

## Policy for Nominating Qualified Directors

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On Feb. 1, 2013, E. Ritter & Co., a fifth-generation company based in northeastern Arkansas, took a further step toward professionalizing its board in adopting a Director Qualification and Nomination Policy.

The company, which operates units in agribusiness and communications, has been in the process of revamping its governance since 2007. Shareholders approved the creation of a family council in 2008. In 2009, the company's board of directors expanded from eight to nine members, five of whom must be independent directors. Previously, the board had consisted of six family members and two non-family board members who effectively served as advisers, since the board composition was heavily skewed toward family branches, notes Dan Hatzenbuehler, Ritter's chairman and former CEO. The company named its first non-family CEO effective Jan. 1, 2013.

The process of developing a written policy on board member qualifications and the director nomination process took about nine months.

Hatzenbuehler says the impetus for formalizing the director nomination process stemmed from his concern about the lack of board turnover at the company. "I felt that we needed to create opportunities for our younger family members to be involved in governance of the company," says Hatzenbuehler, whose wife is a fourth-generation member of the Ritter family. The company has about 45 family owners, who are scattered throughout the country.

To assess the likelihood of a family board seat opening up in the near future, Hatzenbuehler queried all the directors individually. Among other questions, he asked their opinions on term limits and age limits for board members. "None of them — including the independent directors — were really interested in term limits or age limits," the chairman says.

The independent director who now chairs the Ritter board's governance committee suggested that the company institute individual and peer director evaluations as the next step in professionalizing its governance, especially in light of the reluctance to adopt age or term limits. A board evaluation process, developed after an investigation of best practices, is included in the new director qualification and nomination policy. Each year, all directors complete self-evaluation and peer evaluation assessments. The nominating committee (a subcommittee of the governance committee) then meets with three or four directors to do a "deeper dive" into their performance and expectations as board members, Hatzenbuehler says.

A watershed moment occurred when one of Ritter's independent directors said she would be ready to retire from the board in 2014. This information prompted the board

to begin thinking about what kind of experience a new director should have, and how to formalize director selection. “It brought to the forefront a gaping hole: We didn’t have a formal, well-thought-out nomination process,” Hatzenbuehler says.

As a starting point for developing its director nomination policy, the company adapted a board skills matrix form, obtained via the National Association of Corporate Directors. The form was used as a starting point for identifying the skills and experience that would be needed to guide the company into the future. To create a set of qualifications for family directors, Hatzenbuehler reached out to several family business consultants; he also referred to materials developed by family business professor and adviser John Ward that had been given to him by one of the consultants.

The new policy outlines the role of the Ritter family council in nominating family director candidates. The council does not directly nominate the family candidates; it’s the purview of the governance committee to nominate all directors. The family council’s role is to generate a list of potential family member candidates for the nominating committee to evaluate when a family board seat becomes vacant.

The policy outlines a timeline for proposing director candidates and spells out the information that must be provided about the nominees. This was included to avoid the prospect of candidates being nominated at the last minute without the opportunity for the nominating committee to vet the name, Hatzenbuehler says. “As we began to think through how this would work,” he explains, “it didn’t make sense to go through so much effort to find the best independent and family candidates, only to have a name thrown in at the last minute and voted on without time for the governance committee to determine the adequacy of the candidate.”

Before the company’s annual meeting in May 2013, two family directors came forward to say they would not stand for reelection in 2014. The company will thus be electing one new independent director and two new family directors at the May 2014 annual shareholders meeting.

E. Ritter & Co.’s Director Qualification and Nomination Policy (with one redaction) is reproduced below, courtesy of company chairman Dan Hatzenbuehler. — *Barbara Spector*

#### **E. Ritter & Company’s Director Qualification and Nomination Policy**

The Governance and Strategic HR Committee (the “Committee”) has adopted the following policy (the “Director Qualification and Nomination Policy”) to assist it in fulfilling its duties and responsibilities as provided in its Charter. This Policy may be amended from time to time by the Committee in order to better carry out its responsibilities to solicit, assess and recommend candidates to be elected by the shareholders to the Board of Directors of the Company.

### **Recommended Candidates**

The Committee shall consider any and all persons recommended as candidates for Directors by any Director, officer, shareholder or the Ritter Family Council. The Committee will generally use the following process when recruiting, evaluating and selecting director candidates. The various steps outlined in the process may be performed simultaneously and in an order other than that presented below. Throughout the process, the Committee will keep the full Board informed of its progress.

