TROUBLESHOOTER

FROM TENET HEALTHCARE TO DEUTSCHE BANK, VETERAN DIRECTOR AND FORMER DELOITTE CHAIRMAN AND CEO ED KANGAS HAS BUILT A REPUTATION FOR WRANGLING WITH NIGHTMARE DISRUPTIONS AND THORNY COMPLEXITY—ALL WHILE KEEPING THE BOARDROOM DRAMA AT BAY. HIS SECRET? "PLAY STRAIGHT, TALK STRAIGHT, NO GAMES."

INTERVIEW BY J.P. DONLON

His CV read like a boardroom wish list: Financial acumen? Check *(former CPA and auditor with a 33-year tenure at a Big 8 accounting firm). Veteran chieftain?* Check *(served as global chairman and CEO of Deloitte Touche Tohmatsu from 1989 to 2000). Proven strategist?* Check *(architected a global expansion credited with quadrupling revenues). M&A skills?* Check *(credited with steering the merger of Touche Ross and Deloitte Haskins).*

Little wonder that after retiring from Deloitte in 1999, Ed Kangas was quickly scooped up by EDS and soon stepped into its board's lead director role to help strategize a merger with HP. In addition to EDS, he formerly served as a director of Allscripts Healthcare Solutions, (2009 to 2011), Eclipsys Corporation (2005 to 2009) and Intuit (2007 to 2016).

More recent roles entailed navigating tricky boardroom situations. As lead director of aerospace and building product company United Technologies (2009 to 2018), Kangas played a pivotal part in replacing former CEO Louis Chênevert with Greg Hayes, the company's CFO at the time. At Tenet Healthcare, which was under federal investigation—and in mortal danger—when he joined its board in 2003, Kangas managed to finesse a regulatory cease fire and calm irate investors.

Currently, he is lead director at Intelsat and serves as chairman of the board at Deutsche Bank USA, where his deft touch is being employed in aiding the recovery of parent company Deutsche Bank AG, which is struggling in the wake of high-profile scandals, an unsuccessful turnaround and a series of high-level executive departures.

In a recent conversation with Corporate Board Member*'s J.P. Donlon, Kangas shared lessons—often hard-won—from his decades in American boardrooms. Excerpts, edited for length and clarity, follow.*

BlackRock's Larry Fink has put CEOs on notice that they had better manage their companies for societal and environmental challenges. This follows the Business Roundtable's admonition that the new governance focus is the stakeholder—with the shareholder being shoved aside. Does Fink have a point, or is this another example of virtue-signaling with other people's money?

I think within reasonable standards, doing what's right by any group depending on your industry, whether it's the environment or how you make your products or where you make your products, you can do the right thing. It helps your product and helps you make more money. I don't think it's a tradeoff. I don't think that most businesses and most boards would say, "Let's go do something that dramatically negatively impacts the company's performance or the shareholders because of, you know, a current environmental kind of threat or problem or opportunity." But I think it's real, and I think most boards today, they think about it.

You're on the board of Deutsche Bank's U.S. subsidiary. Years of low profits have spawned a long series of failed turnaround plans and steady departure of senior executives. As a board member of Deutsche Bank U.S.A., this must prove a particularly vexing problem. How have you been dealing with this, and how are you seeing any progress?

I can't talk too much about Deutsche Bank. But what I would say is, the role of the holding company under the Dodd-Frank Act in the United States is to operate the U.S. operation as a ring-fenced enterprise, meet all the Federal Reserve and other regulators' requirements, meet the Federal Reserve's stress test. And that means that the goal of the board is to work with the global parent company with the local management to ensure that the strategic plans and the requirements of the regulators are met as best they can with excellence.

STEVEN FREEMAN

ED KANGAS

CURRENT POSITIONS

Chairman of the Board
Deutsche Bank, U.S.A.

