

June 7, 1994

Board of Directors Guidelines on Corporate Governance Issues

Martin Lipton

The following is a side-by-side comparison of the 1994 General Motors corporate governance guidelines with those of the "Company." It is assumed that the Company is one of the 200 largest corporations with a chairman of the board who is also the chief executive officer, a reasonably good performance record and a board of directors with a mainstream philosophy of corporate governance. The guidelines can be adapted to suit any large public company and the specific approach to corporate governance of the Board of that particular company.

In a June 6, 1994 speech at a Prentice Hall seminar, Chief Justice Norman Veasey of the Delaware Supreme Court made reference to the General Motors Guidelines and a 1992 article by Jay Lorsch and Martin Lipton, "A Modest Proposal for Improved Corporate Governance," which in large measure presaged the General Motors Guidelines, and gave the impression that the Delaware courts, in reviewing actions by a board of directors of a Delaware corporation, would take into account whether the board had principles like the Modest Proposal and the General Motors Guidelines.

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The Company

1) Selection Of Chairman And CEO

The Board should be free to make this choice any way that seems best for the Company at a given point in time.

Therefore, the Board does not have a policy, one way or the other, on whether or not the role of the Chief Executive and Chairman should be separate and, if it is to be separate, whether the Chairman should be selected from the non-employee Directors or be an employee.

2) Lead Director Concept

The Board adopted a policy that it have a director selected by the outside directors who will assume the responsibility of chairing the regularly scheduled meetings of outside directors or other responsibilities which the outside directors as a whole might designate from time to time.

Currently, this role is filled by the non-executive Chairman of the Board. Should the Company be organ-

1) Selection Of Chairman And CEO

Currently, the bylaws of the Company provide that the Chairman is the chief executive officer. The Board can amend the bylaws to provide that the President or another officer is the chief executive officer if the Board determines to separate the offices of Chairman and chief executive officer. The Board has no policy with respect to the separation of these offices.

The Board believes that this issue is part of the succession planning process and that it is in the best interests of the Company for the Board to make a determination when it elects a new chief executive officer. The Board recognizes that there may be circumstances in the future that would lead it to separate these offices, but the Board believes there is no reason to do so at this time.

2) Lead Director Concept

The Board has not formally designated a lead director. In those instances where the outside directors meet without the Chairman, the outside directors will designate the chair of that meeting. It is the sense of the Board that the director so designated will be the senior director or the Chair of the relevant committee.

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ized in such a way that the Chairman is an employee of the Company, another director would be selected for this responsibility.

### 3) Number of Committees

The current committee structure of the Company seems appropriate. There will, from time to time, be occasions in which the Board may want to form a new committee or disband a current committee depending upon the circumstances. The current six Committees are Audit, Capital Stock, Director Affairs, Finance, Incentive and Compensation and Public Policy.

### 4) Assignment and Rotation Of Committee Members

The Committee on Director Affairs is responsible, after consultation with the Chief Executive Officer and with consideration of the desires of individual Board members, for the assignment of Board members to various committees.

It is the sense of the Board that consideration should be given to rotating committee members periodically at about a five year interval, but the Board does not feel that such a rotation should be mandated as a policy since there may be reasons at a given point in time to maintain an individual director's committee membership for a longer period.

### 5) Frequency And Length Of Committee Meetings

The Committee Chairman, in consultation with Committee members, will determine the frequency and length of the meetings of The Committee.

### 6) Committee Agenda

The Chairman of the Committee, in consultation with the appropriate members of Management and staff, will develop the Committee's agenda.

Each Committee will issue a schedule of agenda subjects to be discussed for the ensuing year at the beginning of each year (to the degree these can be foreseen). This forward agenda will also be shared with the Board.

### 7) Selection Of Agenda Item For Board Meetings

The Chairman of the Board and the Chief Executive Officer (if the Chairman is not the Chief Executive Officer) will establish the agenda for each Board meeting.

Each Board member is free to suggest the inclusion of item(s) on the agenda.

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### 3) Number of Committees

The Board has the following committees: Audit, Compensation, Executive, Nominating and Public Policy. The Board has the flexibility to form a new committee or disband a current committee. It is the policy of the Board that only outside directors serve on the Audit, Compensation and Nomination Committees and that for this purpose a director who is an officer of a corporation of which an officer of the Company is a director is not considered independent.

