

# Boardroom ALL-STARS

Qualities that make great corporate directors and the individuals who possess them.

By Judy Warner

When Rupert Murdoch handpicked 27-year-old Natalie Bancroft for a seat on the News Corp. board following its acquisition of Dow Jones, few were singing the praises of the budding opera diva.

On paper, what seemed to be the Dow Jones heiress' only qualification for board service was her last name. (As part of the deal, Murdoch had agreed to hold one board seat for a Bancroft family representative.) The professionally trained singer has no business degree and no previous corporate or boardroom experience.

When asked about the corporate-governance experts who said Bancroft's inexperience could be "viewed as a disservice to News Corp. shareholders," Murdoch replied: "That's rubbish! If you listen to corporate-governance issues, just remember what they said when Google floated [its IPO]. They said it was the worst corporate-governance model they had ever seen."

One observer wrote that the choice of Bancroft was "brilliant" reasoning that "Murdoch's strategy for News Corp. hinges on appealing to her generation. It's not often you get to appoint someone that age to a board. I think it's a stroke of genius, really. Insight into younger generations is insanely hard to get, particularly at the board level."

How Bancroft performs in her debut role as a corporate director, of course, remains to be seen. The circumstances around her appointment are more anomaly than norm, not because of her gender (although she is the first woman to serve on the News Corp. board) but for her sheer lack of bona fides. And yet her appointment emphasizes an important aspect of assembling a great board: there are no formulas. Top recruiters say that one size does not fit all and an individual who would be a perfect match for one board might be a disaster on another. Such situa-

tional realities and the fact that boards act in concert, make it difficult, say recruiters, to single out great board members from the corporate echelon.

Still, board advisers and search executives agree there are universal qualities that apply to the vast majority of today's high-performance directors, such as courage, conviction, commitment, and intellect. "The qualities of good board members don't change with the environment," says Harvard Business School Professor Jay Lorsch. "They need good judgment. They need to participate and say what's on their mind, and they need to contribute until a decision is made on what needs to be done. It's almost that simple."

The responsibilities of board members have evolved, however, giving rise to a new set of standards by which their ability to serve is gauged. "Board responsibility has shifted from advisory to monitoring, and not just because of Sarbanes-Oxley," notes Richard Ziegler, a partner in the law firm Jenner & Block. "It's a really tough act to be an adviser and a watch dog at the same time. It's a challenging role for anyone."

Such demands mean that board members need to have the time, willingness, and flexibility to deal with complex issues. Yet there exists a tendency to seek "rock star" caliber board members, those like former vice president Al Gore or Avon chairman and CEO Andrea Jung, whose impeccable credentials and high profiles impress current and would-be shareholders. The opinion is that almost any board would benefit from the depth and breadth of their experience. However, all board members and candidates must be selective about where they invest their time, and the ability to align that experience with the needs of companies is both the science and art of



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## Cover Story

executive placement.

Some of the best directors toil in relative obscurity, oftentimes at lower-profile companies. “The best board members are not rock stars,” says Egon Zehnder’s George

Davis. “They can’t be. An inordinate amount of time needs to be devoted to board service. Most of the very best directors do the selfless work that shareholders truly appreciate. They are committed to

the company and to the shareholder. They typically are not household names.”

Lead and Be Led

In the aftermath of the corporate scandals

### The A List



Jeffrey Immelt

*Directorship* set out to assemble a list of well known and, arguably, lesser-known board members whose sterling qualifications and experience make them outstanding among their peers. We listened to board advisers and the top recruiters explain the screening criteria they use.

Admittedly, of the several thousands of active board members, we present only a small sampling. To emphasize the point made by Egon Zehnder’s George Davis, the best board members operate in obscurity and keep their names out of the paper. That we don’t know about their crises is a testament to their ability to keep them from escalating into large, public disasters. For that reason, this list is by no means intended to be comprehensive.



Bill Gates

Widely considered one of the best CEOs: **Jeffrey Immelt**, 52, ninth chairman and CEO of GE; a director of the Federal Reserve Bank of New York. By GE rules, he sits on no public company boards other than his own, but we’d send him out to the mound as CEO.

The undisputed king of technology and lead futurist: **Bill Gates**, 52. His decision to retire later this year may free him up to sit on more boards. He is chairman of Microsoft; on the board of Berkshire Hathaway; and co-chair of the Bill & Melinda Gates Foundation. He’ll cover the technology infield like Derek Jeter at short.

He didn’t win the presidency, but **Al Gore** has won everything else since. The former Vice President, 59, is co-founder and chairman of Generation Investment Management; author, and filmmaker; Nobel Peace Prize and two-time Academy Award winner; on the board of Apple; and senior adviser to Google. Environmental and corporate social responsibility issues are becoming an important specialty, and this designated hitter is a ringer. One caveat:



A. G. Lafley

the backdating mess at Apple could keep him out of the Hall of Fame.

