

Interview

“A roomful of CEOs doesn’t necessarily make the best board”

Since **Anne M. Mulcahy**, former Chairwoman and CEO of copier manufacturer Xerox, bade farewell to executive management, she has acquired rich and varied experience as a director not only of major listed corporations but also of privately owned companies and non-profit organizations. Today, as she breaks a lance for greater diversity at board level, she is not afraid to put forward contentious and provocative ideas.

PHOTOS: RODERICK AICHINGER



The Focus: You are known as one of the most experienced board members and chairs worldwide, having amassed a wealth of experience on the boards of major corporations, private companies and non-profit organizations. What's your spontaneous response to the topic of Board Diversity?

Anne M. Mulcahy: This is a topic I really care about: I'm very concerned to take public discussion of this issue to a new level. As I see it today, we should no longer even be asking whether we need diversity or not. Instead, everyone in a position of responsibility in a business or organization should understand that we need to make smart, talent-based, perspective-building decisions about our companies and our boards. We have a very rich talent pool and we have a very real opportunity to build diversity of perspective into the organizational structures of our companies and their boards. We have an obligation to choose the right profile of candidates, representing all of the various capabilities and skills we need to make a great contribution to our boards. Frankly this should start to be something that is a logical and natural outcome. However, we all know that things don't quite work that way as yet – so we need to maintain a steady focus, staying away from what I call the “retro” arguments: “we've got to have a woman/an Afro-American” and so forth.

The Focus: How do we change the dialogue?

Mulcahy: Well, I have been known to dramatize the issue for effect – for example when I publicly advised other women not to join any board where they would be the first and only representative of our sex. Or – just a little over the top, but to make the point – by saying: “You've dialed the wrong number!” when someone calls me because they need a woman on their board. For me that's simply faulty reasoning on their part. What I really believe, in both cases, is that we need to move beyond these in-the-margin discussions. Instead we have to be tough-minded about our accountability for getting really well-qualified, capable and different candidates to be part of our teams. There is no excuse – and I cannot even imagine a board where a lack of diversity isn't a huge detriment in terms of how they operate and how they are perceived.

The Focus: If the importance of diversity has been recognized in boardrooms everywhere, how do we explain the fact that women account for just 16% of the worldwide total, a proportion that's been stuck at that level for some years now?

Mulcahy: In order to change this we need more term limits on boards.

The Focus: How would this change things?

Mulcahy: We have an up-and-coming generation of talent – and this isn't just about gender or race, but about demograph-

ics and a whole set of skills that boards need. We cannot keep people on boards for 30 years until they are 72 years old – or even indefinitely. It is dangerous to have people come onto boards at 50 or 55 and to let them stay until 72. By that stage they have been out of their jobs for so long that their knowledge and experiences are simply no longer relevant. There should at least be a limit to the number of years someone can serve on a board after they have retired. The current inability to cycle in new talent is hugely detrimental to boards in many respects. We don't have as many slots to fill as we should, because we are not renewing our boards at the proper rate.

The Focus: So is there effectively a generational bias in the way Nomination & Governance Committees address this issue?

Mulcahy: The absence of term limits – or having limits that are overly long – is one aspect of the problem. The other is what I call the “circular experience” of recycling names. The fact is that among the Fortune 100 companies we have



maybe seven women CEOs, plus there are maybe ten who have retired. And so the same names come up again and again for board vacancies. Personally I've been invited to join every board I can think of. But management and supervisory boards – and above all their chairs – need to be casting their nets wider.

The Focus: We have some boards that are now really good at CEO succession – but then fail to apply the same principles to their own positions...

Mulcahy: Yes, director succession isn't being addressed at all. They need to learn to think out of the box: I see so many other interesting candidates apart from CEOs. For example, we have women running divisions that are five times the size of some Fortune 500 companies – women who are fabulously well-experienced, deeply knowledgeable candidates, but who don't necessarily appear on nomination radars in the way they should. Take Sherilyn S. McCoy, recently appointed CEO at Avon. She ran a large part of Johnson & Johnson's business for seven years. Why weren't people banging on her door? The fact that she wasn't on one public board is something I find amazing! It's the same with so many other companies and it's outrageous that these hugely talented people don't appear higher on succession lists.

The Focus: How do you explain this narrow vision on the part of many boards?

Mulcahy: I think that there is a desire for experience and perceived "maturity" – a proven track record – on the part of board directors. But we are doing ourselves a disservice by setting such restrictive entry requirements. In today's marketplace, every single company is challenged by disruptive technologies or start-ups that are attacking mature businesses, by the implications of digital and social media, and by many other forces. Anyone who thinks that these factors are irrelevant to their business will soon have a problem. So having generational diversity on boards has become far more important than it ever was before. To me this is a huge strategic investment that boards simply have to make – and it just happens to coincide with the drive to recruit a more diverse set of candidates, too. As you might know, I chair the board of trustees of Save the Children. Basically we have six-year term limits on the board, without exception. This allows us to refresh and rotate, and to bring new thinking to the boardroom. Corporates could learn a lot from how some non-profits handle term limits on boards.

