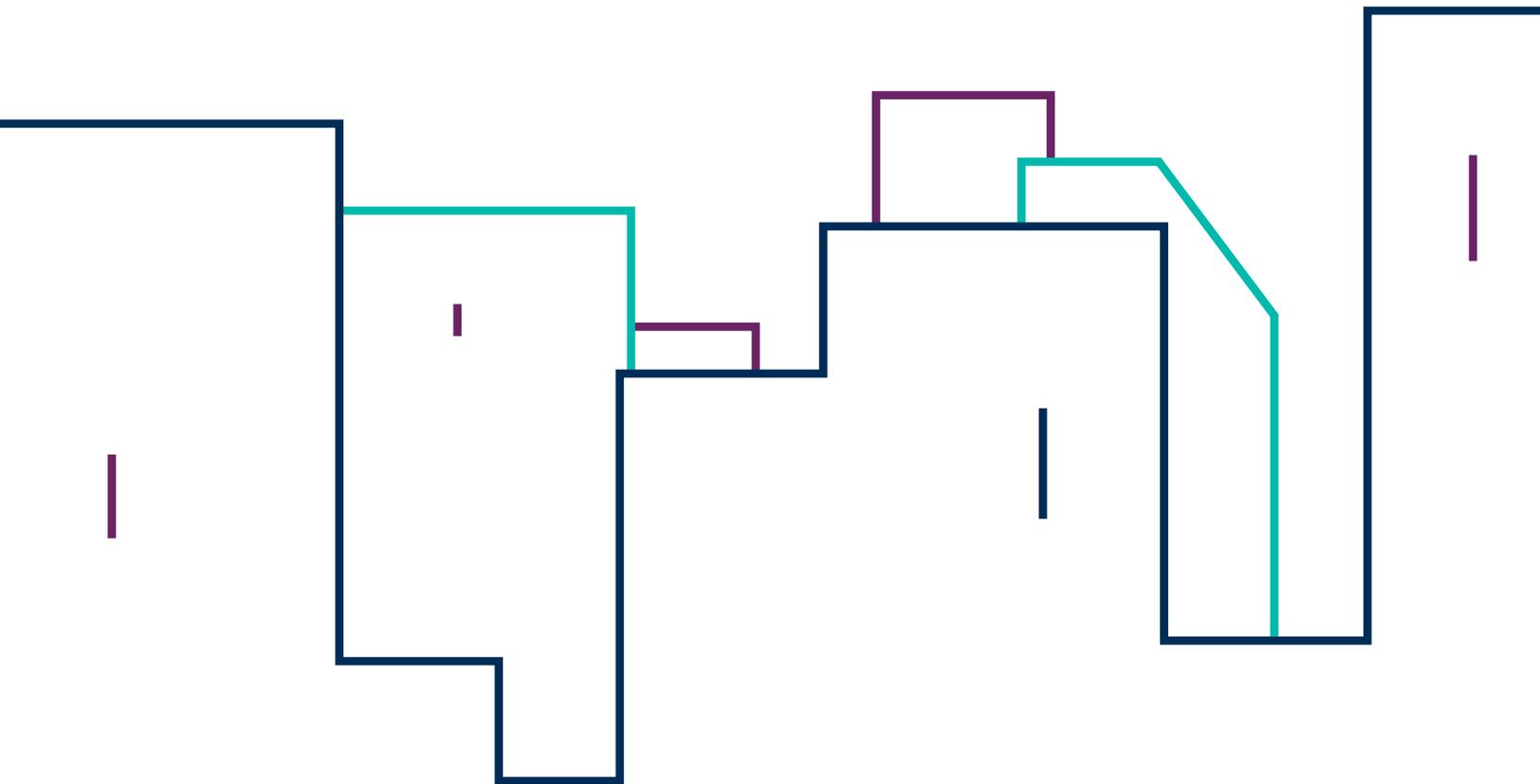

Becoming an Independent Board Leader: Q&A with Elizabeth Tallet



What does it take to become an independent board leader?