Less autocratic than Rupert, sunnier than Sumner? His knowledge of media and deal-making prowess make **Barry Diller**, 66, chairman and CEO of IAC Interactive, chairman of Expedia, and a director of Coca-Cola and The Washington Post Co., almost without peer. He hits M&A home runs and runs down everything that comes into left field. But Diller is also not without controversy. His longtime dispute with Liberty Media’s John Malone indicates he might be a distraction in the locker room.

“A nice guy who finishes first”—that’s how American Express chairman and CEO **Kenneth Chenault**, who sits on the IBM board, has been described. You just can’t be a jerk and be in the service business, he has said. He’s so solid, he makes every play at first.

“Consumer-centric” and “tide-turner” **A.G. Lafley**, 60, president and CEO of Procter & Gamble and Gillette since 2000; director of General Electric and

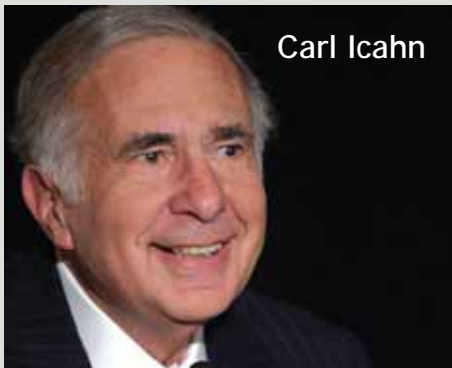
### The All Stars

Who better than the world’s most successful investor: **Warren Buffett**, 77, chairman of Berkshire Hathaway, director at the Washington Post Co., and formerly on the boards of Gillette, Coca-Cola, and Capital Cities/ABC. On an all-star board, we want him as our skipper and chairman.

earlier in the decade, integrity, independence, and courage are essential. “A level of courage is required of every board director,” says Ted Dysart, managing partner of Heidrick & Struggles. “Directors need to

stand up to management to make sure management is doing the right thing, but they must also stand up *for* management for doing the right thing when the results might not necessarily be there.”

One example of a board member with documented courage is Armando Codina, a member of the Merrill Lynch board, who is credited with leading the effort to oust Stanley O’Neal. “Codina is definitely



Carl Icahn

Dell Computer. When Immelt isn’t being named “best CEO,” Lafley is. With a knack for generating hits with consumers, he’s our lead-off man.

“Brilliant strategic mind:” **Rajat Gupta**, 60, former managing director at McKinsey & Co.; director at Goldman Sachs, Procter & Gamble, AMR Corp., and Genpact LTD; and special adviser on management reforms to the Secretary-General of the United Nations. There’s no one better coming out of the bullpen on strategy.

“Lead devil’s advocate” and consummate dealmaker: **Carl Icahn**, 72, CEO of Icahn Management; chairman of Imclone Systems, XO Holdings, and Atlantic Coast Entertainment Holdings. He holds boards accountable, so we’ve put him, naturally, in the hot corner at third.

Politically astute, worldly, and working to save us from nuclear annihilation: former Congressman **Sam Nunn**, 69, director of Chevron, Dell, Coca-Cola, and GE. Having a director who is politically savvy and well-connected in both parties is more important



Andrea Jung

than ever. Where else? Center field.

Apple could have picked anyone for a board seat—it chose **Andrea Jung**, 49, chairman and CEO of Avon Products; also on the board of GE. Re-invention? Perseverance? Like she has done at Avon, she’s our long-ball hitter, with the ability to turn the game around.

### The Retired CEOs Club

“Understands both new and traditional business models.” That’s **Meg Whitman**, 52, soon-to-retire president and CEO of eBay; on the boards of Procter & Gamble and Dreamworks Animation SKG.

Dubbed “brand mechanic” by *The Wall Street Journal*, **James Kilts**, 60, former chairman and CEO of Gillette; on boards of Pfizer, MetLife, MeadWestvaco, and The New York Times Co.

The “unflappable” **Edward Kangas**, 63, has been the director of Intuit since July 2007. He is currently a director at The NCO Group Inc., NCO Financial Sys-



Meg Whitman

tems Inc, Hovnanian Enterprises, Inc., Tenet Healthcare, Electric Data Systems, and The Eclipsys Corp.

“Nobody’s better on audit” than **J. Michael Cook**, 66, chairman and CEO emeritus, Deloitte & Touche; on boards of Burt’s Bees, Comcast, Dow Chemical, Eli Lilly, and International Flavors & Fragrances.

