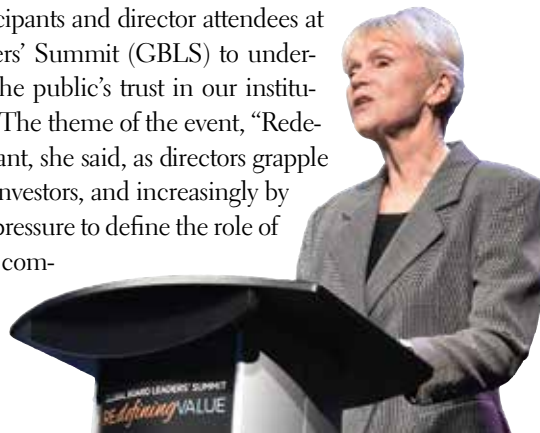


11 Takeaways From Summit

1. REBUILD TRUST IN AMERICAN BUSINESS

National Association of Corporate Directors (NACD) Chair **Karen Horn** exhorted the more than 1,600 participants and director attendees at NACD's 2017 Global Board Leaders' Summit (GBLS) to understand their larger role in restoring the public's trust in our institutions, especially corporate America. The theme of the event, "Redefining Value," was particularly relevant, she said, as directors grapple with existential questions raised by investors, and increasingly by activist shareholders, amid growing pressure to define the role of the corporation in society and in the communities where it does business.



2. ENGAGE ALL STAKEHOLDERS

Attendees at GBLS gleaned wisdom and insights from presenters including former U.S. Secretary of State Madeleine Albright; researcher Brené Brown; activist shareholder Jeffrey W. Ubben; author and board director Walter Isaacson; and scores of today's most knowledgeable thinkers, on subjects ranging from artificial intelligence to vulnerability.

One of the most eagerly anticipated interviews was conducted by NACD CEO and President Peter R. Gleason with former DuPont chair and CEO **Ellen Kullman**. Most people know Kullman from her seven-year tenure as chief executive of DuPont. What we also know is that her tenure ended after a hard-fought battle against activist shareholder Nelson Peltz. Many observers believe that while Kullman won the battle against Peltz, she ultimately lost the war. Two months after the blistering proxy battle ended in 2015 with shareholders voting for management, Kullman retired in October 2015 from the company she had joined 27 years earlier as an engineer with an MBA.

Even before leaving DuPont, Kullman

decided to devote her considerable experience and energy to a then relatively new organization called Paradigm for Parity, a coalition of business leaders who pledge to achieve gender balance at all levels of their corporations by 2030 by adhering to a five-point "roadmap." Kullman is now co-chair of the organization. A portion of the interview is edited and condensed below.

You once said that DuPont adhered to a philosophy of stakeholder theory that had four parts: engage employees, satisfy the customer, support the communities you operate in, and ultimately be successful for shareholders. As our theme here at GBLS is value creation, what does that mean to you in terms of value creation given that stakeholder theory?

As a company that operated all around the world, in the United States many times our manufacturing plants were the biggest employer in the area. We found out very early that if we wanted to be successful, we had to be a good citizen. We had to support the community in order for the community

to support us. Whether it was through hurricanes or any other issue, that came back. We needed our plants to be productive. So, very early in our modern history, post-World War II, that was the model we operated under. As a leader, you can cut costs only for so long or buy back stock for only so long. To grow earnings, you're going to have to create value organically, through acquisitions or new products. We were a science company and brought a lot of innovation to our customers. It's necessary to engage all four stakeholders to be successful.

Community investment is seen by some activists as not returning money to shareholders in the short term because you're investing in the community. How do you balance that?

I do think that young people today have a choice about where they go to work. And, if you want to attract the best and the brightest, you have to make the community someplace that employees want to be part of, somewhere they want to be. The school systems are good. There's something to do at night or on weekends. Why does Google spend so much money on free food and all of the kinds of infrastructure that keep their employees working hard, working long [hours], and getting the things done in life that they need to get done? So it's not something that's an old-company, historic appendage. I think it's necessary.