The Focus: Different countries tend to tackle this issue in different ways. In the French and Scandinavian markets, for example, rotation is a statutory requirement. Do you see this as an option for the US, too?

RESUMÉ Anne M. Mulcahy

Anne Mulcahy, the former CEO of Xerox, today is one of the most high-profile and experienced board directors in corporate America – if not the world. Mulcahy has held positions or is still serving on the boards of six publicly traded companies, three non-profits, and one privately held international company. At present she sits on the board of directors of Catalyst, Johnson & Johnson, Target Corporation, and The Washington Post Company and chairs the board of trustees of Save the Children. Mulcahy was born on Oct. 21, 1952, in Rockville Centre, New York and went on to earn a Bachelor of Arts in English and journalism from Marymount College in Tarrytown. She began her Xerox career as a field sales representative in 1976 and moved up the ladder in a series of sales and senior management positions. Mulcahy was first promoted to President and Chief Operating Officer of Xerox in May 2000, then named Chairwoman in early 2001. In August 2001 she took on the thankless task of becoming CEO of the corporation when it was nearly bankrupt, dealing with an accounting scandal that ended with a \$10 million fine. The successful turnaround and redirection of the stumbling copier giant made her a widely respected business executive. Mulcahy retired as CEO of Xerox effective July 1, 2009, retaining her position as Chairwoman until May 2010. Her successor is Ursula Burns, the first female African-American CEO of a Fortune 500 company.

"I publicly advised other women not to join any board where they would be the first and only representative of our sex."

“That’s definitely true: board members don’t want to critique their peers.”

Mulcahy: I find it rather ironic that some countries are currently more aggressive on board representation or diversity than they are on employee diversity. It’s interesting that the same principles these European companies are applying in their boardrooms aren’t being applied to the company as a whole. I’m not opposed to setting targets, but I do believe that boardrooms should get there without government involvement. Boards need to define for themselves the level of global representation they require and what kind of diversity is appropriate for the company, from a demographic, gender and racial perspective.

The Focus: Couldn’t external pressure – from stock exchanges or other bodies, for example – help accelerate this process?

Mulcahy: It’s true that until now there has been literally zero pressure from the investor or shareholder community. I find this very unfortunate, and it probably speaks to the fact that there isn’t really any true appreciation or understanding of the fact that diversity means better business and serves to optimize the talent on a board. There really is a key opportunity here for shareholder and investor groups to take a stronger position with the companies they own and to raise expectations in terms of what the board profile looks like.

The Focus: Do you see a clear correlation between performance and having a diverse set of individuals around the boardroom table?

Mulcahy: My spontaneous answer is “yes” – but then I’m not an advocate of building business cases for diversity. This is like trying to factually convince someone that you need to include 100 percent of your talent base in order to achieve your optimum performance – a truth that is just intuitive to me. And it’s a slippery slope. If we proclaim that “Boards that have more than 30 percent women perform better than boards that don’t!” – what happens when this isn’t the case? Performance depends on individuals, their competencies, their experience on boards – we’re beyond “business cases” and shallow performance management exercises here. We shouldn’t have to prove the truth of the matter.

The Focus: What are the key factors that determine the “ideal” board composition?

Mulcahy: There are multiple aspects to what your board should look like. To start with there’s an obligation to be market-appropriate – some 90 percent of Target’s consumers are women, for example, so they really need to have a good percentage of women on their board. Hispanics represent their fastest-growing consumer market – so it’s hugely important that this market is properly represented, too. Boards must reflect the constituencies they are serving – and the employee base is one of those constituencies. I cannot imagine how any contemporary CEO or board can justify a non-diverse board to their employee base: it’s just unacceptable.

The Focus: To what extent can the CEO influence a board’s composition? Might it not also have negative consequences for the CEO if they put too much pressure on the Nomination Committee?

Mulcahy: This is a point where CEOs need to have courage. It’s not about the CEO making the selections or nominations, but they need to make it clear that having a diverse board is a priority for them. I would be concerned about any board that resists a CEO who is advocating a diverse board or a diverse set of candidates. This isn’t about an individual’s opinion – it’s about the value system of a whole company. You just cannot compromise when it comes to working with your directors on achieving a board profile that reflects the company’s value system.

The Focus: Do directors perhaps have a mental block when it comes to appointing non-CEOs to their board?

Mulcahy: A roomful of CEOs doesn’t necessarily make the best board. I see tremendous contributions being made by non-CEOs – lawyers, or university presidents, for example – who can deliver extraordinary value. We have Lee C. Bollinger, President of Columbia University, on the Washington Post board and he’s an excellent board member. And there’s the CEO of Save the Children, Carolyn S. Miles – she’s fabulous! I’d put her on any board. She runs a \$600 million global non-profit business, and I have to tell you she has better business skills than many of the executives I know who are running companies. But there’s definitely something like a prestige factor involved here: people on boards, like people everywhere, like to be surrounded by their peers. So bringing someone onto the board who is not a CEO might be perceived by a CEO director as diluting the board’s status or prestige in some way. This is where the organization’s current CEO has to break through the barrier and look beyond the usual suspects, paving the way for a more diverse board profile.