### 4) Assignment And Rotation Of Committee Members

The Board designates the members of the committees taking into account the desires of individual Board members and the suggestions of the Chairman.

It is the sense of the Board that consideration should be given to rotating committee members periodically at about a three-year interval, but the Board does not feel that such a rotation should be mandated as a policy since there may be reasons at a given point in time to maintain an individual director's committee membership for a longer period or to shorten the period.

### 5) Frequency And Length Of Committee Meetings

The Chair of each committee, in consultation with its members, determines the frequency and length of the meetings of the committee.

### 6) Committee Agenda

The Chair of each committee, in consultation with the appropriate officers, will develop the committee's agenda.

At the beginning of the year each committee will establish a schedule of agenda subjects to be discussed during the year. The schedule for each committee will be furnished to all directors.

### 7) Selection Of Agenda Items For Board Meetings

The Chairman will establish the agenda for each Board meeting.

At the beginning of the year the Chairman will establish a schedule of agenda subjects to be discussed

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8) Board Materials Distributed In Advance

It is the sense of the Board that information and data that is important to the Board's understanding of the business be distributed in writing to the Board before the Board meets. The Management will make every attempt to see that this material is as brief as possible while still providing the desired information.

9) Presentations

As a general rule, presentations on specific subjects should be sent to the Board members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material. On those occasions in which the subject matter is too sensitive to put on paper, the presentation will be discussed at the meeting.

10) Regular Attendance Of Non-Directors At Board Meetings

The Board is comfortable with the regular attendance at each Board Meeting of non-Board members who are members of the President's Council.

Should the Chief Executive Officer want to add additional people as attendees on a regular basis, it is expected that this suggestion would be made to the Board for its concurrence.

11) Executive Sessions Of Outside Directors

The outside directors of the Board will meet in Executive Session three times each year. The format of these meetings will include a discussion with the Chief Executive Officer on each occasion.

12) Board Access To Senior Management

Board members have complete access to GM's

during the year.

Each Board member is free to suggest the inclusion of items on the agenda. Each Board member is free to raise at any Board meeting subjects that are not on the agenda for that meeting.

At least one Board meeting each year will be a Board "retreat" during which the Board will review long-term strategic plans and the principal issues that the Company will face in the future.

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9) Presentations

As a general rule, presentations on specific subjects should be sent to the Board members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material. On those occasions in which the subject matter is too sensitive to put on paper, the presentation will be discussed at the meeting.

When there is no prior distribution of a presentation on a sensitive subject, it is the sense of the Board that each member be advised by telephone in advance of the meeting of the subject and the principal issues the Board will need to consider.

10) Regular Attendance Of Non-Directors At Board Meetings

The Chairman may invite senior officers to regularly attend Board meetings.

11) Executive Sessions Of Outside Directors

The outside directors will meet in executive session following the regular meeting of the Board in January, May and October of each year. The format of these meetings will include a discussion with the Chairman on each occasion.

12) Board Access To Senior Management

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Management.

It is assumed that Board members will use judgment to be sure that this contact is not distracting to the business operation of the Company and that such contact, if in writing, be copied to the Chief Executive and the Chairman.

Furthermore, the Board encourages the Management to, from time to time, bring managers into Board Meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) represent managers with future potential that the Senior Management believes should be given exposure to the Board.

### 13) Board Compensation Review

It is appropriate for the staff of the Company to report once a year to the Committee on Director Affairs the status of GM Board compensation in relation to other large U.S. companies.

Changes in Board compensation, if any, should come at the suggestion of the Committee on Director Affairs, but with full discussion and concurrence by the Board.

### 14) Size Of The Board

The Board presently has 14 members. It is the sense of the Board that a size of 15 is about right. However, the Board would be willing to go to a somewhat larger size in order to accommodate the availability of an outstanding candidate(s).

### 15) Mix Of Inside And Outside Directors

The Board believes that as a matter of policy there should be a majority of independent Directors on the GM Board (as stipulated in By-law 2.12). The Board is willing to have members of Management in addition to, the Chief Executive Officer, as Directors.

But the Board believes that Management should encourage Senior Managers to understand that Board membership is not necessary or a pre-requisite to any higher Management position in the Company. Managers other than the Chief Executive Officer currently attend Board Meetings on a regular basis even though they are

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pany's Management and outside counsel.

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Furthermore, the Board encourages the Management to, from time to time, bring managers into Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) represent managers with future potential that the senior Management believes should be given exposure to the Board.

