



At the Helm: the Board of Directors

*Guiding HI toward
continuing profitability.*

If Household International (HI) was a ship, Chairman Don Clark and President and Chief Executive Officer Bill Aldinger would be the co-captains. The group executives would be the first mates. HI's employees would comprise the crew. And the board of directors would be ... what?

Many employees could be forgiven for not having a ready answer to that question. After all, we don't bump into a board member every day.

Yet the board of directors performs an absolutely critical function for HI, acting as the ship's navigators by helping the company chart a course toward continuing profitability. Considering their pivotal role, all employees can benefit from a closer look at the board of directors.

Destination: steady, profitable performance

The 15-member board of directors establishes broad corporate policies and takes responsibility for the overall performance of HI. Leaving the day-to-day maneuvers in the capable hands of the company's top management, the board focuses on HI's long-term direction.

"The board really functions as a team, with a great deal of the decision-making discussions taking place at the committee level," Don says.

Working through the details

The board has five permanent committees: **Audit** — reviews company internal controls and financial reporting practices; **Compensation** — determines salaries, bonuses and stock options for senior management; **Executive** — acts for the board, with some exceptions, between full board meetings; **Finance** — reviews and approves company financing requirements and plans, and dividend policy; and **Nominating** — reviews board size, composition and potential candidates, and management succession and development plans.

Each committee consists of six to eight directors who weigh issues in-depth and present recommendations to the entire board, which then votes as a whole.

Take HI's dividend policy, for example. "The finance committee generally convenes to hear management's proposal for the next dividend to declare, discusses it and ultimately arrives at a committee recommendation to the full board," Don explains.

Issues such as executive compensation, board size and composition, and internal/independent auditing similarly are reviewed at the committee level. By delegating detailed discussions on these matters to committees, the board can devote more of their energy to larger issues such as corporate strategy and management succession.

Smooth sailing? Not always

When it comes to deciding larger issues, the debate can get pretty stormy. "Things like acquisitions, divestitures, strategic plans and, most importantly, the choice of a new chief executive officer, are preceded by a good, long discussion," Don says.

"That's the sign of a good board: people raising important questions and conducting a frank debate, always motivated by whether or not a proposal is in the best interests of Household's shareholders and other stakeholders," he adds.

Another sign of a quality board: independence. Thirteen of the 15 board directors are not HI employees. In addition, on three of the five board committees — audit, compensation and nominating — voting power resides with non-HI management directors.

Says Bill, "Such autonomy is entirely appropriate, enabling the board to act independently in sensitive areas such as executive compensation and independent auditing."

In fact, most of HI's directors have no direct financial services experience. The reason: Federal anti-trust laws and banking regulations forbid directors on other consumer finance, banking, and savings and loan corporate boards from sitting on HI's board — and vice versa.

What the board lacks in financial services depth, they more than make up for in breadth. All directors have charted successful careers in their respective fields — accounting, manufacturing, government, medicine and education, to name but a few.

"In the final analysis, we're not elected by the shareholders to be experts in HI's business," says Director Bob Darnall, chairman, president and chief executive officer of Inland Steel Industries, Inc. "Management is not our role; advising HI's management is.

"What's critical, then, is for each director to understand the strategic framework and goals of the organization, and have experience in succession planning," Bob says.

Director Louis Sullivan, M.D., president of the Morehouse School of Medicine, agrees. "In my case, I also advise management on emerging national issues, as well as the impact of rising health care costs on the economy," says the one-time United States secretary of health and human services appointed by President George Bush. "I also bring a perspective and sensitivity to the nation's minority communities, which represent a significant percentage of the markets served by HI's business units."

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Adds Director Ray Tower, retired president and chief operating officer of FMC Corporation, "The strength of HI's board is diversity. There's a healthy interaction at each board meeting, and the variety of experience only adds to the quality of the decision-making process."

Staying on course

Ultimately, HI's board of directors must chart a course for the company for the benefit of the stockholders. That means protecting and enhancing the company's earnings, while also carefully weighing the impact of their decisions on all of HI's other stakeholders — employees, customers, local communities and the general public. 