The question is always how much, because you can never calculate a return on it. Maybe if that gets out of whack, you've got to reset. But for the most part, young people look at Corning, New York, or Wilmington, Delaware—you're 23, 25 years old, you're not married—and say, Why would I want to go there if I could go to Chicago or Atlanta or someplace that's more vibrant? And that's why I think it's important for companies and communities to really



make those investments.

What did you take away from that bruising experience as a CEO?

Two things. Number one is you've got to have a top team—the CFO, EVPs, vice presidents, general managers, and presidents of our businesses. They had to focus on running the company. And they did. And we took a small group of people and created a team to focus on the fight, as we called it. I had to have a foot in both because the company wanted to know and our 40,000 employees wanted to know that we'd be okay. So I still had to be out and talking and visiting not only with shareholders, but with customers and governments around the world. I normally ran the fight during the day and the company on nights and weekends. You have to kind of separate the two and protect the company. And you have to have a very strong team.

The other thing is you've got to spend a lot of time with your board because the board is afraid of a negative consequence to not only the company but to themselves personally. And you have to make sure you know where your board is individually. You have to make sure you're creating the right dynamic in the room as they get together. Transparency really helps.

Anytime I had an interaction with the activists or with shareholders, I would always summarize it and get it to the board right away. I wanted them to feel not only totally included but to know I needed their help. I'd ask, "Hey guys, you guys have been through a lot of different experiences in your life—help! What ideas do you have? How do you think we're approaching this?" At that point, there were no bad ideas. There was only figuring out how do we get this done and have a real open dialogue.

You had a larger retail block [of shareholders] and you used that to your advantage. How did you go about that?

I called them personally. There was a mailing probably every two weeks for the last six weeks. We were just very active, and as a

result, we did get quite a bit of the retail vote. I think it's also important to recognize that the activists can say anything they want in the newspaper, on the radio, wherever they are. And they do. In order for you to respond, it has to be a filed response, so there's a delay, and I wrote letters to the [U.S. Securities and Exchange Commission] on a weekly basis. We had to.

How can boards be more realistic about activism?

Boards need to engage. The passive shareholders wanted to see board members, and not just before the fight, too. So, it's not just around this issue, but what's our philosophy on compensation? How are we looking at governance? How are we refreshing the board? They don't want to hear the CEO talk about it, they want to hear the board talk about it. If you're a member of a board, it's just not showing up five times a year and hopefully reading the material in advance and all that. There's a lot more engagement that's involved. I think also if there is something that might be a little more controversial—the spin of a company, the sale, an acquisition, an investment into an area that's not going to pay off for a few years—I think the board needs to be willing to back that up with the shareholders as well. We're all in it together.

You now co-chair Paradigm for Parity. Tell us about your involvement there and what the goals are.

We believe that the commitment has to come from the top of the house. The CEO has to sign a pledge that they will drive to gender parity by 2030. And we now have 60 members. The organization's five actions [minimize or eliminate unconscious bias, increase the number of women in senior operating roles, set targets and report results, base career progress on results not presence, and identify women of potential and give them mentors and champions] are areas a company has to agree to focus on simultaneously. I've seen many CEOs use this as a way to drive change in their different divisions, because their leadership knows you've

3. BE UNQUENCHABLY CURIOUS



Walter Isaacson and Judy Warner

For **Walter Isaacson**, Leonardo da Vinci's unquenchable curiosity was one of his greatest gifts. The artist would jot down questions for further exploration and then meticulously detail his findings in words and illustrations in what became thousands of pages of notebooks that served as the source for much of Isaacson's reporting in his new biography of Leonardo.