The Board has complete access to outside counsel of its choice with respect to any issue relating to its activities.

### 13) Board Compensation Review

It is appropriate for the Management to report once a year to the Nominating Committee the status of the Company's Board compensation in relation to other large U.S. companies.

Changes in Board compensation, if any, should come at the suggestion of the Nominating Committee, but with full discussion and concurrence by the Board.

It is the policy of the Board that a significant portion of director compensation be in the form of stock or stock options.

### 14) Size Of The Board

The Board presently has 12 members. It is the sense of the Board that a size of 10 to 12 is about right. However, the Board would be willing to go to a somewhat larger size in order to accommodate the availability of an outstanding candidate.

### 15) Mix Of Inside And Outside Directors

The Board believes that as a matter of policy there should be a majority of independent Directors on the Company's Board. The Board is willing to have members of Management, in addition to the Chairman, as Directors.

But the Board believes that Management should encourage senior Managers to understand that Board membership is not necessary or a pre-requisite to any higher Management position in the Company.

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not members of the Board.

On matters of corporate governance, the Board assumes decisions will be made by the outside directors.

### 16) Board Definition Of What Constitutes Independence For Outside Directors

GM's By-law defining independent directors was approved by the Board in January 1991. The Board believes there is no current relationship between any outside director and GM that would be construed in any way to compromise any Board member being designated independent. Compliance with the By-Law is reviewed annually by the Committee on Director Affairs.

### 17) Former Chief Executive Officer's Board Membership

The Board believes this is a matter to be decided in each individual instance. It is assumed that when the Chief Executive Officer resigns from that position, he/she should offer his/her resignation from the Board at the same time. Whether the individual continues to serve on the Board is a matter for discussion at that time with the new Chief Executive Officer and the Board.

A former Chief Executive Officer serving on the Board will be considered an inside director for purposes of corporate governance.

### 18) Board Membership Criteria

The Committee on Director Affairs is responsible for reviewing with the Board on an annual basis the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board. This assessment should include issues of diversity, age, skills such as understanding of manufacturing technologies, international background, etc. -- all in the context of an assessment of the perceived needs of the Board at that point in time.

### 19) Selection Of New Director Candidates

The Board itself should be responsible, in fact as well as procedure, for selecting its own members. The Board delegates the screening process involved to the

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On matters of corporate governance, decisions will be made by the outside directors in consultation with the Chairman.

### 16) Board Definition Of What Constitutes Independence For Outside Directors

The Company has adopted the following definition of independence: a director will not be considered as independent if he/she is an employee or former employee of the Company or has a connection with the Company as a substantial customer or supplier of goods or services. The Board believes there is no current relationship between any outside director and the Company that would be construed in any way to compromise any Board member being designated independent. Compliance with the definition of independence is reviewed annually by the Nominating Committee.

The ownership of stock in the Company by Directors is encouraged and the ownership of a substantial amount of stock is not in itself a basis for a director to be considered as not independent.

### 17) Former Chief Executive Officer's Board Membership

The Board believes this is a matter to be decided in each individual instance. It is assumed that when the chief executive officer resigns from that position, he/she should offer his/her resignation from the Board at the same time. Whether the individual continues to serve on the Board is a matter for discussion at that time with the new chief executive officer and the Board.

A former chief executive officer serving on the Board will be considered an inside director for purposes of corporate governance.

### 18) Board Membership Criteria

The Nominating Committee is responsible for reviewing with the Board on an annual basis the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board. This assessment should include issues of diversity, age, skills such as understanding of production, marketing, finance, regulation and public policy, international background, etc. -- all in the context of an assessment of the perceived needs of the Board at that point in time.

### 19) Selection Of New Director Candidates

The Board itself should be responsible, in fact as well as procedure, for selecting its own members. The Board delegates the screening process involved to the

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Committee on Director Affairs with the direct input from the Chairman of the Board as well as the Chief Executive Officer.

### 20) Extending The Invitation To A New Potential Director To Join The Board

The invitation to join the Board should be extended by the Board itself, by the Chairman of the Committee on Director Affairs (if the Chairman and CEO hold the same position), the Chairman of the Board, and the Chief Executive Officer of the Company.

### 21) Assessing The Board's Performance

The Committee on Director Affairs is responsible to report annually to the Board an assessment of the Board's performance. This will be discussed with the full Board. This should be done following the end of each fiscal year and at the same time as the report on Board membership criteria.