### **Desired Qualifications, Qualities and Skills of Independent Directors**

The Committee shall endeavor to find individuals of high integrity who have a solid record of accomplishment in their chosen fields and who possess the qualifications, qualities and skills to effectively represent the best interests of all shareholders and to assist the Company in the achievement of its strategies. The Committee considers the following qualifications generally to be required of any nominee to the Board of Directors as an independent Director, or the continued service of existing Directors. It is highly unlikely that any one candidate will meet 100% of the criteria itemized below; therefore, selection of the best candidates will involve balancing the strengths and weakness of candidates against the needs of the Company and the Board of Directors. These qualifications and criteria may be changed from time to time by the Committee as the Company and its strategies develop:

### **Independence Standards**

To maintain its objective oversight of management, the Board must consist of a majority of independent Directors and meet stringent definitions of independence. Independent directors:

- Include no former officer or employee of the Company or its subsidiaries or affiliates;
- Have no current or prior material relationships with the Company aside from their directorship that could affect their judgment;
- Have no immediate family member who is an officer of the Company or its subsidiaries or has any current or past material relationship with the Company;
- Are not a "Ritter Descendant," which for this purpose shall mean and include all direct lineal descendants of Ernest and Anna Ritter of Marked Tree, Poinsett County, Arkansas, and the current husband and wife thereof, and any legally adopted children of any such direct lineal descendant of Ernest and Anna Ritter;
- Do not work for or consult with another company on whose board of directors the Company's Chief Executive Officer or other senior management serves; and
- Do not serve as an executive officer of any entity which the Company's annual sales to or purchases from exceeded five percent (5%) of either entity's annual revenues for the last fiscal year.

### **Personal Traits/Characteristics**

- High ethical standards, reputation and integrity.
- Willing to act on and be accountable for Board decisions.
- Ability to provide wise, thoughtful counsel on a range of issues.

- Have a history of achievements that reflect high standards for themselves and others.
- Loyal and committed to driving success of the Company.
- Able to take tough positions while being a team player.
- An independent thinker with appropriate personal relationship skills.
- Appreciative of the culture and values of family-owned businesses and cognizant of the role of independent Directors in such businesses.

### **General Business Traits**

Track record of achieving growth for complex, high-performance businesses. Enriches the diversity of the Board. Commitment to active engagement in a new board role; availability of time to serve.

### **Experience and Skills**

*Senior Leadership Experience:* Successful track record as a business leader, preferably as a senior executive in a large private or family-owned business, with experience in the development and execution of corporate strategy. Experienced at dealing with multiple shareholders.

*Business Development/M&A Experience:* Experience in organizational development and structure, spin-offs or repositioning businesses for sustained growth and long-term value creation, as well as mergers and acquisitions. Track record of achieving growth for complex, high-performance businesses.

*Financial Acumen:* Education and/or experience as, or experience actively supervising, a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions.

*Board Experience:* Track record of business leadership and demonstrable grasp of board governance practices and principles, including risk management oversight. Possesses the ability to guide, facilitate and empower the debate of critical issues, leveraging all board members' skills and knowledge to achieve a consensus and deliver results.

*Diversity:* Diversity in perspective, experience base, geography, age, gender and background.

### **Strategy-Based Criteria**

[This section has been redacted at the request of E. Ritter & Co. chairman Dan Hatzenbuehler. Such criteria are based on a company's specific strategic objectives and therefore must reflect the needs of each company.]

### **Desired Qualifications, Qualities and Skills of Family Member Directors**

It is the responsibility of the Ritter Family Council to annually recommend qualified candidates for the family Director positions on the Board of Directors. The Family Council shall annually assess the desired qualifications, qualities and skills of family member directors. It is highly unlikely that any one candidate will meet 100% of the criteria itemized below; therefore, selection of the best candidates will involve balancing the strengths and weakness of candidates against the needs of the family and the Board

of Directors. These qualifications and criteria may be changed from time to time as the Family Council, in consultation with the Committee, deems appropriate:

### **Personal Traits/Characteristics**

- High ethical standards and integrity; respect for discretion and confidentiality.
- Willing to act on and be accountable for Board decisions.
- Ability to contribute ideas on a range of issues.
- Ability to be objective and represent the interests of the owners as a whole over personal or family branch interests.
- Will be loyal and committed to driving success of the Company.
- Able to take tough positions while being a team player.
- An independent thinker with appropriate personal relationship skills.
- Appreciative of the culture and values of family-owned businesses and cognizant of the role of independent Directors in such businesses.
- Contributes to diversity in perspective, experience base, geography, age, gender and background.
- Curiosity.
- Values metrics and comparative data .

### **Qualifications**

- Demonstrated experience leading people, projects, programs, or companies; e.g., has been a member of committees/task forces that met their specific objectives and delivered results on schedule. Has shown initiative and leadership by being the champion of projects that s/he drove through to completion. Has been a leader in community or similar organizations.
- Possesses a record of diverse achievements/accomplishments; e.g., has been promoted in his/her job(s) or progressed to jobs of greater responsibility. Can point to several accomplishments in his/her professional, civic and/or personal lives.
- Ability to read, understand and comment on basic financial statements.
- Understands, or has expressed a willingness to learn about, the Company and its industries, strategies and culture.
- Respect for the family, and demonstrated commitment to the Ritter Family mission, vision and values.
- Has earned the respect of the Ritter family as an engaged family member.
- Experience with the Company or Ritter family through service on the Family Council (or one of its committees), the Leadership Academy, active involvement in the Company or service on the Board of Directors. Sustained, active commitment to the family as demonstrated by participation, not solely attendance at company shareholder and Ritter family meetings.
- Demonstrated accountability and a commitment to high performance standards. Can be relied upon to show up at Board meetings on time and well prepared. When s/he promises to do something by a specific time, you can count on it being done. S/he is able to balance conscientiousness with the need to complete tasks on time.