Isaacson has written biographies of some of the world's most innovative and creative thinkers, including Albert Einstein, Benjamin Franklin, and Steve Jobs—giants who shared equal measures of prowess in the arts and science. In an interview with *NACD Directorship* Editor in Chief Judy Warner, Isaacson said Leonardo found value in the process of discovering answers to even the most mundane questions, be it figuring out why the sky is blue or how the canal locks in Milan were engineered. The self-taught artist developed a heightened understanding of the patterns of the world in which he lived and the intricacies of human anatomy. These perspectives informed Leonardo's work and provide a salient message for corporate directors and officers. "Sometimes you wander and you do what any good corporate director would do, which is have a vision of what you're doing and be tactical and open when something comes up. Especially in the digital age, you have to be open to new ideas," Isaacson said.

The chair and CEO of the Aspen Institute for the past 14 years, Isaacson announced he would retire at year's end and become a history professor at Tulane University in his native New Orleans. Isaacson was at the forefront of journalism, starting his career as a reporter and later becoming chair and CEO of CNN and editorial director of Time Inc. "I began with print and now dabble in everything from films to podcasts to television and books," Isaacson reflected. "Each time, I say, hey, that's a new opportunity.

"Leonardo was fascinated by everything, and that's the best advice you can give someone: always be passionately curious."

4. DEVELOP A THESIS ON AI

In May, Google announced a change in strategy from mobile first to artificial intelligence (AI) first—signaling that prediction accuracy, like search 20 years ago, would become its North Star. In July, China's government announced its AI strategic plan, declaring it would become the world leader by 2030. On Sept. 1, Russian President Vladimir Putin said that whatever country rules AI will rule the world. So recounted **Ajay Agrawal**, founder of the Creative Destruction Lab in Canada, and one of the world's leading economists studying the implications of AI. With a seemingly innate ability to distill in plain English AI's complexity and promise, Agrawal suggested that what boards need to grasp is just how fast AI will ramp up as a disruptor in the industry sectors they serve. "Have a thesis on how fast the AI knob is turning," he advised, "and don't expect that the knob will turn linearly. How fast will it turn? That's the question for everyone serving on boards." Think of AI as a drop in the cost of prediction. When the cost of prediction falls, he explained, a universe of items—from demand forecasting to autonomous vehicles—becomes less expensive to produce. In one provocative example, Agrawal asserted that an online retailer could anticipate and send a product before the consumer even thinks about buying it. Amazon.com, for example, could shift its strategy to predict a consumer's need based on usage, he said. Amazon might even be willing to take an initial loss of returned goods in exchange for the opportunity to improve its AI platform.

5. BE A CONTINUOUS LEARNER



Some 550 NACD Board Leadership Fellows attended GBLS and more than 200 attendees earned their Fellowship credential as a result of their participation. A Fellowship brunch—with gifts that included an advance copy of mainstage speaker Walter Isaacson's new biography of Leonardo da Vinci—was hosted for all Fellows who attended.

6. STAND UP FOR YOUR VALUES

Former U.S. Ambassador to the United Nations and U.S. Secretary of State **Madeleine K. Albright** reflected on the status of world affairs and her experiences as a board director in the final session of GBL'S. Now a professor at Georgetown University who also runs her own international consulting firm, Albright Stonebridge Group, she described herself as an “optimist who worries a lot.” Albright was interviewed by **Marian L. Heard**, founding president and CEO of the Points of Light Foundation and a 2016 inductee into the NACD Directorship 100 Corporate Governance Hall of Fame for her prodigious work as a director. Excerpts from Albright’s remarks follow.

On the threat of North Korea: I’m still the highest-level sitting official to have gone to North Korea. We have had problems...ever since the end of the Korean War in 1953 because there is no peace treaty. I do think that it is as dangerous a situation as anything I have ever seen and I am very worried. One of the problems is that we have never known enough about what is going on in North Korea.

On China and Russia: [Russian President Vladimir] Putin has made himself now the bearer of...an identity that shows the power of the Russian empire, and they are trying to undermine our democracy. I really believe that. I think that they are using the openness of our democracy and our way of using information to undermine us.