The Focus: It's also a matter of the different competencies that people bring to the table...

Mulcahy: I totally agree. That has to be the first criterion: "What do we need in terms of competencies?"

The Focus: Shouldn't the board's chair also play a key role here by advocating greater diversity within the board?

Anne Mulcahy: Absolutely – and it can really help if you have a chair or a lead director specifically tasked with evaluating the profile of the organization's directors and the composition of the board. Separating the roles of chair and CEO in this way can really take the heat off the CEO, saving them from becoming over-involved in nominating new directors – more appropriate for someone in a "hands-off" role – and from being in the awkward position of lecturing to their board about the need for greater boardroom diversity.

The Focus: Doesn't diversity also add to the challenge of ensuring that the board is a collaborative body, a team that can work together effectively?

Mulcahy: When I'm looking for new directors, competence is always my number one priority. Do they bring a set of competencies that can add value to the board? My next priority is basically about respect: I want a board that can debate but stay respectful and people who can operate effectively in this environment. My final priority is courage. We need more board members who are prepared to speak up. This is something I have always looked for when spending time with potential board members. There are some people who can actually step up and take a stand on something, even if doing so is a little uncomfortable. Other board members might be uncomfortable, for example, when the Nominations Committee comes up with a list of all the usual suspects, yet again, or on other subjects – but they don't speak up. This combination of courage and respect is something I see as important.

The Focus: "Courage" is clearly a key concept here in terms of making progress. In our consultancy practice we often find that "good teamwork" is confused with keeping quiet and fitting in.

Mulcahy: That's definitely true: board members don't want to critique their peers. This is why courage, combined with respect, is something I find so important. It's about taking a stand – while at the same time respecting other points of view. Target, once again, offers a good model in this respect. We have a huge diversity of viewpoints on the Target board, generating debates that cannot always be resolved. And yet the atmosphere is always very respectful and this creates an environment in which individuals can feel very comfortable about expressing a contrary point of view. I



think boards are getting better in this regard but there are still many boards that don't quite understand the need to challenge the status quo in a respectful way. There is a certain "board culture" at work – a situation that I think probably needs addressing, although I don't think those conversations take place very often right now.

The Focus: It sounds like a catalyst is needed here – maybe someone from outside the organization?

Mulcahy: A third party could probably be helpful. But this brings us back to why I think term limits are such a good thing. People who don't contribute and don't fit in are not on the board indefinitely. There's an end in sight without the board being forced to say: "You're out."

The Focus: One of the board's most important tasks is nominating and appointing the new CEO. Isn't it asking too much of boards to take diversity into account here, if they have problems with the concept when appointing their own team?

Mulcahy: If you start the discussion about diversity at this point then it's already too late. When it comes to CEO succession, you need to find the person who can do the job. This is not the place to fix diversity.

The Focus: We see a diverse range of talents joining organizations at entry level – but when we look at EVP level the diversity has been drastically reduced. What happens in the middle?

Mulcahy: It's the thinning out of the pipeline: all it takes is for the leadership to take their eye off the ball or fail to maintain proper supervision and suddenly you've lost a whole decade of diverse talent. Diversity has to be taken into account at all the developmental levels, and this means leadership has to remain focused at all times. It's a process that operates throughout the company, ensuring there aren't any gaps in terms of the make-up of the various management levels. The board should be looking at exit rates and should investigate disproportionate exits of protected classes.



Or look at the intake rates to make sure that the company is hiring in a way that feeds the pipeline. They should look at candidate succession profiles and candidate numbers, at what the high-potential populations look like – all with a consistent leadership focus. I don't think that many companies currently practice the kind of consistency and discipline that will really yield the right results.

The Focus: What part did diversity factors play in the choice of your successor at Xerox, Ursula Burns?

Mulcahy: It's interesting that people would ask me whether diversity played a role in Ursula's appointment. She was, quite simply, the best candidate for the job. And yet that conversation would have been relevant at many, many steps along the way, at points where she might have left Xerox or been overlooked. Hopefully the Xerox environment facilitated the right outcome. But none of this is relevant at the CEO succession stage. This is not the time for developmental action plans, because like I said, at this point you have to get the person who can do the job.

The Focus: How involved should the board be in the developmental stages? Should it – can it – drive that process?

Mulcahy: We need to be clear about the reality here. Boards meet maybe six times a year. They would probably review this process once a year. Hopefully they talk about succession more often than this. But the board is never going to be able to do more than monitor the processes the CEO and leadership are deploying to develop talent in the company and the outcomes of these processes. So I think the bottom line is that board members need to be comfortable that the executives are doing the right things to develop the best talent, and to achieve reflective diversity. If the board doesn't see the right results then it should be challenging and even intervening: asking the CEO to initiate processes that will drive better outcomes. This, after all, is the board's role: to challenge the results and expect that the company will do things differently.

The interview with Anne M. Mulcahy in Norwalk was conducted by Lauren M. Shin, Egon Zehnder International, New York, and George L. Davis, Jr., Egon Zehnder International, Boston.

