

## LEADERSHIP IN THE FIELD: Interviews With Global Leaders

By Russell Reynolds Associates  
with Roger O. Crockett

**Bank of America's Chairman discusses the critical roles of the chairman, the board and the CEO as they shape strategy, plan succession and interact with stakeholders across the globe.**

### **Chad Holliday On Strategy**

An Edited Transcript

**Roger Crockett:** I'd like to start off talking about the short-term versus the long term. Effective leadership means balancing short-term growth with longer-term responsibility. With management teams so focused on the short-term, how do you help boards strike a balance between that short-term growth and the longer term?

**Chad Holliday:** That's a great question. I think a board should spend more time on the longer-term issues facing the enterprise where management is going to spend more time on the shorter-term issues, and I think that's a natural break and sometimes you have to actually say, 'we're only going to talk about something five years out.' We're not going to talk about the current thing. You have to put in restrictions so people really do focus on what's critical long-term.

When I serve on a public company board, I call the CEO frequently just to talk to him – to have maybe a ten minute conversation. Generally, when I call the first thing they want to tell me is how the quarter is going and I say, 'I really don't care how the quarter is going. I want you to focus on that. I want you to look at those people issues that are critical and make sure that you have the right people and succession plan – that you're bringing the right products to your product line. That will make this company successful longer-term, ensuring that you've got the right standards around compliance in place. So I think a board will focus more on those longer-term things. Just because they cannot be up with the pulse of the company every day doesn't mean the quarterly is also not important. But I think what the board brings is a sway--there are a lot of things that pull a CEO short-term and I think the board needs to bring that balance to what's going on.

**Roger Crockett:** Excellent. And particularly that relationship between the non-executive chairman and that CEO can help sort of refine that balance?

**Chad Holliday:** Yeah. So I think when I talk to a CEO about what he or she is going to say to the board – I say, 'why don't you tell me what you're going to talk about?' And inevitably they'll have talked more in that short-term because that's the world they're living in every day. I say, 'well why don't you shift it? Talk about the short-term some but also talk about the one or two things that are critical for the long-term. At Royal Dutch Shell where I serve on the board, we had a meeting recently where we could only talk beyond 25 years.

And it was a requirement. That was very new for me. I've never had that kind of experience, but I think it was very valuable to start really looking at whether we will have electric cars or will we still have the internal combustion engine 25 years from now? That's an important question.

So I think the long-term is critical. Maybe it's not 25 years for most companies, but longer-term and to ensure you take time to do that right.

**Roger Crockett:** Right. And maybe you have some sort of definition of what longer-term means?

**Chad Holliday:** I find from my experience in Asia that you better ask what long-term and short-term is. I was meeting with a premiere of China to ask him a question about when something would happen, and he said soon. I said, 'well, how soon?' He said 'very soon... 'in twenty years.' So, I think cultures see time frames very differently. Asian cultures, from my experience, see it in a much longer time frame than we would in the U.S. So it's important to understand what that means and what's important for what you're doing.

**Roger Crockett:** **Let me point you to one thing that all boards make a priority for longer-term planning and that is succession planning. How did you approach succession planning at DuPont where you were previously CEO?**

Chad Holliday: So I became CEO at 49. So the assumption of the board was that I might be there a few years. So I'd say in the first three or four years we didn't focus on that as much and then after about three or four years, the board insisted that we had a pipeline of between 15 and 20 people that they wanted to keep their eye on, some of them very young that would need several more experiences before they'd be ready to be CEO. And we exposed the board to those people in multiple ways. Then after I had been in the role for about eight years, it was obviously a point in time when the board started planning on my succession. We narrowed it down to five that we thought were critical and they were ranked. They were ranked in age, they were ranked in skills and capabilities and we found ways for the board to really get to know those people well.

**Roger Crockett:** **It was a woman that succeeded you at DuPont and there are all too few women in CEO positions. How much thought should be given to that?**

Chad Holliday: Well, I think we're missing a great opportunity for not using the whole workforce more completely and women are a great example of that. Still women make up just 15% of corporate boards today, and I think less than 5% of the CEO's of major companies. It's almost embarrassing that we're not using this potential.

So you just got to break down the barriers to that. I think we did a nice job of that in DuPont of developing women in general, and then we had one that made it all the way to CEO.

