

# AGENDA

A Financial Times Service

## What Makes a Great Independent Chairman?

By Katie Wagner

As more boards appoint independent chairs, governance experts are paying close attention to who fills this very important role. A healthy ego and excellent listening skills are among the qualities that experts say can help in the position, which is by nature a sensitive one. Many experts also cite company-specific criteria, such as industry expertise and a personality that complements the company CEO's, as desirable traits for the indie chair.

Whether having an independent chair improves corporate performance remains debatable. And in the U.S., although 43% of S&P 500 companies separate the chairman and CEO roles, only 23% of their boards have a non-executive chairman who is truly independent, according to the just-published Spencer Stuart 2012 Board Index.

But for those that do appoint an independent chair, the governance community generally agrees that the board needs to put a lot of thought into the choice.

"The person who is ideal is really someone who is a self-effacing leader," says Bob Hallagan, vice chairman of board leadership services for Korn/Ferry. "This is someone highly respected in the boardroom for his achievements but who has a very, very quiet, controlled ego."

For some investors, true independence is more important than any character trait. That's the opinion of Carin Zelenko, director of capital strategies for the International Brotherhood of Teamsters. "There is just this inherent problem for investors if there is no reassurance that there is any independent pushback on [the CEO]," says Zelenko.

For example, even a director who satisfies the New York Stock Exchange and Nasdaq definitions of independence may not be able to challenge management effectively if he or she has served on the board for many years.

An independent chair should be someone "who's got the guts to push back when necessary and [puts] the interests of the company and shareholders ahead of trying to please the executives with high pay," she says. An assertive independent chair is particularly valuable at a company with a domineering CEO, Zelenko adds.

But for a new and less confident CEO the ideal chair is someone who is patient, facilitates conversations and listens well while still being decisive, says Robert Hotz, who chairs Pep Boys' board and is a director at Universal Health Services.

Zelenko and Korn/Ferry's Hallagan both say an independent chair whom fellow board members respect will probably be most effective. And a person who has headed a company of similar size and complexity is most likely to command such respect.

One example, says Hallagan, is former Dupont CEO Jack Krol, who was extremely effective as the independent chairman of Tyco International and Delphi Automotive, in part because of his reputation for ethics and integrity, built up over years in a highly visible position. "When he became chairman of Tyco [in 2002], he was able to attract a world-class CEO" after the company had suffered a damaging accounting scandal, Hallagan says.

Relevant business experience also helps an indie chair do the job effectively. For instance, says Dora Vell, founder and CEO of Vell Executive Search, software development company CA benefits from the background of independent chairman Art Weinbach, former CEO of the large technology-based service provider Automatic Data Processing.

And David Dorman, who currently serves as chairman of CVS Caremark, says his previous experience with spin-offs allowed him to play an integral role when Motorola, where he was non-executive chair, successfully divided itself into two businesses. Dorman also chaired Motorola Solutions after the split.

Formerly, as chairman and CEO of AT&T, Dorman presided over the spin-off of AT&T Wireless and sold AT&T Broadband to Comcast. He was also on 3Com's board when it spun off Palm.

"I established a spin-off committee of Motorola's board, which managed the overall timetable for the spin-off and determined which things would get spun off," Dorman recalls. "I wouldn't have done that if I hadn't had some experience in dealing with these kinds of issues." The special committee helped keep Motorola's board and senior managers aware that "the clock was ticking," he says.

*Dora Vell is the CEO of Vell Executive Search, a premier retained technology executive search firm in Boston. Ms. Vell is an internationally recognized expert in recruiting technology executives including: CEOs, COOs, CTOs, CMOs, CROs, board members and others. She works with VC-backed, PE-backed private companies and public companies. She can be reached at dora@vell.com.*