Marian L. Heard and Madeleine K. Albright

I fully believe that they were involved in the election with a number of disinformation campaigns and their role is to undermine us and separate us from our European allies.

China is a little bit different. They are on the rise in every way... [Chinese President] Xi Jinping is consolidating his power, and they are the power to watch out for.

On serving as a director: I think it’s important to understand what American companies stand for...and I think that we do become examples of how to operate internationally. We need to be able to stand up for the values that we believe in and then translate them to the country not only where a company operates but also then to explain it back to the American people.

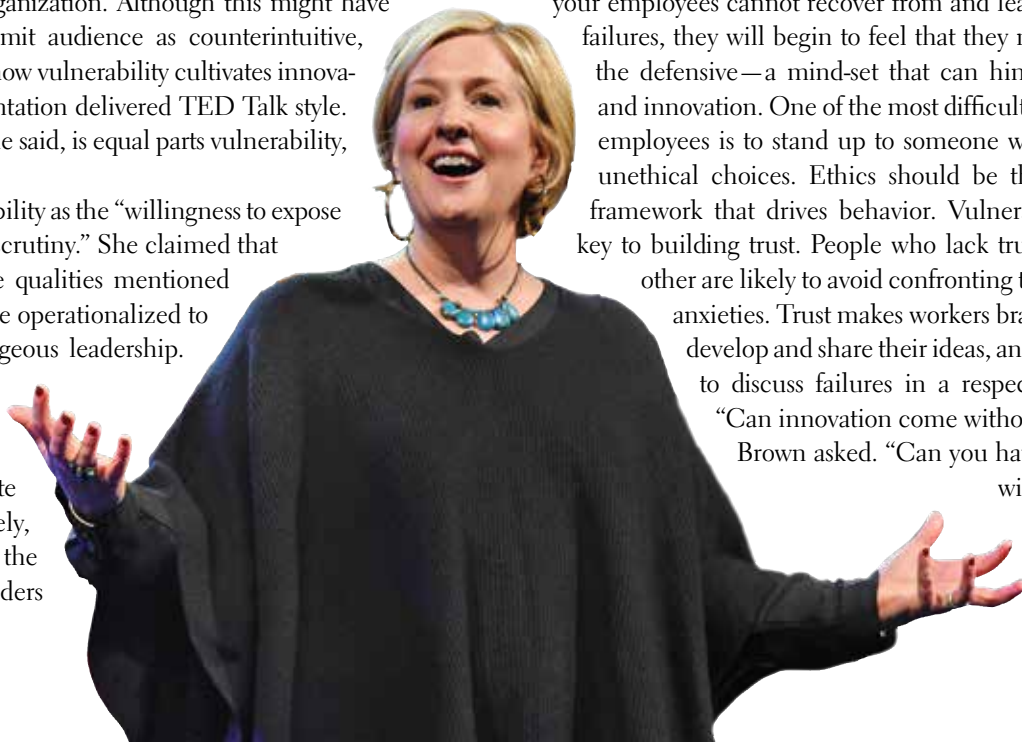
I have to say the following: It’s not easy as an American to go abroad these days, and I have said it is also totally inappropriate for a former diplomat to be critical of one’s country abroad. I do think people need to understand who we are and what we value.

7. BE VULNERABLE

An academic researcher turned Internet sensation and now advisor to corporate executives, **Brené Brown** says being vulnerable can be a strategic asset to any organization. Although this might have struck some in the Summit audience as counterintuitive, Brown made the case for how vulnerability cultivates innovation in a 50-minute presentation delivered TED Talk style. Courageous leadership, she said, is equal parts vulnerability, courage, ethics, and trust.

Brown defined vulnerability as the “willingness to expose your new ideas to public scrutiny.” She claimed that when combined with the qualities mentioned above, vulnerability can be operationalized to create a culture of courageous leadership.