So many chief executives are contemplating roles as non-executive directors on publicly traded boards. You have had the opportunity to sit on both sides of the fence as a CEO, and as a non-executive chairman in your case. So if you had a private moment with someone and you could share candid guidance, experience, what would you share?

Do your homework. Interview a number of members of the board that is approaching you, and pick some people on the board you'd like to talk to not just the ones that would like to talk to you. Spend time with the general counsel. Spend time with the Chief Financial Officer. It's really important, even if you offend people a bit, to do your homework, and do not apologize for taking plenty of time to do your homework because you're making a long-term commitment. You don't need to plan on being a board member two or three years. You need to be on a board five to 10 years so you understand what it is. So, it's a big commitment on your time and a big commitment to them. So be sure you've done your homework well.

**Roger Crockett:** **Well what about if you are a sitting CEO – you're currently managing a company and then you also look into opportunities to be a non-executive director on a board. Can that be done effectively, ethically and all the rest?**

Chad Holliday: So here's the Chad Holliday cookbook. If you follow the recipe, the answer would be the first year, no. You need to understand your job. And sometime after the first year you might join one board, and I would have a max of one. That can be very valuable. It needs to be selected so you will learn something from that. You're really going to bring some perspectives back to your board from that experience. And also it should not be too time consuming. So look at the very practical things. Where is it located? How much travel time do you have? You know, how often do they meet? It sounds like a cookbook and it is, but I think those are very practical things to take into account because once you sign on for that board you need to be with it.

I've had the honor of serving on eight public company boards and I find each one is very different. The culture is different. So my advice would be, be sure you're comfortable with the ethics, the form of business, the way that company does its business. Because if you're uncomfortable with that, it's going to be a very difficult time. I serve on the board of Royal Dutch Shell, and of course the European system is very different.

But what I find is the pattern there is a non-executive chair who has been a CEO of a large company, but from a different industry. I think that actually serves very well in Europe.

**Roger Crockett:** **And how much time do you spend with the CEO in this role?**

Chad Holliday: In the European system, it's about half-time. So if you want a frame of reference, if you're talking to someone about being a non-executive chair of a major European company, you're talking

about roughly three days a week commitment to that. The U.S. system is quite different. Eighty-five percent or so of the companies don't have a separate chair. The CEO also serves as chair.

I find you have to work out the system that works best in your situation. At Bank of America, Brian (CEO Brian Moynihan) and I talk about once a week. We talk about things he mainly wants to talk about, and then we strategize together on what the board should be doing and how we get information to the board and how we get input from the board.

**Roger Crockett:** **Chad, in this day and age, when there is a great deal of scrutiny on publicly traded companies by regulatory boards, by shareholders, what are the hot button issues that you think boards should really be paying attention to and making a priority?**

Chad Holliday: So boards are elected by the shareholders but they must serve all the stakeholders. I think boards need to spend more time understanding what the issues are outside just what the shareholder issues are. And so, spend time with the regulators that control your industry and listen to them-- not when there's a problem, but when there's not a problem so you can understand what's going on. At Royal Dutch Shell I serve as the Chair of the Corporate Social Responsibility Committee and so we deal with environment and safety and government relations. So we have an investor meeting once a year just to talk about those issues. So the CEO and I share that committee. We come and we listen to investors who have those kind of questions. And so I think it's very important that you understand the unique questions there and don't just fall in this pattern of communicating to all investors the same way.

**Roger Crockett:** **Well, of course, one hot button issue that everyone cares about is, of course, compensation. Often times, CEO compensation especially is deserved and certainly you need to pay a certain compensation in order to be competitive. But how do you strike the balance between what's deserved, what's competitive and this notion of perceived overpayment of executives?**

Chad Holliday: Every job is a competitive situation. So I don't care whether it's the operator on the floor of a DuPont plant or it's the teller at a Bank of America location or it's the CEO of one of those respective firms, you have to look at what the market is paying because you have got to attract competitive people and be able to maintain those in your company. So you're going to have to pay medium or higher if you want to keep the best people. So I don't apologize at all for paying what we have to, to get the CEO, CFO or any other key position in the company.

The market is going to dictate what that is. I don't care if you're in the United States or you're in Japan, it's going to be the market. So you have to design your systems accordingly and I wouldn't apologize for that. Now do I think CEO pay is too high in the U.S.? Yes, I think it's too high. I think it's very hard to rationalize the value contribution as that big, but if that's what the market says, that's what we have to pay. Likewise, if the market goes down, we pay less.