Lead Director
Intelsat

Board Member
Hovnanian Enterprises
Vivus Pharmaceuticals

Senior Advisor
BC Partners

FORMER POSITIONS

Chairman/Lead Director
Tenet Healthcare

Chairman/Lead Director
United Technologies

Global Chairman and CEO
Deloitte

I've been on the board there now for four and a half years. It has been a struggle in the early days. I think the bank today has got a number of the ingredients for success in place. Christian Sewing, the global CEO, has laid out a plan announced last spring. And they're meeting their milestones, their cost reductions, their restructuring. They put a fabulous new CEO into the United States, Christiana Riley, who is an American but spent a decade with Deutsche Bank in Germany. I'm on the management board globally. You can see the results of her impact.

The bank is making real progress. It still has data problems, system problems, control problems. We're working with the regulators. From a board's point of view, our interests and the regulators' interests are aligned. We're trying to help this bank do what's right and get to the place where it is really on solid footing. Time will tell, but I think we're on the right track.

Has it been difficult for you as a board member to sort all this complexity out?
Not particularly. I understand the problems. They are complex. The organization of a big global bank is complex. I would say, I think I'm pretty good at that kinda stuff. I've been doing it in a number of occasions for a lot of years all the way back into my days at Deloitte. I reach out and help wherever I can, including bringing my comments and pressures to bear on the bank at a global level with the senior leadership. They've been very responsive. They're very appreciative. The bank's making real progress. So, yes, it's difficult. At this point in time, I'm far more optimistic than I've been at any time in the last four years.

You're a veteran of sorting out problems at troubled companies. You got onto the Tenet Healthcare board in the early 2000s, when it faced severe regulatory and management problems. What lessons can you offer other directors on managing through complex and difficult changes?
It is critical that a board member be able to understand a business in a very basic accounting way. I actually often bookkeep at the boards I'm on. I look and I look at the forecasts. I do my own translations. I kinda do it mentally. I'm a CPA—that helps. But I know a lot of board members who aren't certified public accountants. They're still good. They can model the financial enterprise, where it's been, where it's at, where it's going, look at alternatives.

Within the context of that, it's important for a board member to be objective and independent. I use the words "play straight, talk straight, no games." But with that, I use three words: You should try to be thoughtful, helpful and caring regarding the people you're dealing with.

In the case of Tenet Healthcare, there was a point in time 15 years ago when the government was literally going to put them out of business, pull their Medicare certification. They didn't do that. We met with the government. At the time, they were very unhappy with the company, its board of directors, its management. They said it was a repeat offender. They were just going to say, "We're not sure we trust you." So, we met with them. It was a little bit of play straight and talk straight. I said to them, "What if we changed all the members of the board except for two people? And what if we changed all the management, including the CEO?"

They said, "Who are the two board members you wanna keep?" I said, "Senator Bob Kerrey from Nebraska and Dr. Fred Loop," who at the time was CEO of the Cleveland Clinic. We said we'll change the CEO. That's when Trevor Fetter became CEO. I said, "If we did that, it's a lot better to have than this company fail and all the problems of 100,000 employees and patients all over the country." And they said, "Well, can you get that done?" I said, "Two weeks." They said okay. We left, and two weeks later it was done. The board members were totally understanding and wanted to help the company. All but two resigned. We then rebuilt the board. It took longer than two weeks, but we had their resignations. We rebuilt the board. We changed eight or nine of the top 15 management positions, and the company carried on.

There are times when you have to move pretty quickly. That's where a degree of objectivity and independence are important. At the same time, you need to understand what can and can't be done, then say, "What's the boldest thing we can do?" You work that out with, in that case, the new incoming person we were going to make CEO and with the board. And we did it.

What about other boards, particularly the United Technologies board, which you came off of in 2018. I understand that a week before CEO Louis Chênevert was to give a financial analysis to the board, he disappeared to Taiwan to check on the construction of his yacht, and you had to have a come-to-Jesus meeting about his involvement with the company. What lessons did you take away from this?
I was having trouble—as were several members of management—getting Louis cornered for a key preparation meeting for an upcoming board meeting. The general counsel, the CFO and several others said, "Ed, we gotta talk to you." They gave me some comments about how they were worried about where Louis's attention was. Within a 40-hour period, we got a whistleblower letter with a lot of facts from someone who did know what was going on, which seemed to indicate that Louis was spending a lot of time working on his new yacht. I had that letter sent to Louis and talked with him

immediately after he got it and met with the board and individual members.

