

‘WE’RE IN UNPRECEDENTED TERRITORY’

FROM DOING BATTLE WITH ACTIVIST INVESTORS AND FIGHTING SHORT-TERMISM TO TAKING A STANCE ON SOCIAL ISSUES, THIS YEAR’S HONOREES WERE SELECTED BY A CROSS-INDUSTRY COMMITTEE OF PEER PUBLIC COMPANY DIRECTORS FOR EXEMPLIFYING EXCELLENCE IN THE BOARDROOM. **BY JENNIFER PELLET**

‘Focus on those things you can control’

As lead director of United Technologies, Ellen Kullman helped guide the company during a tumultuous transformation.

Ellen J. Kullman is no stranger to turmoil. During seven years at the helm of DuPont, she fended off an activist campaign aimed at splitting up the materials company. More recently, she served as lead director of United Technologies Corporation through a series of turbulent events at the company—a performance that led her peer directors to name her Director of the Year.

“Ellen has been a steady, guiding force in the transformation of the company for many years, including fighting off activist campaigns and replacing the CEO,” said Nigel Travis, executive chairman of Dunkin’ Brands and a director at Abercrombie & Fitch and Office Depot, who served on the selection committee for Corporate Board Member’s Board Leadership Awards.

Currently director at Amgen, Dell Tech-

nologies and Goldman Sachs, Kullman is also now back in a CEO role, having stepped from the boardroom at 3D printing company Carbon into its corner office. The move came at the tail end of November—putting Kullman in the hot seat just when the Covid-19 crisis hit American shores.

When CBM spoke with Kullman, the virus was shutting down local economies, its economic impact still unfolding. Excerpts of that conversation, edited for clarity and length, follow.

We happen to be talking when the business world is in the middle of coping with the Covid-19 crisis. What are your thoughts on how CEOs and directors should be managing this situation?

It’s akin to the global financial crisis but

on a much more personal level. From an economic standpoint, it will be very rocky, but it’s the personal health impact that makes it so much harder. It’s not just fear of people losing their jobs; it’s fear of people losing their lives and being impacted from a health standpoint. So, we’re in unprecedented territory, and I think we just have to stay close, learn from each other and follow the guidelines. Take it seriously.

The CDC has pretty specific guidelines on how we should be behaving and acting. People need to take that seriously if we’re going to contain this virus. So, we have had to figure out how to work from home, how to be productive.

You’ve have to be okay with people saying, “I can’t make that call because I’ve got to take care of my kids that hour,” and

**INDEPENDENT
DIRECTOR OF
THE YEAR**
ELLEN KULLMAN

Former Lead Director,
United Technologies;
Director, Amgen,
Dell Technologies,
Goldman Sachs;
President & CEO, Carbon





FROM AN ECONOMIC STANDPOINT, IT WILL BE VERY ROCKY, BUT IT'S THE PERSONAL HEALTH IMPACT THAT MAKES IT SO MUCH HARDER."

Many companies are incurring huge costs trying to continue to take care of employees. How do boards reconcile management decisions to close stores but still pay people with their fiduciary responsibility to shareholders?

The interesting thing is that there's an economic impact, and then there's a recovery impact, right? So, you can calculate pretty easily how much it will cost you to do it by week... although how many weeks it will last, who knows?

You also know how much it would cost you if you had to retrain workers because employees who you were no longer paying found something else. There's a huge cost to that. There's also a morale cost to [having not paid employees] when people do come back. Loyalty is an easy thing to say, and it's a hard thing to get and retain. Treating people with respect, to the extent that you can, goes a long way in these circumstances. So, individual companies will make their decisions based on their situations. But as you recall, we've been at a pretty low unemployment rate as a country over the last couple of years, and finding, developing, retaining people who are going to show up, who are going to get the job done, is really an important part of the equation. And people want to come back quickly when the opportunity presents itself.

The question is how long can any of us continue to do that, right? That's going to be a time-will-tell kind of thing.

So the idea of retaining rather than furloughing people is an investment in the future that you wouldn't necessarily find to be problematic?

When I was running DuPont, we used to say that in order to lay someone off and have it work out economically for the company, you can't need someone in that job for two years. And I don't think people are thinking about this as a two-year thing. In retail, it's different economics, right? Because I'm talking about engineers and operators, plants and things like that. But every industry, every company kind of knows what that equation is for them, and they're making their decisions based on that.

just say, 'okay, we'll do it later.' We need to be very cognizant of people's personal situations because they've got to take care of their families first.