And so I think it's very important you bring it down and particularly for the CEO. At DuPont, we had a system where the CEO had to be paid within a range or multiple of the next highest level group of executives. So we were going to purposely make sure it did not skyrocket out of the way. I think that was a good plan but if that did not allow us to attract a competitive CEO, you'd have to change the policy.

**Roger Crockett:** **And maybe some of the issue has to do with bonuses, right? There is salary, there are bonuses and stock options and maybe the challenge is trying to make sure that you get the right equation of that mix.**

Chad Holliday: Yeah, I think you're exactly right. Generally the salaries are justified.

It's the bonuses. If the bonuses are just on some formula that maybe the CEO contributed to, maybe they didn't, that's more questionable. If the CEO has specific objectives that he or she is going to deliver to the company and they are accomplished and they delivered the results that are anticipated, the CEO should be rewarded for that.

If the company did great but the CEO didn't do their individual objectives, the CEO should pay the price for that. So I think it means a compensation committee and the board must really work to set those objectives, make them measurable and quantitative.

**Roger Crockett:** **Let's turn now to transparency at the company. With new regulations about being transparent at publicly traded companies the dynamic between the board and shareholders has grown far more nuanced. How does this change the way companies do their business?**

**Chad Holliday:** Well, I don't think we should have more annual meetings. If I look at activist shareholders, they take two different forms. They take the form of someone who is trying to create more value in the stock price, either short or long term because they do not like what the company is doing. A second group of shareholders are special interest groups. You must be very careful, as a board, not to let the special interest group influence you too much. You need to listen to their concern, but as a board, you have to put that in balance with all the other concerns of the other shareholders and other stakeholders of the company. So the secret is get a diverse board with a lot of different perspectives that's listening to those outside groups and ensure they come to the meeting. Equally important is a management team that's doing that because a management team is really closer to it than the board is.

When one of these special interest groups came forward in my time at DuPont, we listened to them. And many times, I sat down with them personally if I thought it was appropriate. If not, I'd make sure the most appropriate person was. So I think it is very important to listen and really try to understand and don't just assume that they're narrow in their views. Because many times they have some ideas that you've missed along the way.

**Roger Crockett:** **Chad, in your experience living in Asia for six years and managing over on that side of the world, what leadership lessons can you share with us about managing and leadership?**

**Chad Holliday:** We could take the rest of the day on that but let me just share a few I think might be useful. When I got to Asia, we had 15 country presidents and they were all Western -- either American or European. I determined very quickly we were not going to win in those countries if you had to have an interpreter for everything. So our goal was to develop local talent who could take over those jobs. I was very proud by the time I left. We had 15 country presidents -- they were all locals of the country they were in, and what we found is then you could understand the customer needs. You could relate to the employees. That's critical. You also have to give those country presidents the freedom to go do the job. It's very important. If you try to make everything be translated through so it makes sense to an American you won't get the job done.

**Roger Crockett:** **Would you recommend that for most leaders? If you're going to be the leader of a company and if not that the leader of a division or a business, is it important to go out and get global experience to understand different cultures in order to effectively lead a broad team?**

**Chad Holliday:** Yeah, it's very important and it's not going to take a two-week trip with a stay at five star hotels.

It's going out and living in those places and understanding what it's really like to do business there. It's only by being there and living there and experiencing the country that you develop that. Now you can't go live in every country but I think it's really critical for a chief executive today to have had experience in a developing country. So I don't mean going to Canada. I don't mean go live in London. I mean live in these situations where the real growth is going to be because the growth is going to be in some of these other countries and you've got to understand what practical reality is there.



**Chad Holliday** is non-executive Chairman of Bank of America. After joining the board in September 2009, he was elected chairman in April 2010. With the bank currently struggling to find its footing amid a troubled financial services sector and with its shares battered by Wall Street, Holliday faces one of the biggest leadership challenges of his career. But he brings a wealth of experience and steady leadership to the bank and its board, as they work with leadership to steer the bank through difficult economic times. Holliday currently serves as a director for Royal Dutch Shell PLC and Deere & Co., and as the former Chairman and CEO of DuPont, he led the development of significant sustainable growth initiatives, and was also recognized for his success in grooming leaders and completing a smooth transition to his successor as CEO.



**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.