Lauded for integrity: **William W. George**, 65, former chairman and CEO of Medtronic; professor of management practice, Harvard Business School; author of *True North: Discover Your Authentic Leadership*; and on the boards of Exxon Mobil, Goldman Sachs, and Novartis.

“Brand guru” **Steven F. Goldstone**, 61, former chairman and CEO of RJR Nabisco; managing partner, Silver Spring Group; non executive chairman, ConAgra; director, Trane, Greenhill & Co., and Merck.


“Magazine legend” **Thomas O. Ryder**, 63, former CEO of Reader’s Digest; on the boards of Virgin Mobil, Starwood Hotels & Resorts, and Amazon. 

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someone I'd put in that category," says Charles Elson, director of the Weinberg Center for Corporate Governance at the University of Delaware and a member of the AutoZone and HealthSouth boards. "It must have been pretty tough to go against Stanley O'Neal. I give [Codina] a lot of credit." Elson insists that courage or agitation alone doesn't make a great board member. "It's never bad to have someone who is occasionally a contrarian, but it's better when that person has leadership and persuasiveness—that is what makes a great director," he says.

Sometimes courage is defined not by one's ability to lead but by one's ability to follow, says Edward Kangas, the former global chairman and CEO of Deloitte & Touche. He, too, fits the profile of an all star, given his prominent boardroom roles in helping to get troubled companies back on track. Kangas is largely credited with helping oversee the turnaround of belea-

guered Tenet Healthcare and Electronic Data Systems. To restore credibility and rebuild confidence at Tenet and EDS, management and boards had to be replaced. Kangas helped convince Michael Jordan, the former chairman of EDS, to come out of retirement to lead the turnaround effort at EDS. "Courage is sometimes the ability to trust somebody else," Kangas notes. Today, good corporate managers understand that a room full of yes men and women will not help them. They want and need to be challenged. Successful directors bring both a spirit of inquiry and constructive dissent to their roles.

Having the strength of conviction to speak one's mind is almost as important as having the ability to manage influence. "It's not the same as being an opinion leader," asserts Stephen Mader, senior client partner and managing director of board services at Korn/Ferry International. Mader believes that every good director is

both an opinion leader and an influence manager. "Opinion leaders can make good judgments and, once they've drawn a conclusion, they're capable of getting their opinion across as a point of view. That ability comes with the kind of self-confidence in your own work that makes you comfortable enough to hang your opinions out there for criticism."

The best board members, says Michael P. Kelly, managing partner of the board services practice at CTPartners in New York, "have a passion for doing the right thing. They have a strong moral compass."

#### The CEO as Director

CEOs are widely considered the most desirable board candidates, based on their range of experience and their capacity for leadership. "They tend to bring a sophisticated knowledge of how companies work," says Ziegler. They also bring a gravitas to the boardroom that levels the playing field

## Up and Comers (Or, in many cases, up and here.)

For audit committee consideration: Irene Miller, 55, CEO of Akim; former vice chairman, CFO of Barnes & Noble; director at Toronto Dominion...Charles "Chuck" Noski, 57, former vice chair and CFO of AT&T; on board Microsoft and Morgan Stanley...Janet Clark, 53, CFO of Marathon Oil; former CFO of Nuevo Energy Co...Cheryl Grisé, 55, former CFO of Northeast Utilities; on the board of MetLife...John "Jack" C. Pope, 58, chairman of PFI Group; former CFO, United Airlines; on the boards of Kraft Foods, Dollar Thrifty, and Waste Management.

For governance and nominating: Robert Essner, 59, chairman, CEO at Wyeth, on the board of Massachusetts Mutual Life Insurance...Deirdre Connelly, 46, president, Lilly USA, Eli Lilly's biggest division...Lynn Laverty Elsenhans, 52, EVP,

global manufacturing, Shell Oil Co.; director at International Paper...Ursula Burns, 48, president and director of Xerox; on the boards of American Express and Boston Scientific. Cited as likely successor to Xerox Chairman and CEO Anne M. Mulcahy...Ellen J. Kullman, 52, EVP, DuPont Safety & Protection; on board of General Motors...Raymond J. McGuire, 51, managing director and co-head, global investment banking, Citi Markets & Banking; director at Wyeth...Patty Stone-sifer, soon-to-retire CEO of Gates Foundation...Laura Stein, 47, general counsel, Clorox Co.; on the board of Franklin Resources...Linda Koch Lorimer, 55, EVP, secretary, Yale University; lead director, McGraw-Hill; on the board of Sprint Nextel...Denise Morrison, 53, SVP, North America, soups, sauces & beverages,

Campbell Soup Co.; director, Goodyear Tire & Rubber Co...Louise M. Parent, 57, general counsel, American Express...Robert Pease, president of Shell Trading Company...Sheila Penrose, 61, president of the Penrose Group; non executive chairman, Jones Lang LaSalle; board member of McDonald's...Patricia Salas Pineda, 56, group vice president, Toyota North America, primarily responsible for legal and philanthropic affairs; director of Levi Strauss & Co...Elizabeth J. Smith, general manager, Infrastructure Access Services, IBM.



