

LEADERSHIP IN THE FIELD: Interviews With Global Leaders

By Russell Reynolds Associates
with Roger O. Crockett

In this interview George Barrett, Cardinal Health's Chairman and CEO, discusses splitting the roles, the board's role in innovation and healthcare companies leading by example.

Cardinal Health's Chairman & CEO George Barrett on Board Leadership

An Edited Transcript

Chapter 1: The Chairman and the CEO: To split or not to split.

Roger Crockett: George, there's been a running governance debate about whether companies should split their chairman and CEO roles. Of course, your board rejected a shareholder proposal to split. Explain what the decision was there.

George Barrett: Yeah, we can look at this without a prescriptive perspective on whether or not companies automatically should separate the role of chairman and CEO. I think we regard it as situational. For us, particularly coming out of the spin-off of our medical device company, it was so important for us to have alignment between the board and the management on where we were going, on the design of our strategy, even on some of the re-thinking about what the board should look like, that we felt that combining those roles provided alignment.

Combining that with the idea of having a very strong presiding director—our lead director John Finn—who does a fantastic job of leading our independent directors. From a governance standpoint we think that provides the checks and balances and serves our shareholders very well.

Roger Crockett: Well are there certain factors that boards should consider when they're trying to make that decision about whether to split or not? What do you feel?

George Barrett: Yeah, I think boards need to serve their shareholders. And ultimately the question is having the right checks and balances, the right separation of operational roles and activities. I think for us we've done a lot of work in defining the role of a lead director. But as I said, for us it was very, very important to have the right alignment between the chairman of the board and the management team. And we think combining those roles for us at that moment was the right decision. We can certainly respect that other companies and other boards could come to a different conclusion. I think it really is situational around their strategy, around their board of directors, and really how they feel like they'll best serve their shareholders.

Chapter 2: Transformational Leadership: "The board *is* the strategy committee."

Roger Crockett: Well, of course many industries are in the midst of massive change, including yours, the healthcare industry. How critical is it amidst that change to re-invent a company, and how do you recommend a management team go about that reinvention?

George Barrett: Well, the word reinvention is used a lot these days and probably means a lot of different things to different folks. I think for us this is a time of extraordinary change. It is for many businesses, but certainly those of us in healthcare realize that we're in a system that's undergoing a lot of unique pressures. You've got enormous population health issues. You've got still a large number of uninsured or under-insured Americans. You've got issues of public health, and issues around demographics that are really creating a huge challenge when you think about the economic impact for us. So we've thought a lot about the reinvention of the company and I think all companies need to do this. I think the constant evaluation of where you are, what your portfolio looks like in the midst of changes is a critical thing for us. So we've devoted a lot of attention to this.

We've created a strategy council that meets regularly, rather than thinking of strategy at a unique moment in time, once a year. It's an ongoing process for us. We've talked a lot about the notion of how innovation in a service business is actually just as important as innovation in a product business. We all tend to think of innovation as the iPod for example, or a product. But in a business undergoing huge change, in a system undergoing huge change, innovation can also be thinking about different ways of doing business. And what we think of as business innovation is just as powerful as product innovation. So at a time of huge change, we've tried to create a culture in which people are both executing on day-to-day blocking and tackling, but also thinking about some of those changes and how we need to compete in a world that is probably going to look so much different than the world we have today.

Roger Crockett: **You mentioned that your [executive management team] tries to look at that situation often. How often do you have to meet in order to stay on top of this and not let it pass you by?**

George Barrett: Well there are two answers to that question. One is that I think it is a continuous process. So I think strategy is not a moment or an activity or a department, it's a process that you embark on all the time. We have certain ways of governing our organization that help us with that. So, for example, our executive committee meets every week. Now again, those are not always the big compelling strategy discussions, but every week we touch on things that really reflect or at least are very related to the strategic direction for the company. The council does meet at sort of regular intervals and that can be episodic, but probably in the last four months we've met five times. It just allows us to make sure that we're surfacing the issues that don't exist in the everyday dialogue. And that's really important. You never know what is happening on your periphery unless you actually get a chance to surface those issues and discuss them. So we regard this as pretty active process and engage our board in this discussion as well.