- Possesses good listening skills, emotional intelligence and a collaborative, thoughtful approach toward problem solving and decision making; e.g., has demonstrated the ability to listen to others, express opinions, seek to separate facts, emotions and opinions and then discuss ways to find common ground.

### **Expectations**

- Candidates should expect to commit a minimum of three years to this position, if re-nominated annually.
- Candidates must be able to commit a minimum of eight (8) days per year to attend quarterly Board and committee meetings to which they are assigned. Candidates will be expected to complete committee-related work outside of the regularly scheduled board committee meetings.
- Candidates will be expected to engage in active mentorship with an independent Director and/or a Ritter family Director.
- Candidates will be expected to continuously broaden their skills and knowledge of the Company and of corporate and family business governance.
- Candidates will be prepared and willing to communicate regularly and effectively with the family, especially members of the next generation, regarding topics that are being discussed at the Board level, balancing what is appropriate to share with what must be kept confidential.

### **Annual Nomination Process**

The Board of Directors has delegated to the Governance and Strategic HR Committee the responsibility for establishing processes and procedures for the screening, selection and election of the annual slate of directors to the Board, with direct input from the Chair of the Board, the CEO and, with respect to the family member candidates, the Ritter Family Council. The Governance and Strategic HR Committee will consider as a candidate any Director who has indicated to the Committee that he or she is willing to stand for re-election as well as any other person who is recommended in accordance with this Policy and the Bylaws of the Company. In the event of a vacancy, or upcoming vacancy, among the independent Directors, the Committee has the responsibility for identifying candidates for such vacant positions. It may also undertake its own search process for candidates. The Committee may use any process it deems appropriate for the purpose of evaluating candidates that is consistent with the policies set forth in the Charter, the Corporate Governance Guidelines and this Policy. Although the Committee may seek candidates who have different qualities and experiences in order to maximize the aggregate strengths of the Board members, nominees shall be evaluated using a substantially similar process.

To assist it in discharging its duties and responsibilities under its Charter and this Policy, the Committee shall establish annually a Director Review and Nominating Subcommittee (the "Subcommittee") as set forth in the Corporate Governance Guidelines appended to the Committee's Charter. The following calendar shall be used to enable the Committee and the Subcommittee to perform their work in a timely manner:

(a) The Subcommittee shall be constituted in May of each year by the Chair of the Committee. Any Director who is not willing or able to stand for re-nomination to the Board in the following year is ineligible to serve on the Subcommittee. The Subcommittee shall recommend its slate of nominees to the Committee by no later than February 15 of the following year, in time for preparation of the slate of nominees to be presented to the shareholders at their annual meeting in May of that year.

(b) To assist the Subcommittee in its work, by no later than March 31 of each year, the Committee shall distribute to each Director written forms to enable Directors to assess the performance of three or four of their peers, on an individual basis, during the prior year and to enable the selected directors to assess their own performance during the prior year. Such forms must be completed and returned, on a confidential basis, to the Chair of the Committee by April 30 of each year.

(c) On or before June 1 of each year, the Subcommittee shall determine if there are to be any vacancies in the Board of Directors which need to be filled. If there are to be vacancies among the independent Directors, then the Subcommittee shall inform the Chair of the Governance Committee of such vacancies so that the Committee may undertake the necessary actions to identify replacement candidates.

(d) If there are to be any vacancies in the family member Board positions in the next election, upon such determination, the Subcommittee will notify the President of the Ritter Family Council of the anticipated vacancy(s). It shall be the responsibility of the Ritter Family Council to maintain a list of family members who it deems qualified to serve as a family member Director pursuant to the criteria set forth above. Upon notification from the Subcommittee, the President of the Ritter Family Council shall submit to the Subcommittee its list of qualified family members for consideration by the Subcommittee for placement on the ballot for election by the shareholders. Such list shall be presented to the Subcommittee no later than September 1. It is the responsibility of the Subcommittee to select the nominee(s) for vacant family member Board positions from the list submitted by the Ritter Family Council.

(e) After receiving the input of the Subcommittee, the Committee shall establish the slate of candidates by February 15 of the year during which the election is to be held and submit such slate to the Board for approval by no later than March 1.

(f) In accordance with the provisions of the Company's Bylaws, by December 15 of each year, the Chairman of the Board shall notify all shareholders of their right to submit nominations for the independent Director positions.