge relevant to the industry. You want to strike a balance between being very collaborative with management and being independent. You certainly do not want directors to act as CEO cheer-

leaders who suppress independent and critical comments from other directors.”

Boards work best with 11 or fewer members, Mr. Koskinen suggested, as larger boards can foster a decreasing sense of director responsibility. Given those parameters, by adding insiders to the board, he said, “You lose that seat for another use. When that executive is not a director, you still benefit from that executive's expertise through board presentations.”

Outlining the greatest challenges faced by board chairs today, both panelists identified information flow and meet-



“You want to strike a balance between being very collaborative with management and being independent. You certainly do not want directors to act as CEO cheerleaders who suppress independent and critical comments from other directors.”

— Michael J. Critelli

ing structure. They pointed to the expanding obligation to keep abreast of relevant news so that directors can effectively question and evaluate management direction. Keeping directors informed, and structuring meetings and other board communications to derive maximum value from the board, are ongoing challenges.



John Koskinen

Mr. Critelli also noted the difficulty of structuring company goals for the benefit of long-term shareholders amid increasing demands from shorter-term shareholders. “And how do you allocate sufficient time and insight to anticipate the highly improbable disruptive event that comes from far outside the company?” he asked. Citing one example, he said, “We did a good job of evaluating existing competitors and alternate technologies, but neither we nor anyone else in the mailing industry could imagine the degree to which mail volumes were directly or indirectly dependent on the volume of credit transactions. As the number of credit transactions dropped precipitously because of the financial crisis, mail volumes dropped with them. Directors in any organization need to think outside the box. I get very impatient with directors who only want to focus on the here and now.”

Succession planning for the CEO and top executives is another significant challenge for the board chair. Mr. Koskinen said, “Finding CEOs who can handle the

expanding range of issues is a growing challenge.” And he noted that in today’s fast-paced business environment, it is incumbent upon the board chair “to take a step back and think about how the company is building its traditions and culture. Then, as change takes place, the company values will continue.”

It is incumbent upon the board chair
“to take a step back and think about
how the company is building its
traditions and culture.”

— John Koskinen



Robert Kaplan: Board Culture and Performance

Days after the Institute convened, Harvard Business School Professor **Robert Kaplan** and CTPartners Vice Chairman **Keith Meyer** joined for a discussion of some of the major themes that had surfaced during the conference.



Robert Kaplan

Mr. Meyer launched the conversation by focusing on board performance. “What are some of the ‘traps’ that prevent boards from reaching true effectiveness,” he asked, “and what strategies could help to overcome them by changing board culture?”

“For chairmen and lead directors,” Mr. Kaplan noted, “one easy trap to fall into is being so preoccupied with management reports, board processes, and regulatory requirements that they ultimately spend insufficient time framing, raising, and discussing the big issues. They won’t be able to then focus the board on the big challenges facing the company.”

For directors, on the other hand, “one trap is agreeing to serve on the board of a company that might be appealing in many ways, including strong management, good reputation, and important marketplace position, but the board has a culture in which directors don’t receive sufficient information or ask the tough questions. You feel flattered to be on the board, but realize that you are struggling to make a difference.”

Regardless of the board culture, Mr. Kaplan pointed out that “new directors often initially feel like the new kid on the block. They want to get the lay of the land over the first few meetings before they feel comfortable enough to strongly assert their opinions or ask forceful questions. In some cases, it might take time

before they feel they understand the company’s business and strategy well enough to be willing to challenge the management, or raise critical questions about the strategy when it doesn’t make sense to them.”

“How can directors get to that point more quickly?” Mr. Meyer asked, as he emphasized the value of directors who are qualified and willing to provide “push back.”

Mr. Kaplan said “Of course, it would certainly speed things up if directors had some relevant industry expertise, or prior board or leadership experience. They should go in with the attitude that it’s fine to admit that they don’t understand something or require further explanation. It might also help if they owned shares in the company from day one of serving on the board. Then they would have skin in the game, the way that private equity directors do.”