Roger Crockett: **Does your board also have a strategy committee that meets regularly to assess these things, and do you think that that's a good idea for a board to address that landscape?**

George Barrett: Some boards do. Actually, to me the board is the strategy committee. So what we do, and what we've been doing for a number of years now, is at every one of our board meetings we touch on certain strategic issues. But we also set out a separate strategy session where we really do not discuss the day-to-day operating performance, but really focus on the big issues of our environment, of our core capabilities, and how those two things are aligned and what we need to do strategically. So we really have a series of steps. We actually do it in a bit of a two-step process where we surface certain issues, we spend a day reviewing critical strategic aspects of the business, and then in the next few months, we actually come back based on some feedback with the board and we re-visit some of those key issues and chart the course. So for us it's a very important dialogue between the management team and the board of directors.

Chapter 3: Being nimble is critical in today's healthcare industry.

Roger Crockett: **Now Cardinal is big, over a hundred billion dollars in revenue, but you still manage to move pretty quickly. How?**

George Barrett: We're trying. It's not always easy. I describe this as a force of gravity. I do think that there are certain things that come with growth and with size. There are almost gravitational pulls. You don't even see them happening, but they happen. You have a tendency to get slower, more bureaucratic, a little more hierarchical. I think that is an insidious creep that can occur with all companies. So my perspective is that if it is a force of gravity and something you don't see, you have to actively fight it all the time. So that's a constant battle that we wage to make sure that we're nimble, that we're fast. Healthcare is moving in amazingly quick darts. So for us, it's very, very important, in spite of our size, to be able to move quickly, to be able to assess and move fast. So you just try to create a culture in which people understand that we have to fight those gravitational forces. You've got to model the behavior you want. You've got to be able to move quickly. You can't spend all your days in meeting after meeting after meeting. You've got to be able to say, 'Look we're going to move, we're going to set some tight timelines, and move quickly.'

So on the one hand as a big company you've got to make sure that you're governing yourself with the right controls, but you have to remain nimble. And for me it's partly surfacing that as an issue for our team and for the entire organization to say look we're big but we're going to have to be extremely agile.

Chapter 4: Changing the healthcare system: “We can’t say it and not live it.”

Roger Crockett: A lot of companies talk about the health and well-being of their people. But Cardinal has been recognized for doing a good job at it. What are the keys, and how important is it to have a healthy and happy workforce?

George Barrett: The other side of the equation is people taking ownership of their own health, our own wellness. We’ve tried to make that part of our discussion with our own employees and part of our life here. So we give incentives for wellness. We make it easier for people to participate in those things. We’ve got a health center that we subsidize that helps people to get access to the opportunity for exercise. We’ve changed our cafeteria offerings so that we’ve got more healthy choices for people. We’ve made available the tools to help deal with weight management and smoking cessation. So I think tackling those community health issues is very important for us as a society. And as a business we know that whenever they’re healthy, the population is happier, it’s more productive and it’s more cost-effective for us because we don’t have as many people going to the doctors. So there’s an economic imperative to do this as well.

It’s early. This data is always tough to grab, but we’re actually beginning to see data that says our population is getting healthier and that’s reducing our medical costs. So there is a powerful public health issue here.



George Barrett is Chairman and Chief Executive Officer of Cardinal Health, a Fortune 100 healthcare services company. Barrett served as Vice Chairman of Cardinal Health and CEO of its Healthcare Supply Chain Services business from January 2008 to August 2009, when the company concluded a sweeping reorganization that resulted in Barrett’s promotion to Chairman and CEO of Cardinal Health. During his tenure, Barrett has directed multiple acquisitions. His steady oversight in the dual role of Chairman and CEO was a factor in the board’s decision to reject a shareholder proposal to split the chairman and CEO duties. He is also a director on the board of Eaton Corp.



Roger O. Crockett is a veteran business writer, thought leader and speaker. He is the former Chicago Deputy Bureau Chief for *BusinessWeek* magazine and a contributor to *Harvard Business Review*. His perspectives on business, leadership and diversity are trusted by many of the world’s top executives and entrepreneurs.