We've got to figure out the business side of it as well. It's akin to the crisis management that we did during 9/11, although that was just U.S. based, and the global financial crisis. You've just got to learn from the past and be open to learning from others because nobody has a bead on how to get through this.

What did you learn then that you're drawing on now?

A few things. First, overcommunication is not bad. Communicating with your employees, communicating with your customers, communicating with your board—err on the side of frequent, quick check-in meetings. At Carbon, we are talking daily about what we're seeing, and it's changing daily. Until we see things settle out to a different place, communication is just so important.

Second, modeling potential outcomes. It's hard to tell right now because it is still unfolding. But we're seeing impact on our customers, so we've got to model the business impact out for the rest of the year—what we should be doing to support our customers and what our suppliers should be doing to support us—and start and keep having these conversations because we're all in this together.

I learned during the global financial crisis that if you really think through what's important for your business, focus on those things you can control, then you can come out of it stronger. So, software engineering can happen from home, right? We don't have to lose any time on that. Hardware engineering is a little harder. It's about focusing on what you can control and really communicating very, very well with all your constituencies.

What about from a board perspective? What can boards do to help management in this crisis to get through it?

Our board members have a tremendous amount of experience in a lot of different areas, so they've helped us understand the impact on different industries they have participated in, sharing information about

what's going on with other companies that they're involved in as key learnings and how that applies to us. They help us think outside of our box into the larger box. You can get really internally focused at a time like this, and that's not helpful.

It's important to keep your eyes wide, understand what's going on around you, not just in one area but in the entire U.S. and the entire world. We've been back and forth with our head of China, and they came back to work slowly, but it's starting to turn. What can we learn from them as they start up again? It's really using the talent that the board brings and having them help advise, give us examples, so that we can hopefully create a plan that's stronger than what we would have without them.

What about the companies on whose boards that you're serving, what are they looking to you for right now?

Kind of the same thing. I'm actually learning from some of them, because Amgen is on the front line in the pharmaceutical community. It's interesting, the impact it has on different companies is very, very different. You know, more people need personal computers because they're working from home and maybe didn't have a portable [computer] because they were working on a terminal in their office. The impact on airlines and jet travel, I've got a conference call with a CEO this afternoon to kind of go through what kind of actions we're thinking about taking there. So, the interesting thing for me is that it's hitting different industries very differently, and it creates opportunity and risks that we have to work our way through.

You served on United Technologies’s board, which went through a CEO succession and an acquisition, and now the company is splitting itself up. What was most challenging?

CEO succession is probably one of the most challenging things that you’re going to go through, regardless of the circumstances. It’s an emotional time for the company. It’s a time when a company wants to understand whether a change in CEO means a change in direction. With UTC, how we came together through this whole process and came out of it as a stronger board was done very well. It’s a hard thing to go through as a company even under the best of circumstances. Mergers, acquisitions, divestitures, things like that, you’ll learn a lot as you go through them about the organization, about the board and how they view things and leadership. But I think CEO succession is probably the most challenging for a board to come together on.

You’ve also had some challenging experiences with activist investors in the past, particularly at DuPont.

Activists are everywhere, and I’ve had a couple on boards that I’ve been on as well. But it’s interesting, activists have a point of view. You always learn from the interactions. It doesn’t always get as intensive as the DuPont situation. I wasn’t thinking about that because I was thinking specifically of UTC examples, but [as a challenge] it’s right up there as a stressful time for the board because 12 people may have 12 different opinions, or they might have 20 different opinions, right? Some of them have several about these types of things and the process. The key there is making sure you’ve got a great inclusive process with your board and you’re bringing your board with you.

At DuPont, wanting to break up the company was the activist battleground, and now at UTC splitting up is the strategic move.

They’re two totally different situations. United Technologies was built through acquisitions over decades and very different businesses and construction. And elevators

and construction is very different than Carrier, than the HVAC area, different go-to-market, different competitive set, different just everything than the aerospace business and the aircraft engine business. So, they’re all pretty different businesses.

UTC is a phenomenal operating system, so they could get great performance out of those [divisions], but once we acquired not only Goodrich but then Rockwell, aerospace became a predominant part of it. We, as a board, determined that Otis and Carrier were huge enterprises, phenomenally competitive, great franchises, very strong globally, that might be better off on their own. That’s when we started the analysis to understand it. In any of those situations, the answer is not always keep together or always split. It depends on the circumstances.