With or without equity, however, he noted that a motivated board chairman or lead director can accomplish a great deal in accelerating the learning curve. “The chairman or lead director could spend extra time with new directors, answer their questions, and encourage them to take an active role from day one. A superb board chair can set the right tone and create a board culture of high performance.”

Recalling a theme that had surfaced in the Institute discussion between American Express’s Kenneth Chenault and Kevin Cox, Mr. Meyer asked if additional training was needed: not only for directors, but for chairmen and lead directors as well, to help them understand the value of their involvement at this level.

“Absolutely,” Mr. Kaplan concluded, “all directors would benefit from learning about best practices. Similarly, effective board leaders should want to learn more about successful board leadership techniques and practices. If the chairman or lead director doesn’t lead effectively, very likely no one else will. They are in the best position to constructively shape the board agenda and group culture.”

ABOUT THE SPONSORS



Booz & Company Booz & Company is a leading global management consulting firm, helping the world's top businesses, governments, and other institutions. Booz & Company works closely with clients to create and deliver essential advantage. We bring foresight and knowledge, deep functional expertise, and a practical approach to build capabilities and deliver real impact. www.booz.com



NACD Founded in 1977, NACD is a national nonprofit membership organization dedicated exclusively to serving the corporate governance needs of corporate boards and individual board members. NACD's 10,000 members represent the boards of companies ranging from Fortune 100 to smaller public companies, private companies, and not-for-profit organizations. NACD promotes high professional board standards, creates forums for peer interaction, enhances director effectiveness, communicates and monitors the policy interests of directors, conducts benchmarking research, and educates boards and directors concerning traditional and cutting-edge issues. www.nacdonline.org



Steven Hall & Partners Steven Hall & Partners is an independent executive compensation consulting firm serving as outside counsel to boards, compensation committees, and management. The firm focuses solely on executive compensation, director remuneration, and related corporate governance matters. Prior to forming Steven Hall & Partners in September 2005, the firm's principals, Pearl Meyer, Steven E. Hall, and Steven Root, served as Chair, President, and Managing Director, respectively, of Pearl Meyer & Partners, which they founded in 1989. www.shallpartners.com



TIAA-CREF For over 90 years, TIAA-CREF has been helping those in the academic, medical, cultural, and research fields plan for and live in retirement. We do this with a full array of financial products and services to help them live to and through retirement and invest for life's other goals along the way. In keeping with our strong nonprofit heritage, we offer low fees, a long-term approach to investing, and a full line of financial products and services provided by consultants who never receive commissions. Instead, they are compensated primarily on how well they serve clients, not what they sell. www.tiaa-cref.org

ABOUT CTPARTNERS

CTPartners (NYSE AMEX: CTP) is a leading performance-driven executive search firm serving clients across the globe. Committed to a philosophy of partnering with its clients, CTPartners offers a proven record in C-Suite, top executive, and board searches, as well as expertise serving private equity and venture capital firms.

With origins dating back to 1980, CTPartners serves clients with a global organization of more than 300 professionals and employees, offering expertise in board advisory services and executive recruiting services in the financial services, life sciences, industrial, professional services, retail and consumer, and technology, media and telecom industries.

CTPartners' focus is straightforward: Place the right executive in the chair. Evidence of CTPartners' ability to get the job done is its 83% placement success rate and average days to placement of 123 days in 2010. For the eighteen month period ending on June 30, 2010 (the most recent period for which our placement results have been examined by our outside accounting firm) our firm had a stick rate of 90%.

Methodologies used include our proprietary technology, ClientNet[®], a technology tool that permits our clients to access password-protected information over the internet from any place, at any time, to check the status of their search engagements, and the 40-day Audit process.

Headquartered in New York, CTPartners has offices in Bogotá, Boston, Caracas, Chicago, Cleveland, Columbia MD, Dubai, Geneva, Hong Kong, Lima, London, Mexico City, Miami, Paris, Redwood Shores, Santiago, São Paulo, Shanghai, Singapore, Toronto, and Washington, D.C.