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ESB: Hello and welcome to another edition of This Week in the Boardroom. I am Erica Salmon Byrne with NYSE Governance Services and it is my pleasure to have in the studio today Nelea Absher with Brown-Forman Corporation. Brown-Forman is an organization that we may not be familiar with as a company, but we certainly know your brand. So Nelea first off thank you so much for taking some time to spend with us today.

NA: My pleasure Erica.

ESB: And if you could just spend just a couple of seconds telling our audience a little bit about Brown-Forman and particularly your governance structure that will obviously have an impact on the conversation we'll have this afternoon.

NA: Oh sure, happy to. So Brown-Forman is publicly listed with you guys and we've been public since 1933. The company was founded in 1870 and while being publicly listed has always been controlled by a set of family members, the Brown family. They currently own about two-thirds of our voting stock – we have dual class stock – and so it's a bit of a different, if you will, corporate structure but we are now in our fourth and fifth generation of being family controlled and are very very sensitive to the sort of proper corporate governance and work hard to make sure that our family shareholders know that their role is shareholders and not running the company.

ESB: And that obviously is something that I think is a lesson that a lot of boards can use, even if they have a very different ownership structure right? This idea that at the end of the day you all as directors and in your responsibilities interacting with the board, you're very conscious of the rights of the shareholders, not just your controlling shareholders, but all your shareholders. I think that's an important component of the relationship there.

NA: Oh I think so. I mean obviously our shareholders are our most important stakeholders and to whom we are ultimately responsible and for whom we are trying to run our operations for their best interests, particularly in the long term.

ESB: Right. So in your interactions with your directors, you know one of the things that you and I talked about when we were preparing for today's segment was the working relationship between the general counsel, the corporate secretary, and the board, and just how that's changed over the years and the way in which the general counsel is such an important advisor to the company but also so important in that dialogue with the board.

Tell us a little bit about how that has evolved for you all at Brown-Forman and how you approach that relationship.

NA: Okay. Well Brown-Forman does have a very very sophisticated and global set of directors and so we have six independent directors, two management directors, and four family directors as well. But our independent directors on average are fairly new so the average tenure is only about four years. So basically we are working hard with them individually, one-on-one, to develop a close working and trusting relationship. It's just sort of part of the fabric of Brown-Forman Corporation to believe in the one-to-one personal relationships and it's true in spades with us in the general counsel's office and our board of directors. And so we have phone conversations with them, we make sure that we are at dinner with them the evening before each board meeting, and we interact with them personally one-on-one throughout the year, call them up and have conversations so that we can develop a relationship carefully and strongly.

ESB: And Nelea, when you say we, who is we that's doing that work? Is it the management team, is it a small cadre, is it a larger group? How do you all structure that piece?

NA: At the core it is our chairman of the board who is also an employee and a Brown family member. It is our CEO, it is our vice chairman of the board, it is our general counsel and myself. And then we also work hard to introduce other members of senior management to the board so that they know the people who are in line for succession planning, for example, and so that they have confidence in our overall senior executive team.

ESB: And I think that's one of the things that has come up repeatedly. We're here today for our seventh annual General Counsel Forum and one of the things that we've heard repeatedly come up during the course of that conversation is that succession planning piece of it and the relationship between the general counsel and the board and the management team really knowing how deep the bench is inside the organization and just how challenging that can sometimes be if you're a director that comes in for meetings and then sort of leaves again right. I mean it's something that I've heard come up repeatedly during the panels. So one of the things that you said in some of your remarks today was that you guys have a Gantt chart. I mean it sounds like you've put a lot of time and energy and chart into who those people are that you're bringing in front of the board.

NA: Well it's true. We devote a lot of attention and resources to it. We're very careful about it. Maybe it's overkill, but we literally plan so that different members of management are going to be with different board members over the course of a two-year period. We have seating charts so that we know that people will be sitting with different directors with whom they haven't conversed necessarily in the past and are very very careful to make sure also that management gets to be present in board meetings for particular topics that are relevant to their area of the business.

ESB: So there's a fair amount of exposure there. One of the other things that we talked about when we were preparing for this session today, and it's something that I heard come up during your panel, is the on-boarding process for a new director and just the amount of

time that you spend educating a director about the business. Can you talk a little bit about the role that you play there and if I'm a brand new director what should I be looking for in terms of an education process?

