

BARBARA HACKMAN FRANKLIN

For shaping the role of today's audit committee chairman

“PEOPLE TELL ME I have invented some of the best practices in use today,” says **Barbara Hackman Franklin**. “I’m pleased to hear that, but I don’t go around trying to invent best practices. I do what seems to make sense and help the audit committee do its job.” As the chair of the audit committees at **Dow Chemical** and **Aetna**, Franklin has pushed for more enhanced disclosure, championed more control over selection of auditors and opened up communication between audit committee members, financial staff and auditors. Over a combined 20 years of audit committee service she has established policies and honed practices that in today’s era of corporate scandals are being heralded as exemplary.

“Sarbanes-Oxley codified the path Barbara set us on a long time ago,” says **Dow Chemical** president and CEO **William Stavropoulos**. “We didn’t have to start over.”

Case in point? Twenty years ago, audit committee members did not traditionally meet in regular executive sessions with the outside auditor, the internal auditor and the company’s financial chiefs. Franklin started to hold such sessions long before it became standard.

She uses the inherent tension of the roles of those who sit around the table—financial management, the outside auditor, the internal auditor—in a way that gets the most information on the table. “I may ask the same questions in open and closed sessions to see if I get the same answers,” she explains.

Franklin also introduced a “brainstorming” approach for planning the audit committee agendas at **Dow** and **Aetna**. “I try to be proactive, not to merely take what management says are the issues.”

She meets with the outside auditor, the inside auditor, the CFO, the corporate secretary and the general counsel. “The assignment is to unglue your thinking,” Franklin says, smiling. They list all the short- to medium-term risks, prioritize them and slot them into the committee’s meetings for the coming year, leaving some flexibility for the unexpected. The economy, she explains,

is a matter for the full board to discuss. The need for adequate controls over outsourced activities belongs on the audit committee’s agenda.

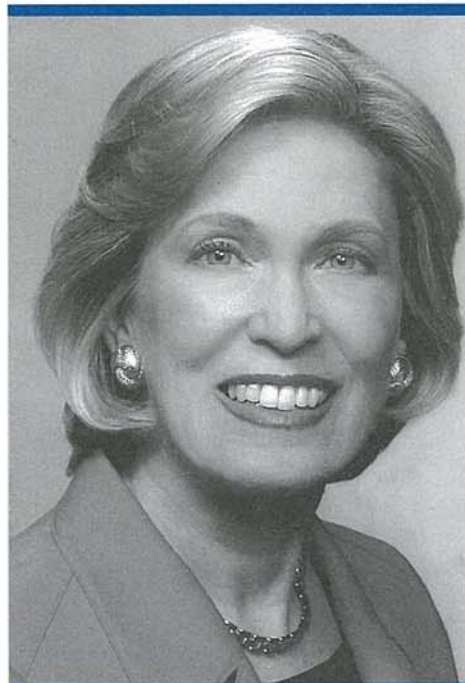
The proposed agenda goes to the full audit committee for their input. Franklin then discusses it with the company CEO. “Barbara wants to be transparent and open,” says Stavropoulos. “She uses her good judgment to make sure the company is operating properly.”

This judgment was evident when it came to disclosing a potential liability at **Dow**. In February of 2001, a **Dow** subsidiary merged with **Union Carbide** in an effort to increase market share and economies of scale. But **Union Carbide** brought some baggage in the form of multiple asbestos-related claims against it. Franklin was adamant that appropriate disclosure of the situation be made in the year-end 10K.

“The question was, what should we put in the annual report with respect to asbestos-related liability?” explains **Dow** lead director **Harold Shapiro**, former president of **Princeton University**. “The audit committee was in agreement that management had downplayed the issue, so there was some controversy. Barbara insisted—in a very nice way, but she insisted—that the language be more thorough.” Fellow **Dow** director **Jack Danforth**, a partner at **Bryan Cave** and former U.S. senator from **Missouri**, credits Franklin for “ensuring the language used to make disclosures was complete.”

In the fall of 2002, Franklin drove home the concept that the independent auditors work for the board, not for management. **KPMG**’s lead partner for **Aetna** was rotating off the account. Franklin and her committee wanted input in selecting the new partner as well as the supporting partners. “We wanted more than one choice,” says

Ellen Hancock, a fellow **Aetna** director. “By doing our due diligence, we made a statement to the firm that the audit committee is responsible for the internal and external audits.” So on a Saturday morning last October, **Aetna**’s audit committee went to **New York** and conducted interviews with several **KPMG** candidates. When the committee



“I do what seems to make sense and help the audit committee do its job.”

“We’re reluctant to rotate the audit committee chair position, because no one wants to see her go.”