To us, as a board, in the UTC circumstances, it was pretty clear that this was the right thing to do for the shareholders, it was the right thing to do for the companies.

Having been on the receiving end, how do you feel about the effect pressure for short-term performance has on companies today?

When I started at DuPont as a middle-level manager back in the late ’80s, while Ed Woolard was CEO, there was a theory about four stakeholders that you had to satisfy to create a successful enterprise. It was our shareholders, our employees, our customers and the communities in which we operate. For DuPont, operating big, heavy chemical plants, we needed the communities with us, and we needed our employees with us and our customers. I learned that through my experiences with DuPont and running businesses there. So I viewed the onset of this wave of activism as really taking it to “there’s only one stakeholder that matters” type of thing.

Earnings per share, cash generated, your multiple—all that is an output. The input is engaged employees, relevant technology and innovation that captures the customer, right? That allows you then to generate the revenue that then creates the shareholder value, right? So, I think it’s too simplistic to think that the only thing that matters is shareholder value.

If you’re not investing for the long-term...

BOARD LEADERSHIP AWARDS SELECTION COMMITTEE 2020

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WITH MANY OF THESE THINGS, THERE'S NO 'RIGHT ANSWER,' RIGHT? YOU MAKE A DECISION BASED ON WHAT YOU KNOW AND OUR BELIEF ABOUT WHAT THE FUTURE LOOKS LIKE."

where is innovation going to come from if all you care about is the next quarter? To tell you the truth, some of the problems that we saw with the Covid-19 crisis in terms of how we plan as a government for crises is that, "Yeah, we'll deal with it when it comes, right?" attitude. We're seeing that with not being prepared with the testing kits, with not having the right kind of infrastructure.

Companies have to think about that too. Most of my shareholders were long-term shareholders; they're not the ones who are grabbing the front-page news or going on CNBC to put a point of view out there. As you know, "steady as you go" never sells a lot of magazines or TV slots. I believe that it's not any one at the expense of the others. Shareholders are only going to be satisfied if you're successful, and you're only going to be successful if you're innovative and have engaged employees and operate in a way that creates that value for your customers. So, you know, I got the activism thing, right, obviously, because I was a big part of that story, but I always played for the long-term health of the company. When you run a 215-year-old company, you feel responsible for that kind of legacy.

Are the increased focus on ESG by investors like State Street and BlackRock and the Business Roundtable's broadening the definition of corporate purpose helping to move things in the right direction?

You look at the number of sustainability reports that companies are putting out now versus in the past, you look at people getting a lot more transparent about all the aspects of what it takes to create that earnings and whether it's environmental impact, people impact, good or bad. I personally think transparency is your friend. People need to understand and then make their decisions holistically. And some businesses have more challenges there than others. We've all seen that in many parts of the tech industry, which was thought to be so clean and lovely because it didn't create any environmental hazards, some of the people treatment issues that have come out of there are kind of scary. So, I think that you've got to take it as a whole, and you've got to look at it as a whole.

What kind of conversations about ESG are taking place in boardrooms now?

I think the way it started, and now I'm going back to my DuPont experience decades ago, was more of a denominator kind of approach. Meaning you lessen your impact on the world, put less CO₂ into the atmosphere, less water usage, less landfill usage. Now, people are starting to think about it as, I'll call it from the numerator, is it doing good? Diverse workforces, people with disabilities and creating a work environment that's good for everyone to work. And from the low unemployment area, really making sure that you're using all the skills that are out there. For the banking industry, creating loans to help developing nations and small businesses create a stronger future for themselves.

In terms of community impact, I just think there's a much more holistic view of it—it's not only reducing your impact on the world but creating a better impact on the world through what you do. And that is discussed in the board meetings. What is the company strategy on this? How do they play versus their peers? And it's part of the conversation around risk management, around the future of the company, around how relevant is this franchise in 10 years, in 20 years. So, it has grown over time, and it's changed. In most of the companies that I'm associated with, it's been a very thoughtful exchange.

The role of lead director has evolved over the past few years. What does it mean to you to be a lead director today? What's most challenging about that role in today's environment?

