REMARKS ON CORPORATE GOVERNANCE TO THE U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
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Good morning ladies and gentlemen. My name is Robert Campbell. I am the retired Chairman and Chief Executive Officer of Sunoco Inc. and I would like to thank you for the opportunity to testify before this committee today. The primary role of the outside director in protecting the interest of the shareholders has always been important in the past, but it is a national imperative today if we are to restore the confidence of investors in publicly held companies.

I would like to begin this morning by making two points clear. First of all, any remarks I make are my personal beliefs and do not necessarily reflect the beliefs of the corporations on whose boards I have served or am currently serving. And secondly, you need to understand that my knowledge of Enron and its directors and Arthur Anderson and its partners is limited to what I have read in the print media or seen on television. I have no direct knowledge of what has taken place within those organizations.

For your information my active business career spanned a 40 year time period from mid 1960 until June 2000. The entire career was spent with one company (Sun Oil Company – Sunoco) or its subsidiaries. In 1991, I was named President and CEO, and in 1992, I was named Chairman of the Board of Directors. I held the Chairman / CEO positions until I retired in June of 2000.

In your letter of invitation to me, you asked that I comment on whether I thought the governance problems exposed in the Enron matter are unique, or representative of most U.S. publicly traded companies. My answer is that I certainly do not believe that the alleged behavior is representative of boards of directors in the U.S. today. In addition to Sunoco, I have been or am currently a director of CoreStates Bank (before its acquisition), Hershey Foods, CIGNA Inc., Pew Charitable Trusts, and Rocky Mountain Institute, plus numerous civic and non profit boards. During those 15 years I have come to know probably more than a hundred directors, and can state from personal experience that the allegations I
have read in the print media and seen on television are not even remotely similar to the director experiences I have had.

Possibly the best way to explain the type of board governance I am accustomed to is to cite some of the practices instituted at Sunoco. The list of governance practices of that corporation spans four typed pages, and you'll be happy to know that I have no intention of reading them this morning – but have instead submitted them as an attachment to my remarks for your information.

However, let me highlight some of the practices that we may want to discuss further in today's meeting:

At Sunoco, the Board consists entirely of independent outside directors except for the CEO / President. The directors have no consulting contracts, have a mandatory retirement age, but no company retirement plan. In addition, more than half of a directors compensation is in the form of company stock or stock equivalents, and a set of Directors Stock Ownership Guidelines has been instituted.

Each director is elected annually for a one year term, and the company has a confidential voting process in place for shareholders. The directors are also expected so sign off annually on Code of Ethics and Conflict Of Interest statements.

An extended meeting of all "outside directors" is held annually without the Chairman / CEO present. The purpose of this meeting is a thorough examination of the CEO's performance and the surfacing of any issues or concerns that outside directors may have about corporate performance or direction. The results of this meeting are then fed back to the CEO by the entire Board in a follow-up meeting.

A meaningful and in depth review of the performance of each Director is held annually by a governance committee of the board, and one-on-one feedback is given to the Director on the results of the review. In addition there is a tabulated periodic evaluation by all directors of the "board as a whole", with suggestions for improvement given to the CEO / Chairman.

There is the recognition that the external auditors work WITH management, but work FOR the Audit Committee. Approximately 7 years ago at Sunoco we decided to ask the "big 5" auditing firms (including our current firm) to submit a proposal for our external auditing work. After reviewing the proposals we decided to change our external auditors. The firm we replaced had been with the company more than 80 years – almost since its formation. Incidentally we found that the change process was not overly disruptive or expensive, and we were very happy with the effect on the corporation of bringing in the new outside auditors.

I could go on and list more of the many practices in place, but I expect by now you understand the seriousness with which this subject has been approached at Sunoco. And I might add that virtually all of these practices have been in place for almost a decade -- long before board governance became the popular subject it is today. Sunoco's approach to governance resulted in several instances of external recognition, and culminated in the Board of Directors receiving the 1999 national "Board Excellence" award from Spencer Stuart (an international executive search firm) and from the Wharton School of Business of the University of Pennsylvania.

Also in your letter of invitation to me you asked if I might have any recommendations for new legislative or regulatory reforms. I will confess up front that my business career has conditioned me to seldom seek more legislation or regulation from government. However I do believe that the current situation calls for strong action on the part of someone, and I would suggest four areas of focus.

First I believe there needs to be more complete and understandable annual disclosure of the relationship between a director and the corporation. The typical corporate proxy today, issued prior to the annual meeting and the election of directors, gives a very brief description of the director standing for election. I would like to see a much more complete description, on one page, of each directors relationship with that corporation including not only the total compensation received (in whatever form it may take – cash, stock, benefits or perqs) but also any consulting or employment contracts for them or their relatives … any business relationship between their company and the subject company (are they a significant supplier or customer)? … what are their financial holdings in the company they serve as director (stock, stock equivalents, options, bonds, other forms of debt, loans, etc.?). I realize that some of this information is disclosed in other documents, however bringing all of it together annually in one place, in an easily read format will help insure complete disclosure.

My second suggestion is that an annual meeting of outside directors (no CEO or other member of management present) be made mandatory – not just a good practice. And that it be followed with an extensive feed-back session with the CEO / Chairman. I have found it to be of tremendous value to both the CEO and the outside directors in surfacing issues early while they can still be dealt with constructively.

Next, I believe that consideration should be given to limiting the number of years an outside auditor can serve a corporation. The need for "a different set of eyes" is currently recognized by the existing requirement that the partner in charge be rotated every seven years. However, bringing in a new lead partner from the same firm to work with the existing team from that firm is inadequate in my opinion. I'm certain this requirement would be seen as unnecessarily disruptive and expensive by most corporations today. But if an outside auditing firm knew that ten years from now a competing auditing firm would be looking over and commenting on their work, a whole new dynamic would be introduced in the current process.

Finally, since good corporate governance is a constantly evolving process, it would be difficult to legislate or regulate with too much specificity. What is viewed as "good" this year may not be viewed as "adequate" in future years. Boards need to institute a continuous governance review process, and I believe it would be helpful if the following were required by regulators:

1. Corporations should be required to put their current governance practices in writing, and publish them annually in their proxy statements. In that manner it would be clear to all shareholders how their corporation is governed.

2. A board committee should be identified and held responsible for reviewing and updating a corporation's governance practices, similar to the way the audit and compensation committees currently have certain regulatory duties.

One of Sunoco's current directors (Rosemarie Greco) recently published in the January 2002 edition of National Corporate Directors Monthly an excellent description of a process which a corporation can use to institutionalize "best" governance practices. I strongly recommend you review her offering. For it is only when the governance process is institutionalized that it will continue over time.

Again, thank you for your invitation to be here today, and I will be happy to try to answer your questions.

Robert H. Campbell