To find out, Russell Reynolds Associates recently interviewed **Elizabeth Tallett**, a former pharmaceutical industry executive who has led three of the nine public company boards she has served on over the past 27 years. Tallett currently sits on the board of media conglomerate Meredith Corp. and molecular diagnostics and life sciences company Qiagen Inc. and serves as lead independent director for financial services company Principal Financial Group Inc. as well as independent chair for health insurer Anthem Inc.

Over the course of her career, Tallett held key roles at public companies including Warner-Lambert Co. and Centocor Pharmaceuticals, then as CEO of Transcell Technologies Inc. and other life sciences firms. As an independent board member, she has chaired a wide range of board committees on the way to becoming board leader – a classic path, based on RRA's recent analysis of the route to the role among S&P 500 companies.

As valuable as those experiences have been, Tallett is quick to point out that board leadership is both science and art. "The key is the personal characteristics," she told us.

Q: Liz, you've been on boards for nearly three decades. Could you tell us about the first board you joined and how it happened?

I first joined a board in 1992, which was Principal Financial Group. I was the president of Centocor Pharmaceuticals at the time and hadn't even thought about board positions as I was heavily committed to running my business. Principal was engaged in a board search and after I met the CEO I was recruited to the board. Principal was a mutual company when I joined. Subsequently, it became a mutual holding company, and then we became public in October 2001.

Q: How different is board culture today than when you joined Principal in 1992?

Principal had some of the most forward-thinking board practices for that time. When I joined, they already had three women on the board. One was retiring, which was whom I replaced, strictly because the CEO thought that diversity was important.

They already had a presiding director, who was the leader of the board and ran executive sessions without management present. Of course, that title changed over time into being the lead director.

Q: You've been Principal's lead director since 2007, you were lead director for Coventry Health Care for about 10 years, and just last year, you were named independent board chair for Anthem. In your experience, what does it take to be a good board leader?

The key characteristics are what I call personal characteristics. Obviously, you have to be able to chair meetings, but you also have to be able to engage everybody. That means being able to command the respect of a group of very high-performing individuals – most of the people who sit on boards are ex-CEOs or leaders in some other way – but also to listen to them. And one of the key things I think a board chair or board lead director has to do is to make sure that everybody is heard. Always, on any board, you have people who are more willing to speak and less willing to speak. It's essential that you get everybody's views. And you have to be able to build consensus within the group.

Then, you have to be able to assimilate everybody's perspectives and put them in an appropriate form for passing onto management. Unless something is very sensitive about a CEO's performance or something equivalent, I always believe in giving my feedback to the CEO in front of all the rest of the board members, so that they can hear that you are summarizing their views.

The other key role in between board meetings is counseling the CEO, staying on top of what's happening in the business to help the CEO determine if we should call additional board meetings or otherwise involve the board in between scheduled meetings.

Increasingly, the lead director now has a role to play with the shareholders. With investors it's important that you understand the strategic focus of the company, along with governance and ESG matters. What shareholders really want to be reassured of, in my view, is that the board is doing a good job looking after their interest, and that you have great board members.

Q: Our recent analysis of S&P 500 data found that 72 percent of current board leaders chaired at least one major board committee before becoming board leader. How important have those experiences been for you, and do you think they are necessary?

I think you do need to have had a board leadership position. What do you learn? It's two-fold. You learn chairmanship of a board committee and how to lead a smaller group of board members. And on the other side of the coin, which is equally important, is that the other board members see you as a board leader. Every single committee chair has a slot on the main board agenda to report the findings of that committee back to the board and it's a very useful vehicle to see whether people can summarize a long and complicated committee agenda. It also gives other board members a chance to assess leadership qualities.

Q: Building on that, does it matter which committee it is? Our data shows that board leaders are most likely to have been compensation committee chairs previously, followed fairly closely by the nominating and governance committee, with audit committee leadership a distant third.