Harold Shapiro
Former President, Princeton University.

had finished the interviews, Franklin “called me to discuss why she felt one candidate was a better fit,” reports **John Rowe**, chairman, president and CEO of Aetna. “It was quite clear that the audit committee was hiring this person.”

While there are some seasoned directors and industry experts who fear this approach falls within the realm of micro-management, Franklin is resolute. “I think choosing the lead partner should be a best practice,” she states matter-of-factly. “It wasn’t a beauty contest. It was a question of whom we were comfortable working with.”

HER BOARD COLLEAGUES say Franklin is most valuable because of her awareness of new legislation and rules as they develop. “There’s a lot of evidence that Aetna is now in the forefront in terms of how the audit committee functions, and much of that is due to Barbara,” says Hancock.

“She stays in touch with those who influence the audit committee environment,” points out Dow corporate secretary **Tina Van Dam**. “And she is herself a recognized expert on audit committee work.” For example, since January of 2003, Franklin has been a trustee of the Financial Accounting Foundation, the governing body for the Financial Accounting Standards Board and the Government Accounting Standards Board. As chairman of the foundation’s appointments and evaluation committee, Franklin has a voice in the selection of members of FASB and GASB. “It’s important to be part of the process while things are in flux,” says Franklin. “Barbara watches for new regulations like a hawk and is extremely generous with her time in keeping the entire Dow board up to speed,” says Danforth.

The added responsibilities that the new regulations bring led Franklin to resign from the audit committee of plastics processor **Milacron**. “I was trying to shrink my audit responsibilities,” she explains. But her fellow directors at Dow, Aetna and MedImmune are eager to have her continue on their audit committees. “We’re reluctant to rotate the audit committee chair position, because no one wants to see her go,” Shapiro says with a grin.

Franklin, who runs her own business consulting firm, has had a multifaceted and groundbreaking career. For starters, she was one of the first women graduates of Harvard Graduate School of Business Administration. Then, after working in the Nixon White House, she was named one of the original commissioners of the U.S. Consumer Product Safety Commission. She left government in the 1980s to become Senior Fellow of the Wharton School, and

DIRECTOR’S SNAPSHOT

BORN:

March 19, 1940, in Lancaster, Pennsylvania

EDUCATION:

B.S. (with distinction), The Pennsylvania State University; Political Science
M.B.A., Harvard University Graduate School of Business Administration

CAREER HISTORY:

Barbara Franklin Enterprises, President and CEO; Department of Commerce, Secretary; U.S. Consumer Product Safety Commission, Commissioner; The White House, Staff Assistant to the President; Citibank, Assistant Vice President

FAMILY:

Married to Wally Barnes, 16 years; he has two stepchildren, 6 step-grandchildren, and 3 step-great-grandchildren

HOMETOWN:

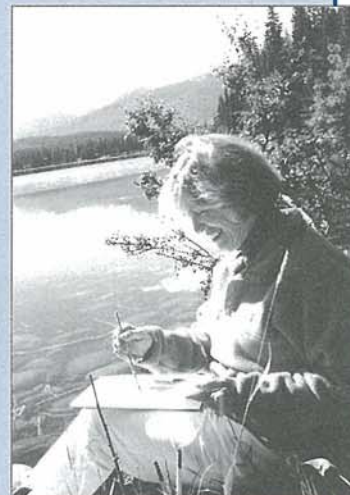
Washington, D.C., and Bristol, Connecticut

BEST BOOK READ THIS YEAR:

Benjamin Franklin, by Walter Isaacson

BEST VACATION PAST 5 YEARS:

Hiking in the Canadian Rockies with Wally



▶ Barbara Franklin enjoys painting outdoors

BEST SUMMER JOB:

Lifeguard

WON'T LEAVE HOME WITHOUT:

My cell phone

WHEN I WANT TO RELAX, I:

Exercise, hike and paint

FAVORITE QUOTATION:

“Some women are born leaders.” (From a t-shirt worn at the U.N. International Women’s Day, March 18, 1983)

CURRENT CORPORATE BOARDS:

Dow Chemical, Aetna, MedImmune, Milacron, GenVec

returned to Washington in 1992 to 1993 as the 29th U.S. secretary of commerce—and the highest-ranking woman in George H. W. Bush’s administration. In her cabinet position, Franklin conducted a historic mission to China that normalized commercial relations with that country, removing one of the sanctions the U.S. had imposed following the events at Tiananmen Square in 1989.

And... the beat goes on. In July of 2003, Franklin was named the first woman chair of the New York Economic Club. “She’s a person with a broad bandwidth,” sums up Aetna’s Rowe. ■