Louis asked a question. He said, "Well, is the board gonna support me?" I said, "Well, is the letter true?" And he said, "Well, some parts of it are." I said, "You know me." He said, "I saw you're checking things out now." I said, "We're poring through your emails and through your travel schedule and so forth. We'll know in a couple days just how true it is." He said, "Well, what if it's pretty true?" And I said, "Louis, I don't think the question's whether the board is going to support you. How long do you think it'll be until that letter is in the newspapers?" He paused, and he said, "Well, probably pretty soon." I said, "I think you need to think about whether or not you're better off stepping away versus fighting this out because if this thing goes public, you're going to get to spend a lot of time on your yacht by yourself for many years to come." Louis thought about it overnight and said, "I think I should resign." Which he did.

Louis, he's a good man. I think highly of him. He was being very successful, probably making the most money he ever made. He loved his yacht. I think he just got distracted. The key thing that I would say to a lot of CEOs is, make sure you do not get distracted by anything. While you're in this top job, that is your primary role. That's what you have to devote your duties to. Don't get distracted. Louis did.

From a board point of view, it's important to know that your CEO is engaged, involved and you have a relationship with the rest of the management team such that they will see the problems before the board will see it. They did, and they were open. They came to me as lead director at the time and told me about the problems. A lot of people will say, "Well, Ed, you dealt with this swiftly." I don't know that I dealt with it swiftly. I brought all the pieces of information together with Louis, with the board members. And Louis made a decision, I think, that was the right one for him.

And you were instrumental in selecting Greg Hayes, the CFO, to replace him?

I thought Greg Hayes was the best candidate internally, didn't think we needed to go outside, and that was in the best interest. Greg was more than the CFO. Greg was a very good operating CFO, understood the business probably as well as anybody, operationally as well as financially, and was the obvious guy. He was highly supported by the rest of the management team. We made him CEO, and he's done a fabulous job.

The whole problem didn't take more than 10 days, and it was finished. I think there are many companies that would have turned this into a two-month exercise. That would have been damaging had that been the case.

The moral of the story is to act quickly.

In most cases, yes, which is not always easy for a huge company, with a complex board and people all over the place. Everyone wants to know more—you always want to know more. Well, part of the thing you have to do as a board member is be sure you're always informed, so you don't have to learn a lot. And then be ready to deal as you have to deal with things.

> "IT'S IMPORTANT FOR A BOARD MEMBER TO BE OBJECTIVE AND INDEPENDENT. I USE THE WORDS 'PLAY STRAIGHT, TALK STRAIGHT, NO GAMES.'"

In this day where the biggest board issue is the threat of cyber attack, how does the director prepare for this threat from a board perspective if one doesn't have digital experience oneself?

My view is, cybersecurity is important. Management needs to be good at it, needs to use appropriate outside advisers. There are generally people on a board that have had C-Suite experience who will understand how to do this because they've done it in the companies they were with. Many people are pursuing the idea of having deep experts on the board. In cyberspace. I'm not a big proponent of that. It's okay, but I'd rather have more C-Suite executives on board than directors—and from companies of some size and significance so that they will, in fact, have had that experience in their working career.

Directors may not want to be overly reliant on what management can offer. They want to bring something of their own knowledge or expertise. How should they go about it?

I don't believe that directors should try to level their expertise onto a big company as though they were more expert than the management. Heading down that path is dangerous and not advisable.

I do believe that directors need to be independent of management and objective. It's not the board's job to manage cybersecurity. It's to provide oversight to the way management is providing it and making sure that it's adequate.

But in these days, when something goes wrong, the board is often held culpable for not doing its due diligence or whatever. So, in that regard, do directors need to take extra precautions?

If a company's financial statements are wrong, the audit committee and the board of directors are going to take some responsibility for that, just like it occurs in the case of cyber. If a company has a big enough issue around the importance of cybersecurity—an example of that would be a healthcare company—that company's got a special responsibility to make sure that they have the best cybersecurity programs available in place. Management needs to do that. The board needs to provide solid, sound oversight, including advice and counsel.

Too many people push on the board and say, "Well, the board should have been managing cybersecurity." That's just dead wrong. The board shouldn't manage anything. The board should oversee and govern and ensure. That's the board's job, and they need to take the steps to do that well.