In today's environment with so much going

on and keeping the board together, making sure everybody has a voice and making sure that we're giving the right and the appropriate level of counsel to the company to management is really important. Boards don't want to be too distant, but we oversee, we don't manage. So, I mean, it's important for a lead director to really set a tone for the transparency and the right level of dialogue and engagement, and to make sure you have enough private sessions where people who don't feel comfortable talking in front of management can get things out on the table. Making sure that you're engaging the CEO with the feedback from these sessions in a very open and kind of lifting up way most of the time.

So, it's a very thoughtful exchange. You have to listen a lot. I'd been on the board for a number of years before I became a lead director, and I knew the players, not only on the board but management, very well. That really helps you have those conversations. I've got a great relationship with Greg [Hayes] and his team. There's nothing that we can't talk about. It's really important to not only make sure the board's together, but that each one has a voice and can really counsel the CEO in any way that can be supportive of continuing a company on their journey.

You've been a lead director for companies undergoing the kind of massive change that probably made for some intense interactions between board members. How do you handle discord in the boardroom?

Well, there was a lot of passion. And with many of these things, there's no "right answer." You make a decision based on what you know and our belief about what the future looks like, which could be the same or could be different. That's why it's not a quick process.

Greg did a great job with the board on talking about the idea as it was forming, working with us as they were doing their analysis and things were kind of chugging along to a decision. He incorporated the board at every step, which then allowed a lot of the, "Well, why do you think that?" and, "Shouldn't we know this?" type of discourse to occur and allow people to

have plenty of time to think about it so nobody felt like their hand was being forced. The company did a great job of that engagement through the whole process, which makes it a lot easier. We also had a deadline for when we wanted to make a decision by, which also helped.

Was there any particular one issue that had to be kind of really hashed out?

People have different views about together or apart and the costs, the synergies, and they need to work through those. Setting up the balance sheets for our three companies instead of one, and then the decision that came later to merge with Raytheon, creates a level of complexity that I think that most of us have never experienced before. So, there was a lot of discussion around these things, and I think that's appropriate.

Let's talk about Carbon. You're back in the CEO role at a very different kind of company; what appealed to you about this opportunity?

I joined Carbon's board somewhere in the spring of 2016. Alan Mulally, who was on the board, called and asked me to go out and take a look at this company. I met with one of the founders, Joe DeSimone. As a mechanical engineer and somebody who believes that manufacturing is a really important part of the economy, I was intrigued with the technology, manufacturing, injection molding. DuPont was a big polymers company, and that's been done the same way for eons. This technology, to me, had the opportunity to disrupt that at a scale and a cost that was relevant, not everything, but to a lot of manufacturing.

So, I was excited to join the board, and I became the lead director at Carbon. Joe, with his experience, and I, with my experience, very different from each other, worked together really, really well. Then in 2019, you know, it became apparent that we had created the team and tremendous proof points in the technology, given what we've done with Adidas and Riddell and many other areas, from automotive companies to medical device companies.

But the issue is how to scale and how get up that curve. So, it just seemed to us



LOYALTY IS AN EASY THING TO SAY, AND IT'S A HARD THING TO GET AND RETAIN."

BEN HIDER



that my skill set in building safety and protection at DuPont was really relevant. Coming out of the October board meeting, we started serious discussions about whether something like this would make sense. And we decided that maybe it was time for Joe and I to switch jobs, so that he'd become executive chair and that I would become CEO and president.

I always said I would never go back to work full time unless it was a compelling company because after you run DuPont for seven years, there's not a lot that to me would cut that. But this did. So, it's quite a new adventure. It's a West Coast pace versus East Coast pace. It's less than 500 employees versus 40,000. And it's fun. I'm very happy with the decision and very excited to be part of this journey.

What's it like going from the boardroom into the CEO spot? Did you have a better inside scoop coming in from the boardroom?

Well, I knew a lot, but I didn't know anywhere near enough. You never do. I knew enough to understand where I thought the opportunities were, and now I'm working through that with them. So, it's much more helpful than coming in out of the cold, as it were. But you just go on a listening tour and a learning tour in order to be able to truly form the plan for the future. I think people were a little concerned that

I bring a lot of big-company thinking with me, but that's not how I operate and work.

My favorite part of my career quite frankly, was building the safety and protection platform at DuPont and working with that team and the product and the growth. And I believe our success when I had that role was more pivotal for me than being named the CEO of the company. But just being out in the marketplace and focusing on the customer, the growth and the science, bringing that all together in a much more hands-on way is a lot of fun.

The issue of diversity in the boardroom is something we've been talking about for decades, but it seems like there has been a lot of movement recently. What's your perspective on where we stand now and where you think we're headed?