The chairmanship of a board committee is necessary, but I don't think it really matters which one. I chaired the comp committee at Integred and they had asked me to be their next lead director, though we then sold the company at just about the time I was taking that role. So I was comp committee chair there; at Principal, I was the audit committee chair and at Anthem, I was the nominating and governance chair.

I am not surprised about the data on compensation chairs. The chair of the comp committee is often regarded as a highly qualified leader because it's a tough assignment. What you need is somebody who can handle the rather delicate issues of CEO compensation, particularly when the board doesn't want to compensate the CEO as much as the CEO wants to be compensated.

One of the reasons there may be relatively fewer audit committee chairs is that in many companies, the chair of the audit committee has always been seen as strictly a financial person, often someone who was previously a CFO who might not necessarily be the person that you would think of as the lead director or chair.

Q: Of all the S&P 500 companies with independent board leaders, only 8 percent are women. Why do you think that is?

There are obvious answers, in that women are still very much in the minority on boards. There's a huge push to get more women on boards and I see that everywhere I go, but then as a result many have fairly short tenures. If one of the criteria is that you have to have been leader of a committee, typically, you don't get to be the leader of a committee in short order. It's probably a working-through-the-system thing -- but it still surprises me.

Q: Drawing on your own experience, do you feel women bring something different to the role than men do?

I think a lot of people bring something different. For a well-rounded board you need to have people coming at things from different perspectives and there are lots of surrogates for that, such as gender and race.

The other aspect of diversity that I'm very keen on is age. I joined Principal when I was in my early forties, and including younger directors on a board gives diversity of approaches and thought. So although being a woman is one of the most visible aspects, as is racial diversity, I think it is imperative to view diversity more broadly as well. This would include making sure that you have diversity of backgrounds, thought processes, mixtures of active and retired directors, as well as gender, race, age and tenure. In other words, I think you need to look at that whole picture, not just a single view.

Q: What advice do you have for women directors – or really any directors – who aspire to become a board leader?

If I gave advice to anybody it would be, “Don’t feel you have to make a massive impression in the first two or three board meetings.” There is nothing wrong with learning your trade, particularly in a new environment. You have to spend time learning the business and not be frightened of asking questions. Sometimes, what sounds like the simplest question is the one that elicits the most interesting discussion.

I think you have to have the skill of asking questions without offending people, but in a way that creates discussion and new ideas. That is a skill that sometime people who have led their companies sometimes have to hone as they make the transition to being a board member.

Over time, you have to show that you are capable, experienced, knowledgeable ask sensible questions and contribute to the discussion. You also have to be a good listener and be able to build on other peoples’ ideas. A lot of work does go on in the committees and I’ve always had a view, at least in my companies, that new board members should spend time on the audit or finance committee early on because that’s usually where you learn about the business. I do not like the idea that you place women board members on compensation or human resources and nominating governance because that’s where they’re best.

And I would also say, that sometimes women have the tendency to be diffident and not put themselves forward. The answer is if someone says, “Would you like to do something?” say “Yes!”

Q: How proactive should you be in expressing interest in, say, chairing a committee?

If you have been on the board for a period of time and then other people start to get leadership positions and you haven’t, then it is fine to say, “I’d really like to be chair of a committee.”

However, in a well-run board, that desire would already have been elicited by the lead director or the chair before you even have to do that.

Q: Looking ahead five years from now, do you think we’ll see more women board leaders?

Yes, because I think you’ll see more women in management. If you think about the training ground for board members, you need to see more women CEOs and COOs, among other titles. You need the pipeline of well-established management leaders who can then become board members. And I think that’s happening.

Boards are also now more willing to reach down a level for the sake of diversity. What’s vitally important there is that boards don’t become two-tier boards where you have people who are not quite at the same level. That’s why you also need women in the top management position.



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