What are the basic elements of a good lead director? Does it require special skills, or can any director step into the role?
I think there are exceptions, but as a general rule, a lead director should have been the CEO of an enterprise of similar size or larger than the company for which they will be the lead director. They need to know what a CEO does. They need to understand the CEO of their company, know what his or her job is.

But they need to be done with being a CEO. The last thing you want is a lead director who's still looking to be the leader. You don't want that. So, ideally, it's a former CEO, but that's in his or her past, and they are ready to oversee on behalf of the board and help work closely with the CEO and fulfill that role. They need to have a great relationship with the CEO, but it has to be completely, ultimately independent and objective.

I think you need to understand the business exceptionally well, to the place where I often will say, "You need to be able to mentally and financially model the enterprise in your head and talk about, 'What if this happened? What if that happened?' Opportunities as well as downside, understanding just what the financial ramifications are, the business, the supply chain, the relationship with major customers, the government, etc. And then assist the CEO, the CFO, others—but be ready to act in a totally independent and objective fashion.

It's important for the lead director to establish a relationship with the general counsel that says, "You report to the CEO, but you have a special relationship with me. If there's ever a problem, you need to come to me, period." I typically had that conversation with full knowledge of the CEO, and then the CEO said, "Yes, I understand."

It sounds like that lead director is something of a shadow CEO.
No. That implies that the lead director plays a shadow management role, and I don't agree with that. It's a shadow chairman of the board. The lead director, the lead independent director has that title because the company has decided to have the CEO also have the title chairman

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of the board. In reality, when the lead director plays his or her role properly, they are, in fact, the chair of the board, simply without the title. That's the key thing. They are the leader of the board of directors in its objective and independent roles of overseeing and governing the company. It's a way of letting the CEO have the chairman's title even though the lead director really is the leader of the board.

Do you have a point of view on the separation of chairman and CEO roles?
If you have a really good board and a really good lead director, I would tell you it doesn't matter. Reuters at the time of the United Technologies issue, one of their articles amazingly said, "This proves that a lead director can be just as effective as a non-executive chairman," which I think was true in the case of United Technologies. But I think not all companies, not all boards will have a lead director that is as strong, capable or as highly supported by the board. So, therefore, there can be in some cases a disadvantage to have a non-executive chairman of the board. I've been that in several companies at different points in time—Tenet Healthcare and United Technologies and a couple others. But if a lead director really knows how to play his or her role, and the board is supportive of that, I don't think it matters.

CEO compensation's continued upward expansion has been a challenge for boards. What advice would you offer other directors, particularly those who serve on comp committees?
My view of executive compensation is it is not difficult, and it is not a problem. I've been chair, I've been on many comp committees. I've never really felt much of a problem as long as the comp is designed properly. There are several executive compensation consulting firms that really are excellent in terms of providing the information you need. It's very easy to identify your peer companies, identify those that are leaders in your industry. Start with the CEO. I think that's the most important. How are they paid, how much is the base compensation, how much is bonus, how much is equity, how much of the equity is truly performance-based equity versus time-based? You sit there, and you look at that.

I like to do models and say, "Well, if the company performs like this, the CEO ought to make a whole lot of money from his equity grants, his bonuses, etc. If the company does not, the CEO shouldn't." I wouldn't say [should] get penalized, but the rewards that come—especially from the bonus and from the equity grants—should have significant downside.

If a director is new to this process, I would say they ought to spend time with HR—if they're really good—or, if not, go spend a six-hour session privately with a comp consultant. You'll walk away knowing what you need to know.

As a general principle, is CEO comp properly aligned or overly generous? How would you view it from a distance?
In most cases today, CEO comp rewards properly for top performance and poor performance. There are some cases where it does not. Those always are outliers and ready to get a lot of attention. I always look a little harder at the severance agreements. A good question for a comp committee member or a chairman to ask is, "Let's go through what happens with a severance situation."

I'm not in favor of big golden parachutes, etc., when an executive leaves. Sometimes, those can be too large—especially if the performance has been poor. In the United States, there are probably some exit clauses that I think are a little… It's not that they're generous. I don't think that boards maybe always understood exactly what they were.