NA: Interestingly, our directors are very very sophisticated executives and very knowledgeable about business. But one thing they're not so knowledgeable about, specifically because we choose people outside of our industry, is the beverage alcohol industry and the business of Brown-Forman. So we want to do everything we can to educate our directors about that and so I would think a board member would want to make sure that they had one-on-one conversations and meetings with various different people and functions in the business. We work also to try to have our directors actually see our various key markets and to spend time in those key markets and our production sites and get a feel. Our most popular brand is Jack Daniels and so we will literally take our directors one-on-one, if they're new especially, down to Lynchburg and have them understand what it means to be part of the Jack Daniels brand family, for example.

ESB: I bet those are popular tours. So that's sort of your on-boarding process. How long, in your experience, should a new director expect to spend getting to know a business right? It's something we hear from directors a lot, especially as there's questions about how many boards they should serve on and some of these other key governance issues the directors are grappling with these days. How much time in your experience does it take a director to really get to know the business?

NA: Well I hope I'm not insulting this by saying this but I think it can probably take a couple of years.

ESB: Yeah yeah.

NA: First of all, obviously they're not full time employees and there's a big learning curve to be in the spirits industry even for somebody who's doing it full time. And so I think realistically I think it really does take a couple of years to know well the business.

ESB: It has certainly been our experience. I mean when we talk to clients about this particular question and we talk to directors about this question we always say think about the amount of time a new member of the management team working full time inside the organization would have to spend to really feel like they know the organization and divide that number of hours by the amount of time you spend with the company and then you're going to have your answer and for a lot of companies it does work out to a couple of years. So there's, I think there needs to be a recognition on the part of directors that this is something that really takes time and if you're going to understand, evaluate and have input into the company's strategy you have to know the business in order to be able to do that.

NA: And I don't think it's fair to the organization or the board to spend actual board meeting time too much on education topics and so we've tried to create a real repository of information based on our portal from prior education sessions, but we regularly have new

board members come a day in advance and spend a whole day sort of regularly doing that kind of education and on-boarding process.

ESB: Right, right. And one of the things I heard you mention during the panel today is that you actually invite retired directors to join strategy conversations so that you can get some of that benefit of the time they spent getting to know the business.

NA: Yes. That was an idea that our chairman came up with a couple of years ago and it's interesting because there's a lot of talk now about compromising independence by having too long tenured directors. Our experience has been the opposite that it's not a risk of cronyism or lack of independence, but it's a value to the company and one that we're losing by not having that wisdom and that experience of our longer-tenured directors. And so we find it very helpful once every 18 months or so to have them come and spend our strategy session together with us.

ESB: It makes a tremendous amount of sense when you think about the amount of time that a director has to spend getting to know the business. You know they're a couple of years in and then they've got a couple of really solid years of providing a lot of input and then you start to have questions about whether or not they've been on the board for too long. So it's a balancing act at the end of the day.

NA: It's a balancing act and you certainly don't want the retired directors to be a shadow board or to tell the board how to do their job or anything like that so you have to be careful about how you do it, but there's a lot of value-add there, we've found anyway.

ESB: For a new director and just that last couple of moments that we have left for this episode of the show, if I'm a new director coming to serve on a board and I come to my sort of orientation, if you will, and I don't find that I'm being taken to company sites, that I'm being exposed to different company locations, how important is it in your opinion to push for that kind of information and access?

NA: Well I believe it's incumbent upon them; I mean first of all hopefully that it's there and the director doesn't have to do it.

ESB: Yes of course, absolutely.

NA: But I mean given the board's, the increasing scrutiny on the board and the duties of a board of directors in this day and age I would definitely think that you would push, in a polite way but push.

ESB: Right, absolutely. Well Nelea thank you so much for taking time away from the forum to come down and spend a little time in the studio. Unfortunately that's all the time that we have for this episode, but I really appreciate you taking the time out of your day for us.

NA: My pleasure. Thank you Erica.

ESB: And that's been it for this edition of This Week in the Boardroom. We'll see you next time.

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