This assessment should be of the Board's contribution as a whole and specifically review areas in which the Board and/or the Management believes a better contribution could be made. Its purpose is to increase the effectiveness of the Board, not to target individual Board members.

### 22) Directors Who Change Their Present Job Responsibility

It is the sense of the Board that individual directors who change the responsibility they held when they were elected to the Board should volunteer to resign from the Board.

It is not the sense of the Board that the directors who retire or change from the position they held when they came on the Board should necessarily leave the Board. There should, however, be an opportunity for the Board via the Committee on Director Affairs to review, the continued appropriateness of Board membership under these circumstances. membership under these circumstances.

### 23) Term Limits

The Board does not believe it should establish term limits. While term limits could help insure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution

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Nominating Committee with the direct input from the Chairman.

### 20) Extending The Invitation To A New Potential Director To Join The Board

The invitation to join the Board should be extended by the Board itself, by the Chairman of the Nominating Committee and the Chairman.

### 21) Assessing The Board's Performance

The Nominating Committee is responsible to report annually to the Board an assessment of the Board's performance. If the Nominating Committee so desires, it may be assisted by an outside consultant in making its assessment of the Board's performance. This will be discussed with the full Board. This should be done following the end of each fiscal year and at the same time as the report on Board membership criteria.

This assessment should be of the Board's contribution as a whole and specifically review areas in which the Board and/or the Management believes a better contribution could be made. Its purpose is to increase the effectiveness of the Board, not to target individual Board members.

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to the Board as a whole.

As an alternative to term limits, the Committee on Director Affairs, in consultation with the Chief Executive Officer and the Chairman of the Board, will review each director's continuation on the Board every five years. This will also allow each director the opportunity to conveniently confirm his/her desire to continue as a member of the Board.

### 24) Retirement Age

It is the sense of the Board that the current retirement age of 70 is appropriate.

### 25) Formal Evaluation Of The Chief Executive Officer

The full Board (outside directors) should make this evaluation annually, and it should be communicated to the Chief Executive Officer by the (non-executive) Chairman of the Board or the Lead Director.

The evaluation should be based on objective criteria including performance of the business, accomplishment of long-term strategic objectives, development of Management, etc.

The evaluation will be used by the Incentive and Compensation Committee in the course of its deliberations when considering the compensation of the Chief Executive Officer.

### 26) Succession Planning

There should be an annual report by the Chief Executive Officer to the Board on succession planning.

There should also be available, on a continuing basis, the Chief Executive Officer's recommendation as to his successor should he/she be unexpectedly disabled.

### 27) Management Development

There should be an annual report to the Board by the Chief Executive Officer on the Company's program for Management development.

This report should be given to the Board at the same time as the Succession Planning report, noted above.

### 28) Board Interaction With Institutional Investors, The Press, Customers, Etc.

The Board believes that the Management speaks for General Motors. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with General Motors. But, it is expected that Board members would do this with the knowledge of the Management and, in

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to the Board as a whole.

As an alternative to term limits, the Nominating Committee, in consultation with the Chairman, will review each director's continuation on the Board every three years. This will also allow each director the opportunity to conveniently confirm his/her desire to continue as a member of the Board.

### 24) Retirement Age

It is the sense of the Board that the current retirement age of 70 is appropriate.

### 25) Formal Evaluation Of The Chief Executive Officer

The full Board (outside directors) should make this evaluation annually, and it should be communicated to the Chairman by the senior director or the Chair of the Compensation Committee.

The evaluation should be based on objective criteria including performance of the business, accomplishment of long-term strategic objectives, development of Management, etc.

The evaluation will be used by the Compensation Committee in the course of its deliberations when considering the compensation of the Chairman.

### 26) Succession Planning

There should be an annual report by the Chairman to the Board on succession planning.

There should also be available, on a continuing basis, the Chairman's recommendation as to his successor should the Chairman be unexpectedly disabled.

### 27) Management Development

There should be an annual report to the Board by the Chairman on the Company's program for Management development.

This report should be given to the Board at the same time as the succession planning report.

### 28) Board Interaction With Institutional Investors, The Press, Customers, Etc.

The Board believes that the Management speaks for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. But, it is expected that Board members would do this with the knowledge of the Management and, absent un-

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most instances, at the request of Management.

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usual circumstances, only at the request of Management.