More and more CEOs are becoming involved in social issues outside their business domain. Some, like Salesforce's CEO, are arguing that their fellow leaders should become more active socially and even politically. Does this trend concern you from a governance perspective?
Within reason, no. In fact, I would say it is good for a CEO to have a cause that's important to him or her outside of the business. It can't be overwhelming in terms of time because their job is their job, but while I was CEO of Deloitte for 10 years, I was also on the board and was chairman of the National Multiple Sclerosis Society. I've always cared deeply about healthcare and particularly diseases that rob someone of their lives. I was passionate about that, and I did that. I think that was good for me in the context of my job.

I took a fairly active role on certain political things, but not about candidacy and elections. I did a lot of work around campaign finance reform back when John McCain was leading that and so forth. We passed laws that limited and controlled campaign contributions, and then laws were passed that wiped that out, which I thought was too bad.

Now, those are the kinds of things in the political arena that a CEO can and should do, but if you asked, "Do I really think they ought to get involved in political campaigns?", I probably would say no. I'd say this as a director, too. I have a responsibility to the shareholders that if I become too vocal about a political cause, there will be people that might not do as much business with the company. That hurts the company, its performance, the shareholders. So, I don't think we ought to do it.

CEO succession is said to be the board's most important job. What in your board experience proved to be the trickiest succession challenge, and how did you deal with it?
Most boards should at all points in time have an emergency and a longer-term succession plan that they can pull out and say, "Here's what it is." They ought to discuss it at least two or three times a year. In the case of United Technologies, with Greg Hayes, that was not something we just pulled out.

In Tenet Healthcare, the day came when it was right for Trevor Fetter to move on, and Ronald Rittenmeyer was on the board. We had identified him as the most likely candidate to be the next CEO. He was willing to do it. Ron had been CEO of EDS prior to that, and Ron is currently the CEO. He'll be stepping out of that job in a year, and the board has the two internal candidates identified, and two or three external candidates identified. I'm sure it will execute those flawlessly.

CEO succession becomes a major issue when a board hasn't planned for it. You especially see it on the emergency side. A CEO quits, gets fired, something else happens, and they're not ready. Frankly, I have little tolerance for that because I think a board needs to regularly be ready to say, "What would we do if?" I think most companies do.

You've served on some smaller company boards. How is that different from big public company boards?
They are different. I'm on the board of Hovnanian Enterprises, the 10th-largest national homebuilder. Three billion in revenue is not a little company. They build 10,000-20,000 homes a year. So, they're not little, but they're not $40 billion, $50 billion in revenue. That board is, I'd say, very much like being on a large company board. That's because Ara Hovnanian, the CEO, decided, like his father before him, that he's going to have a board that is independent and objective, and he's gonna deal with that board just as though they were a totally objective large company independent board. He has done that now for 15 years. I'm very proud of him, and I'm proud of the board as a result.

I've been on some other boards where that was not quite the case. One that I'll mention is a company called Allscripts. It was the result of a merger of a company called Eclipsys and Allscripts. It was small. The board didn't understand its role well. They couldn't oversee the CEO. They were not objective or strong enough. I ended up resigning from that board along with another board member because I simply

POWER PRINCIPLES

Ed Kangas on how authority, power and influence function in large companies:

What I have learned, observed and believe is that:

- **Authority flows top down.** Authority is given to the CEO, who then delegates to his/her team.

- **Power flows from the bottom upward.** People empower their leaders and colleagues. Power is generated through competence; fair play; being trustworthy; respect; putting others first, protecting those in need, assisting, coaching and encouraging others; making good decisions and being willing to take the lead.

- **Influence flows across an organization, like a warm breeze.** Influence has nothing to do with authority or power. It is based on intelligence, knowledge, insight, personality, history and earned respect. People will listen, be impacted and sometimes take action if they are influenced by someone they respect.

A leader's capacity to understand this is what causes them to be effective. In the military, it is said that troops would follow a great general over the cliff. This is not because of authority; it is because the leader has been empowered by his or her troops. I have worked with several generals, including a former chairman of the Joint Chiefs. They all understand this and utilize it to be effective. They all view the power, which flows from below, as far more effective than authority.