Without risking the possibility of failure, progress can never happen. It takes courage to compete in business. Fortunately, Brown’s research into the behaviors of 80 senior leaders



and more than 300 MBA students demonstrates that courage is a skill that can be taught and measured. Brown pointed out that if your employees cannot recover from and learn from their failures, they will begin to feel that they need to be on the defensive—a mind-set that can hinder creativity and innovation. One of the most difficult situations for employees is to stand up to someone who is making unethical choices. Ethics should be the grounding framework that drives behavior. Vulnerability is also key to building trust. People who lack trust in one another are likely to avoid confronting their fears and anxieties. Trust makes workers brave enough to develop and share their ideas, and allows them to discuss failures in a respectful manner.

“Can innovation come without exposure?”

Brown asked. “Can you have innovation without vulnerability? No. It doesn’t exist.”

Brené Brown

8. INVEST IN CULTURE



Richard Edelman (left) with Nicholas M. Donofrio and Helene D. Gayle

From **Richard Edelman's** point of view, business is the last fortification defending public trust in social institutions. Edelman is CEO of the eponymous communications marketing firm that since 2001 has researched and measured the public's trust in business, media, and government. It recently found that around the world only 47 percent of the general population thinks these institutions are trustworthy.

A little more than half (52%) of respondents say they trust businesses. CEO credibility dropped in all countries surveyed, reaching an all-time nadir of 37 percent. Fearful over disappearing employment opportunities, people perceive their way of life as being threatened, resulting in a rise in protectionist, antitrade sentiments. In addition, 76 percent of investors indicated that companies should address one or more social issues, ranging from employee education and retraining to environmental concerns.

Thus, directors would do well to take a look at corporate culture. Healthy corporate cultures help drive bottom-line results, increase customer satisfaction, and attract top talent at all levels of the organization. NACD convened directors and governance

professionals to develop practical guidance to enhance directors' culture-oversight practices. Their *Report of the NACD Blue Ribbon Commission on Culture as a Corporate Asset* makes 10 recommendations on culture oversight, and offers action steps and tools for directors to apply in the boardroom. **Nicholas M. Donofrio**, a director of Bank of New York Mellon, Advanced Micro Devices, and Delphi Automotive, and **Helene D. Gayle**, a director of the Coca-Cola Co., Rockefeller Foundation, and the Center for Strategic and International Studies, co-chaired the commission.

"In many ways, the issue of trust is aligned with issues of culture," Gayle observed. "While we have a sense of what our culture is, we haven't defined it and put those pieces together so that culture can be a unifier across those issues."

"It truly is not just about [financial] results anymore," Donofrio added. "It's about what you did and how you did what you did." And if board members have concerns about how those results were achieved, it's time to start asking the CEO and management team questions about the beliefs, protocols, and procedures underpinning the company's performance. If the chief execu-

tive is resistant to examining these issues in an open dialogue with directors—or, worse, is taking positions contrary to the company's espoused culture and values—that is a sign the company does not have the right leadership in place. "Creating and managing the company's culture is the responsibility of the CEO and management team. Culture oversight, and holding leaders accountable for a vibrant and healthy culture, is the board's job," Gayle said.

Regarding the rising importance placed on a company's stance on social issues, Gayle suggested directors frame boardroom discussions on social issues in terms of how a given issue is aligned with the business. Directors also should take into consideration the communities in which the company operates and the customers it serves. When Edelman asked if board recruitment should include asking directors about their views on key social issues, Donofrio said that these discussions ultimately tie into the director-recruitment process, where the criteria for board candidates should include their ability to contribute to and support healthy culture—in the boardroom and across the firm as a whole.

