NACD Peer-to-Peer Dinners

2018 Summary of Peer-to-Peer Dinner Discussions

NACD Chicago is in its third year of hosting peer-to-peer dinners for our membership, and each year this event has grown in popularity and geography. In April we held a total of eight dinners with six in the Chicagoland area, one in Milwaukee, and for the first time a dinner in the Detroit area. Altogether 74 of our members and sponsors had the opportunity to meet and network in small group settings and engage in lively discussions over dinner. This year's topic "**Who Should Own Your Board's Loyalty?"** elicited a wide range of thought-provoking opinions.

LOYALTY DEFINED AS DUTY

The charters of companies incorporated in Delaware and Illinois, for example, state that shareholder primacy is the principal duty of the board of directors. To the knowledge of one dinner group, this primacy has not been challenged in any meaningful way. While this position may be the legal definition of responsibility, members across all dinner tables had a much broader view of how a Board best serves its shareholders.

LOYALTY VERSUS RESPONSBILITITILES

One dinner group agreed the Board has responsibilities versus loyalty to execute strong governance and the boardroom perspective has shifted over time as to what that encompasses.

Old School Governance	Current Governance
1. Shareholders	Oversight and guidance for stated strategy
2. Employees	Create board diversity
3. Community	Actively manage ESG agendas

Most agree that board decisions must consider all parties—shareholders and stakeholders including management, employees, customers, debt holders, financial activists, community and government. Boards should consider the long-term profitability and viability of the corporation when deciding shareholder primacy versus stakeholder goals.

LONG-TERM VERSUS SHORT-TERM GOVERNING OBJECTIVES

Several participants referred to Larry Fink's (BlackRock) letter to CEOs warning that leadership must address ESG issues as well as long-term growth strategy or risk disappointing the largest fund manager in the world ($6.3 trillion). Excerpt from Fink's letter below:

Companies must be able to describe their strategy for long-term growth…Your company's strategy must articulate a path to achieve financial performance. To sustain that performance, however, you must also understand the societal impact of your business as well as the ways that board, structural trends—from slow wage growth to rising automation to climate change—affect your potential for growth….Today our clients—who are your company's owners—are asking you to demonstrate the leadership and clarity that will drive not only their investment returns, but also the prosperity and security of their fellow citizens.

One suggestion was made that the boards of SEC regulated companies be required to disclose their "governing objective" in terms of maximizing shareholder value, and over what time horizon, versus other sustainability goals. Another observation was that a company's compensation disclosures provide a window into a company's objectives and motivations. Compensation should be aligned with short-term, mid-term and long-term strategies.

CAUTIONARY TALES

There was widespread agreement that the rallying point for both managements and boards is making decisions that drive value and create an enduring positive legacy. However, as one guest stated, "That's all well and good as long as the company does not sacrifice returns—when that happens, the activists will come in."

Members also warned about flawed loyalties and cited several examples: Facebook, the MSU board, Penn State and the environment that has given rise to the MeToo movement. That said, cautionary tales can be a positive in driving change. They should also remind everyone that when you accept a board seat, your reputation is on the line.

SOUNDBITES ON LOYALTY

Board loyalty is enhanced by:

- <u>Really understanding who owns the company. T</u>he mix of shareholders and their investment style—long-term, short-term, etc.—should be a key consideration. In a controlled company, make certain you are aligned with the controlling shareholder. Since different shareholders constituencies—activists, mutual funds, individual shareholders—may have different and sometimes conflicting goals, the best course is to focus on strategy for the long-term success of the company.
- <u>Feeling confident that management is being transparent with its board.</u> Management is focused on executing the company's strategic plan and they welcome guidance, diverse opinions and challenges to the status quo.
- <u>Being certain that the board is multidimensional and relevant.</u> There are diverse skillsets, viewpoints and representation with appropriate committees to evaluate both strategy and risk. The external environment is moving fast and new challenges evolve daily. Boards must be ready and able to handle change, manage risk and evaluate strategy in light of shifting dynamics.
- <u>Knowing that ethical issues will be fully and openly discussed</u>. This raised the question on privacy—what is it? Does it exist? Do we have a right to it? How can a company data-mine customer information to drive returns without crossing the privacy line and ending up with severe business and reputational damage like Facebook?

Many thanks to our board members who hosted and led the conversations and their assigned sponsor representatives who agreed to be our scribes.

Director Hosts	**Sponsor Representatives**
Karen and Dennis Chookaszian (Chicago)	Mark Kwilosz, Duff & Phelps
Joan Steel (Chicago)	Donni Case, Financial Profiles
Sara Sirotzky (Chicago)	Julie Marcello, Marsh
Paul Williams (Chicago)	Jessica Gentile, Heidrick & Struggles
Shan Atkins (Northwest Suburbs)	Steve Hajdukovic, KPMG-Chicago
Kay McCurdy (North Shore)	Eric Hirschfield, Rothschild
Frank Jaehnert (Milwaukee)	Joe Rock, KMPG-Milwaukee
*Ed Steinhoff (Detroit)	Kathy Hendrickson, NACD Chicago

*Ed Steinhoff – Pearl Meyer