I have always been a proponent of diversity in the boardroom because I believe that the perspectives are different, the background is different, the engagement is different. The more diversity you have, the more holistic the thinking around the opportunities and risks for any company. DuPont had a very diverse board. That's something that we worked very hard on. My predecessors obviously did a great job. Chad Holliday brought [Lockheed Martin CEO] Marillyn Hewson to our board back when she was just a group vice president. We kind of won the lottery on that one.



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past paradigm about how the world needs to be is really important.

This latest challenge with the virus is really going to take its toll on this year, and maybe even in 2021... In uncertain times, boards come under pressure for both short-term and long-term decisions. Where will they place their bets? Where will the company place its bets for the long-term for the shareholders? Making sure that the company is making the right decisions around what they're investing in and what they're changing based on this is really important.

You mentioned before that, in some cases, there are no right or wrong decisions, and you don't ever really know that one is right until after you make it.

For me personally, I believe you make the best decision you can based on the information that you have and the forecasts, presumptions and the assumptions you're making. And you really need to make sure you understand the facts you have and the assumptions that you're making.

As you track the results and what comes to be, you've also got to make sure you're on top of whether [the path you took] is meeting expectation or, if it's not, what you're going to do about it. These things, whether it's mergers, divestitures, major investments in new products will have a big impact on the shareholder. So, there just is a diligence that has to be maintained, not only for making the decisions but on questions like, have we created value out of it that we anticipated? And if not, what steps could we take in order to improve it? The diligence doesn't end with the decision. That's just step one, and you've got to track it all the way through.

Any last thoughts for directors who face a moment where they have to show some courage in the boardroom?

For me, it's always about what's in the best interest of the company and the shareholders, not necessarily what's in my personal best interest. I believe that's why I'm there as a board member. I think you just have to keep that in mind, that you've got to really put the company and the shareholders first and foremost in your mind as you're advising the company and making these decisions. **CBM**

Diversity of background is important. You shouldn't just have all ex-CEOs and CFOs or current CEOs and CFOs. At Goldman, we have a former admiral who brings tremendous thinking around technology and cyber and things like that. So, there are a lot of different skills that come to bear on the board. When you move to a skills-based matrix, you understand that you need to get different views in the room; you really see where the opportunity lies.

You mentioned that you worked very hard to get a diverse board, which is one of the defenses you hear with a lack of diversity in the boardroom—that it's just really impossible to find people.

It's not hard. You just have to convince them that you're the prettiest company out there and they should really want to be on your board, right? People should be careful in picking a board. They should want to know what the culture is. Is it an inclusive board, do they really listen? Women and people of color have choices, especially if they've been in a senior leadership position. So, they want to make sure that they're making the right choice because it is a commitment for a while. You just can't get on a board and decide a year later that you don't want to be on the board. That's really not good for you or the company.

I think that you've got to use your networks and learn where people are from others. The search agencies are doing a much better job today than they have in the past in terms of bringing forward diverse candidates. But expanding your network and using it is really important as well.

How do you vet a board before you get on it to make sure that it's somewhere that you want to be?

One of the things that I learned when I left DuPont and had a lot of opportunities for boards was to not only speak to the existing board members but to see if there was an ex-board member who'd be willing to talk to me. In a few cases, I was able to speak to people who had recently stepped off of a couple of the boards. To the extent they can, they do share in an appropriate way, and you learn a lot. It's very enlightening in terms

of the cultural aspects of the board.

Nobody's going to tell any tales out of school. But there are ways to communicate inclusiveness or lack of inclusiveness without getting real specific.

Looking ahead, what issues will be the biggest conversations taking place in boardrooms over the next few years?

We've been on a great growth path as an economy for, what, 10 years, 11 years? And I think this downturn is going to be more impactful than we think economically. It will be interesting to see, but I think uncertainty as a way of life has just increased exponentially. So, really working through and making sure that the company is thinking broadly about their issues, their opportunities, doesn't get stuck in a

COURAGE IN THE BOARDROOM

BOARD OF DIRECTORS DICK'S SPORTING GOODS

Honored for exemplary leadership in making a very difficult business decision, the board of the Coraopolis, Pennsylvania-based sporting goods retailer was recognized for its support of CEO Edward Stack's decision to restrict the sale of firearms in 2019. *CBM* was unable to interview a board representative due to the Covid-19 crisis.