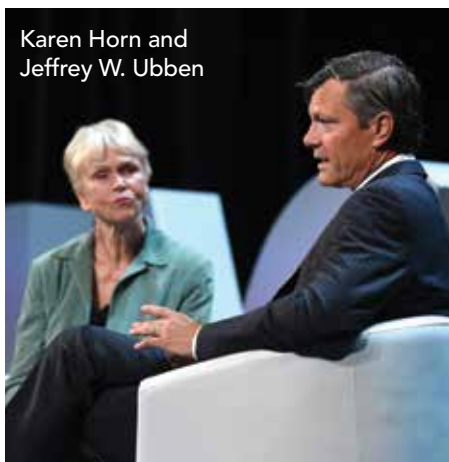
Gayle agreed. "How you relate to society is part of how the company sees itself and how the company expresses its culture," she said. "Having a well-thought-out position on how [a particular social issue] furthers the business, how it creates an environment of trust, and how it fosters talent—all those things have to do with culture."

Download *The Report of the NACD Blue Ribbon Commission on Culture as a Corporate Asset* at NACDOnline.org/culture for recommendations and guidance to help benchmark and improve culture-oversight practices. Included are boardroom discussion guides, sample dashboards, and related materials.

9. MODEL MORAL AUTHORITY

Jeffrey W. Ubben was at Fidelity Investments in the mid-1990s when governance failures began toppling once-mighty corporations and the practice of board members engaging with shareholders began to pick up momentum. Rather than casting Ubben as an activist investor, he was described by NACD Chair Karen Horn as an active hedge fund manager. Ubben joined his first board in 2002—he didn’t accept a paycheck—and founded ValueAct Capital, where as CEO he has directed investment in more than 80 companies and placed a single shareholder director on at least 40 boards. Today, ValueAct has an estimated \$16 billion in assets under management. He currently serves on the board of Twenty-First Century Fox.

In an interview with Horn, Ubben described his approach to companies in ValueAct’s portfolio as being “the fact-based risk taker in the boardroom.” Rather than use what he labeled “Mafioso-like extortion techniques” employed by other activist shareholders, Ubben said he prefers to enter a boardroom with a “moral authority based on a track record.” “Put us on your board and we’ll work together...together make tough decisions,” Ubben said. “We’ll make the company bigger and stronger within five years.”




Karen Horn and Jeffrey W. Ubben

10. NEVER STOP RUNNING



Barbara Hackman Franklin and Natarajan Chandrasekaran

some physical ailments, Chandrasekaran took up long-distance running, often in the early morning hours on the streets of Mumbai. Running has taught him the value of tenacity and long-term thinking, he told NACD Chair Emerita Barbara Hackman Franklin, who conducted the interview. Among his priorities: to restore credibility damaged by a transition in leadership that led to his appointment; simplify the structure of the conglomerate; and digital transformation. A big agenda to be sure. 

The marathon-running chair of Tata Sons wants to simplify the structure of the Mumbai-based conglomerate. **Natarajan Chandrasekaran** was named chair of family-owned Tata Sons at the beginning of the year. He has never worked anywhere else. The holding company licenses the Tata name to at least 100 entities, including 29 publicly listed companies. Tata recently made a bid to buy Air India, building on a foundation that dates back 150 years. At age 43, beset by

11. PRACTICE POLITICS BOTH HARD AND SOFT

The 59th and now second-term mayor of Atlanta—the cradle of the Civil Rights Movement, and home to a concentration of Fortune 500 companies and one of the busiest airports in the world—says voters crave authenticity and cities are “where hope meets the street.” In a mainstage interview with NACD Chief Programming Officer Erin Essenmacher, **Kasim Reed** detailed his approach to turning around Atlanta’s economy, creating 50,000 new jobs, and helping to convince at least 18 corporations to maintain headquarters there. Reed says he practices “the politics of the hard and soft.” That includes reducing crime and achieving an AA credit rating for the city. He also opened 33 recreation centers, created a citywide meals program, expanded public transit, and launched an annual “Forever Young” Ball.



Erin Essenmacher and Kasim Reed