

New Perspectives on the Board Nomination Process
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I want to thank you for your invitation to participate on this panel today. Since becoming a member of the Farm Credit Administration Board just 3 months ago, this is my first chance to participate in a System training conference, and I welcome the opportunity. I am especially pleased to have the chance to discuss "New Perspectives on the Board Nomination Process" because governance in the Farm Credit System is an issue that is very important to me.

I believe that serving on a board nominating committee is an extremely important role for an association stockholder. One of my greatest concerns is how the evolution and complexity of the System is resulting in more and greater demands on nominating committees and directors. These demands require that they be more knowledgeable about the business of directing a System institution, because the business is getting more difficult to understand with more complex products.

Also, I firmly believe that with continued consolidation within the System, and with your managers becoming more market driven, the challenge of board governance will be even greater in the future. Therefore, I again want to stress the importance of the nominating committee in finding effective leaders and policy makers to direct the System's future development and success.

Not only is this an important topic, it is timely as well. FCA issued a Bookletter last January that provides guidance for involvement by board members, employees and agents in the nominating committee process. I'm also pleased to announce that a new FCA pamphlet on this topic is hot off the press. Titled "The Role of the Nominating Committee," this pamphlet is designed to help the nominating committee members in their yearlong task of identifying candidates for election to the board of directors. I brought copies of this pamphlet with me to hand out today, and you are the first to receive it.

I think the first thing a member of the nominating committee should do is carefully review the Bookletter and the pamphlet before starting the process of seeking board candidates.

The nominating committee has a very important responsibility to not only identify but also recruit candidates to stand for election to the association's board of directors. Of course, one of the first things to do in getting started is to review the list of names of voting stockholders. Also, determining who is willing to serve is part of the process. Unfortunately, that is about as far as some nominating committees go in carrying out their role -- they need to do more.

Nominating committees need to tap all of the resources they can in identifying and recruiting board candidates. This includes obtaining input from management and the current board about candidates. But, at the same time, management and the board should not be the only source of information.

Again, I encourage you to review FCA Bookletter 043 to guide you as directors in providing appropriate assistance to nominating committees. You should also review your policies and procedures on the nominating committee process and consider broadening, to the extent permissible, the activities employees and agents may engage in to help the nominating committee fulfill its responsibilities.

The FCA regulations require impartiality by employees and agents in the election of directors. Therefore, they can't take any part, directly or indirectly, in the nomination or election of board members. However, employees or agents may help in the process. They can provide biographical and other similar information or engage in other activities under the policies and procedures for nominations and elections.

For example, your policies and procedures may permit or even require employees or agents to give the nominating committee biographies, resumes, and loan payment status information about potential candidates. Also, the policies and procedures may allow other activities by employees and agents such as:

- Interviewing stockholders to find out who is willing to serve and passing those names on to the nominating committee;
- Seeking recommendations from community leaders;
- Appointing committees of local residents, which could be made up of both borrowers and non-borrowers to recommend qualified candidates to the nominating committee;
- Discussing with the nominating committee such general topics as the functions of the board, the needed skills and expertise, and time requirements to serve on the board.

You, as board members, may also be involved in the nomination process, including the following activities:

- Invite the nominating committee to attend a board meeting so that they can gain a clearer understanding of the role of the board. You can also discuss your views on the functions of the board and needed skills and expertise.
- Attend local gatherings to promote the benefits and rewards of board service and encourage voting stockholders to make themselves available as potential candidates.
- Meet with the nominating committee to discuss potential candidates. Just be sure that no board members are present when the committee deliberates and votes on its slate of candidates.

While these activities by the association's board and employees are permissible, I want to emphasize the importance of independence in the nominating committee process. In fact, it is critical to the success of the association. There must be independence to assure that the voting stockholders, not the current board members or association management, choose the slate of candidates.

It is important that the nominating committee tries to assure that nominees represent all sections of the association's territory. Also, as nearly as possible, board candidates should represent all types of agriculture practiced in the territory. I say "as nearly as possible" because with consolidations, I know this can be a difficult task.

One mistake that nominating committees need to be careful not to make is treating the nomination process like a popularity contest. That is not the appropriate role of the nominating committee. Also, the nominating committee should not be looking to reward someone for their long-time or successful farming operation. Keep in mind -- just because they are a good farmer does not necessarily mean they would be a good board member.

In carrying out its role, the nominating committee needs to determine what knowledge and skill sets board members need to have to do the best job they can in serving on the board. This is becoming even more important as the size and complexity of associations increase. I believe this makes it especially important that new board members have good business and financial skills.

In the past, I think there was a tendency to believe that board members did not need good business and financial skills, and that they could pick up what they needed after coming on the board. That is no longer the case. The growing size and complexity of today's associations, combined with the aggressive market driven managers, can quickly overwhelm a director who does not possess the background and skills needed to understand the operation and the potential impacts of their decisions on the association.

I strongly encourage nominating committees to strive for diversity in carrying out their roles. Diversity includes demographics, both geographic and commodity representation, as I discussed earlier. But in addition, striving for diversity should include considering different experiences, skill sets, and viewpoints. It is also important that nominating committees include women and minorities in their consideration of possible candidates.

As I am beginning to meet with System institutions around the country, one of my key discussion issues is diversity. I'm not just talking about considering women and minorities for boards, but also for nominating committees, management and employees. I think it's better to address how to proactively address diversity now than wait for outside pressure forcing this issue on you. There is a need for good, open dialogue in the System on how to improve in this area. Nominating committees should keep the diversity issue in mind as they carry out their important roles.

Nominating committees have a very important and challenging job in nominating a slate of highly qualified candidates. These candidates should be able to set the course for the future direction and success of the association. In addition to having the business and financial skills I discussed earlier, a highly qualified candidate should be able to:

- visualize what is needed for the future of the association;
- develop a strategic plan to achieve that vision;
- hire and evaluate a chief executive officer;
- develop and adopt the policies that direct and control association operations; and
- monitor the performance of the association.

This is a lot to expect from a board member, so it is important that the nominating committee finds highly qualified and willing candidates. Finally, the committee needs to select a slate of nominees with at least 2 candidates for each position.

Then, after completing this long and important process, each nominating committee member should take pride that they are helping to ensure the future success of their association.

I would also like to use this opportunity to briefly address the outside director selection process. This relates to what I said earlier about my concerns with the evolution and complexity of the System and the greater demands on nominating committees and directors.

Here again, I think it is important to seek independent outside directors with strong financial backgrounds and experience. I also strongly encourage having more than one outside director. This would help the association strengthen and diversify its directorate and add special areas of expertise, which may not be present among existing members. Seeking skill sets that complement elected board members will help associations successfully face the growing challenges of providing appropriate governance in the future.

I want to thank you again for inviting me to serve on this panel today. I'm looking forward to working with you during my term on the FCA Board.