For a board to understand the effectiveness of a CEO and the management team, they need to understand how these three elements work in the company. And with this understanding, the board becomes more effective in the oversight and coaching of the CEO and management team.

was not satisfied with the governance role of the board. It was a publicly traded company.

It is important for smaller companies to set the same standards for oversight and governance. The smaller boards I've been on to date other than that one, they've met that standard. If I'm having a conversation about joining the board, I'd tell them that is what I expect and that's what we'll be pushing for. If they don't want that, they shouldn't be looking at me.

What will it take to get more women directors and also more women at the top of management? Deloitte had a female CEO.

You've seen the number of female directors grow significantly in America, which is good. I wish there were more C-Suite female officers, especially CEOs. The problem at Deloitte was us men. We had preconceived ideas of things that were just dead wrong.

Example. They had a big audit: General Motors. There's the lead partner and four or five partners. None of them were women. If you ask why, they say, "Well, it's not fair. I mean, the women have babies. They'll leave the firm, and it leaves a hole. It's not fair to the client or the firm."

I remember Lynn Martin, former secretary of labor, consulting for us. She went and talked to the 100 highest-performance-rated women who had left the firm in the past year and found out where they had gone. Ninety-five were in the workforce with more important jobs than a Deloitte partner—making more money. I'll never forget the day she stood up in front of our partners and said, "Half of you need to see a psychiatrist. Half of you need to see lobotomists."

We went through a process of becoming very serious about that. We had videos of work sessions, almost tea sessions to kinda get people to think through stuff. There was a young woman who said to a partner, "Joe, I understand your daughter's getting a degree in accounting at Illinois." "Yes, I'm very proud of her." "Would you want her to work for a firm like Deloitte?" "Oh, I'd love it." "Would you want her to work for a partner like you?" That led to

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an ongoing discussion. It took five, six, seven years and probably continued to a place where Deloitte today is a different place than it was 25 years ago.

You look at *Working Mother* magazine and Deloitte always ranks among the top places for a woman to start a career or have a career. It's the reason that Deloitte's leaders have increased the percentage of women and partners. They've grown. Clients are happy with the firm. It's probably the biggest reason Deloitte went from being in the middle to being the largest of the big four firms.

American business is… Some industries are better than others. But there's still a long way to go. I think there is now some traction. You see more attention being driven by the boards of directors, especially where you have more diversity on the board. It will come, but it will take time.

What is your view on the claim that companies that have women on their boards perform better financially than others that do not?

I don't know. If you ask me, what I would tell you is, they probably selected women because they were better performing to start with. A diverse board—racially and by gender—is a better board to be part of. It changes the personality and the insights that come from the board for the better. In the long run, that probably permeates down through the organization. How far and how fast, I don't know.

Looking ahead, what issues do you see as being uppermost for directors?

I think the traditional issues that boards get better at, the independence and objectivity of the board, the importance of a good non-executive chairman or lead director, and really having a board understand how that should work is really important. I don't know yet that enough boards have taken an adequate amount of time to really debate, discuss, maybe get someone from the outside in to talk about, "how is this lead director, non-executive chairman thing supposed to work?" Better boards figure that out. I think too many boards still are wrestling with that.

I think great companies will have more diverse management teams. That will be an important issue for boards to deal with.

The whole issue of global scale often gets back to what's political, but broader than that, the whole issue of global scale is really important. That's where I think companies and boards have to wrestle with that issue. After World War II, the U.S. became the manufacturing center of the world. A person with relatively little education could get a relatively high paying job in a manufacturing plant and make a decent living and have good benefits negotiated by his or her union and some kind of decent retirement plan.

As the world globalized, many of those jobs got moved overseas. Many of those people lost their jobs. The U.S. economy grew in terms of lots of things like technology, but many people didn't have the education—and their children didn't have the education—to qualify for those new technology jobs. They got stuck.

Today, where companies source products, where they manufacture parts, the whole issue of tariffs and governments and whatever, those will become even more important issues for boards to understand and deal with. Not that they can solve those problems. They just need to understand the decisions they make and how they impact the businesses they're in, the societies they're in, the communities they're in. They are important. **CBM**