September 11, 1997

Corporate Governance

The Business Roundtable Statement on Corporate Governance issued today should be the definitive statement on this subject. It rejects the formularistic approach of CalPERS and the box-checking approach of the NACD. Instead, it presents a rational, workable set of principles that may be endorsed by all public companies.

The following, from the release issued today, are the key points in the BRT Statement.

- The substance of good corporate governance is more important than its form. Adoption of a rigid set of rules or of any particular practice is not a substitute for good corporate governance.

- The development of corporate governance should continue to evolve through voluntary action by the business community without new laws and regulations.

- The paramount duty of management and boards is to the corporation's stockholders.

- A wide diversity of approaches to corporate governance should be expected and is entirely appropriate.

- It is important for boards to have a substantial degree of independence from management. Therefore, a substantial majority of a corporation's directors should be outside directors.

- Each director should represent the interests of all stockholders, not the interests of any single individual or group of stockholders. For this reason, cumulative voting is generally not recommended.

- Membership in certain key committees -- audit, compensation/personnel, nominating/governance committees -- should be limited to outside directors.

- Board members should have full access to senior management and to information on the corporation's operations.

- Where outside directors have business relationships with the corporation or business or personal relationships with management, boards should make a judgment about a director's independence based on his or her individual circumstances rather than through the mechanical application of rigid criteria. The overall result should be a board that, as a whole, represents the interests of stockholders with appropriate independence.

° A board should plan for its own continuity and succession. While it is now common practice to establish rules for the retirement of directors, which may vary from company to company, The Business Roundtable generally disfavors term limits because they can deprive a corporation of its most experienced directors.

° Service on other boards broadens and deepens the knowledge and experience of directors. Because time demands and directors' capacities will vary, The Business Roundtable does not endorse a specific limitation on the number of directorships an individual may hold.

° Board compensation should remain flexible to facilitate the corporation's efforts to attract and retain the best possible directors. No one mix of forms of compensation (cash, stock grants, options, etc.) will be right for all companies, but boards should consider some form of equity as a portion of each director's compensation.

° There should be an opportunity for the board to meet periodically outside the presence of the CEO and other inside directors.

° While each corporation should be free to make its own determination of the leadership structure that serves it best, most members of The Business Roundtable believe their corporations are generally well served by a structure in which the CEO also serves as chairman of the board.

° Where the positions of Chairman and CEO are unified, the board should have an understanding of how non-executive leadership of the board could be provided if necessary.

° Management succession plans should be reviewed periodically by the board.

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