Ursula Burns

between directors and top managers. A former CEO often times can better relate to a sitting CEO because he or she counsels and questions from similar experience. Those who have led complex companies seem to have a greater capacity for dealing with multiple issues simultaneously. In his years sizing up candidates for board service, Kangas says he looks for “winners” and “those who have the emotional and intellectual buy-in” to serve the company. This immeasurable characteristic also leads many board searches back to the lists of former or soon-to-retire CEOs.

CEOs can be hard to come by. Corporations today are likely to restrict the number of outside boards on which their senior managers can serve. With the average length of tenure for a sitting chief executive now a mere 3 to 5 years, however, there is greater flux.

“The biggest change in the past 10 years,” says Betsy Bruening, vice president of the Prout Group, a minority-owned search firm in Cleveland, “is every nominating committee always wants a CEO. Well, CEOs don’t say ‘yes’...and post-SOX, their own companies say they can only serve on one outside board.” Or, as is the case with GE, none at all. As a result, nominating committees have become more thoughtful about evaluating what skill sets are needed.

Recruiters also pay close attention to management’s second and third string to identify up-and-coming board candidates. These include divisional presidents, operations managers, CFOs, and executives running regional offices of corporations or nonprofits. What is typically sought is proven experience managing operations, followed closely by a specific skill set or functionality, such as audit or international business experience. “Companies are doing a better job today of conducting the kind of gap analysis, either themselves or by using an outside adviser, to

understand the skill sets they need to develop,” says Kelly.

Not all CEOs who are courted to boards have been successful in their prior jobs. Almost as soon as Stanley O’Neal left the CEO post at Merrill Lynch following record losses, he joined the board of Alcoa. “When we talk about finding CEOs or inactive CEOs,” Mader says, “we are very careful to diagnose the level of achievement of their work and how they feel about that level of achievement. The degree to which they have been successful is probably less relevant than their comfort and satisfaction with themselves as businesspeople,” Mader says. What you don’t want is a board member who uses the board seat to justify or redeem himself. Then the seat becomes a podium. “If that board becomes Stan’s forum for proving that it was wrong for him to leave Merrill, then you’ve got a problem, but given his experience, it might work out great.”

Other attributes that keep directors from becoming great board members are candidates who are overboarded, egotistical, divisive, or self-involved. A Directorship.com online survey put the threshold for serving on too many boards at four to five or more.

#### Adviser and Watchdog

It is more of a given today that directors represent the interests of shareholders. That said, the role of board member has evolved to be an adviser, monitor, and watchdog. “The watchdog role can only be discharged by someone who has an independent frame of mind,” says Jenner & Block’s Ziegler. “The challenge is to combine the two [with] a parallel quality of supportive inquisitiveness. You don’t want someone who is going to be mistrustful of management, which is different than a healthy questioning of the assumptions that management is making.” This quality was absent from the Enron board, which waived its conflict-of-interest code five

times, although before its downfall, Enron was considered to have a superior board. The Hewlett-Packard “leak mess” certainly underscores the need for collegiality while the massive nature of the backdating options scandal that nearly ruined United-Health Group suggests that directors could have been more independent and inquisitive, Ziegler says.

Surely, deciding what makes a great director—and who is a great director—is a highly subjective exercise. Patrick McGurn, executive vice president and special counsel at the ISS Governance Services unit of Risk Metrics, says he’s not a fan of best or worst director lists. He says it’s incredibly difficult to tell from the outside who is performing and who is not. “A couple of directors could be doing all the heavy lifting, and it’s hard to tell them from the 90-pound weaklings,” says McGurn.

That said, McGurn lists some identifying traits of great board members: the “CIAO” test, which includes:

- Commitment: Do they have the time and energy to give to the board?
- Independence: Do they show willingness to stand up to management?
- Attendance: Are they physically present and also mentally engaged?
- Ownership: Do they have a significant stake in the company?

“Ownership is more important than it is often given credit for,” says McGurn. “There must be an alignment with shareholder interests.” He also looks for integrity and interest. “One word you won’t find on my list is ‘collegial,’” says McGurn. “Some civil dissent in the boardroom is a very good thing.”

Directors need to have strong personalities but a proven ability to play well with others, agrees CTPartners’ Kelly. “Being on a board is one of the toughest things they will do in their career. They need to have conviction, intelligence, and get along with people.” 