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PaceMaker: Larry Bossidy Keeps Management on Its Toes

Bossidy led the charge for a turnaround at Merck

By Caren Chesler

When Larry Bossidy was a senior in high school in Pittsfield, Mass., he was offered a \$40,000 contract to pitch for the Detroit Tigers. His parents wanted him to go to college first. When the scout came to their house with check and contract in hand, Bossidy's mother wouldn't let him in.

Those who know Bossidy say he inherited his mother's no-nonsense

approach. Once the former Honeywell CEO decides to tackle a problem, he wants it addressed yesterday. "Larry is a different kind of board chair. He insists that ideas get translated into action," says Rochelle B. "Shelly" Lazarus, who sat with Bossidy on the board of Merck & Co. "He just won't tolerate losing time, losing focus." This tenacity is what makes Bossidy an Outstanding Director.

As a case in point, Lazarus points to her fellow director's role in enhancing Merck's marketing campaign around Gardasil, the company's breakthrough drug that protects against cervical cancer. In late 2006, Merck's managers went before the board to describe how the company planned to market the new product.

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The board questioned whether management was doing enough to get the word out. Lazarus reports Bossidy was not satisfied with management's blanket response that it planned to market the new drug heavily. "We're actually asking you for an investment plan. This is not just a polite conversation," Lazarus says Bossidy piped in. "We would like to see a plan that shows what would happen with more investment." The end result: Merck made a greater investment in marketing.

"I can't stand these philosophical wanderings that take a long time to get to some conclusion," Bossidy says. "I do push people and say, OK, now that we've agreed that this is what we want to do, let's talk about how we want to do it and the time frame we're going to do it in."

It's clearly a strategy that works. Bossidy ran AlliedSignal from 1991 to 1999, and after it merged with Honeywell, he served as its chairman between 1999 and 2002 and as its CEO from 2001 to 2002. In that time, he did so much to improve shareholder value that *Chief Executive* named him CEO of the Year in 1998. The company's market capitalization was \$4 billion when Bossidy took over in 1991. By 1998, it was nearly \$25 billion, and its stock had risen 429%.

At Merck, colleagues credit him with having helped to engineer a turnaround after the pharmaceutical company's earnings had fallen off and it was facing huge liabilities over its arthritis drug Vioxx. The drug was found to pose cardiovascular risks and in 2004 had to be pulled from the shelves. Questions arose as to the lag between when Merck became aware of the risks and when the drug was pulled. The crisis was further complicated by the acceleration of CEO Ray Gilmartin's plans for retirement. As chairman of the board's executive committee, Bossidy led the charge in May

2005 in naming Merck lifer Richard T. Clark, 59, to replace Gilmartin.

It was no surprise to the board that Gilmartin was going to retire, but it was expected to happen in 2006. The board had already compiled a list of likely successors that included Merck's

cholesterol-lowering drug Zocor, were set to expire.

The search committee took the unusual step of interviewing Merck's top managers to find out specifically where the company's problem spots lay. "We asked what they thought about the com-

DIRECTOR'S SNAPSHOT

Born: March 15, 1935 in Pittsfield, Mass.

Education: BA, Economics, Colgate University; later conferred a doctorate of Humane Letters from Colgate

Career Highlights: Chairman/CEO, Honeywell International, Inc.; Chairman/CEO AlliedSignal; Vice Chairman and Executive Officer, General Electric Company

Family: Wife: Nancy; 9 children; 30 grandchildren

Hometown: Ridgefield, Conn., winter home in Palm Beach, Fla.

Most Memorable Summer Job: Pitching baseball for college-league team in Quebec, Canada

Most Recent Book Read: *Sea of Glory: America's Voyage of Discovery, the U.S. Exploring Expedition, 1838-1842* by Nathaniel Philbrick

Favorite Artist/Composer/Poet: James Joyce



Larry and Nancy Bossidy

Favorite Charity: Visiting Nurses Association of Ridgefield

Something Most People Would Be Surprised to Know About Me: "My twin brother, Tom, was my best friend."

Won't Leave Home Without: Laptop

Most Recent Vacation: Amalfi Coast in Italy

Recent/Current Public Company Boards: Berkshire Hills Bancorp, K&F Industries, Merck (2007), JPMorgan (2006), General Electric (2003)

chief financial officer, Judy Lewent, and Merck's head of sales, Bradley Sheares. Clark wasn't even on the list. But in 2005, the landscape was changing quickly with the Vioxx scandal and company earnings under pressure. Competition in the industry was heating up, generic brands were eroding profitability, and patents on several of its highly profitable drugs, such as the

pany, the capabilities of the new leader and what they should be," Bossidy says.

The board then hired headhunter Heidrick & Struggles to conduct an external search. It wanted someone with exposure to the industry who would be an agent for change. "We didn't want someone who would do the same as in the past," Bossidy explains. "But at the end of the day, we never met someone

who met those criteria externally.”

The search committee also began looking at internal candidates, and Clark’s name came up. He had started at Merck in 1972 doing quality control, was named COO of Merck’s former subsidiary, Medco Health Solutions, in 1997 and subsequently became its CEO.

Clark was considered an improbable candidate. He wasn’t a big name at the company, and he didn’t come from the marketing or research and development side, the areas from which most pharmaceutical industry CEOs come. But he impressed the search committee because he had run manufacturing for Merck; he ran Medco, which gave him marketing exposure; and he was familiar with the product and the customer base.

Once appointed, Clark was handed a laundry list of problem areas that the board had gathered from its interviews with management and outside candidates, and even from talking to members of the press. Among his missions were cutting costs, accelerating the discovery of new drugs and changing Merck’s culture, which was viewed as insular and balkanized.

The centerpiece of Clark’s strategy was a global restructuring plan announced in November 2005 that called for slashing 7,000 jobs — about 12% of Merck’s workforce — and closing five plants by 2008. The plan is expected to save \$3.5 billion to \$4 billion over five years. A month later, Clark announced plans to save the company another \$1 billion by reworking how it promotes its drugs and narrowing its research focus.

While Bossidy congratulates Clark on Merck’s progress thus far, his fellow board members say Bossidy deserves a lot of credit. “The search for Ray Gilmartin’s successor was led by Larry, and in my opinion, the search was carried out in an exemplary fashion,” says William Bowen, a longtime member of Merck’s board. “It’s no small accomplishment,

I think, to have led the board through a transition of this kind, in the face of the Vioxx controversy, with real progress in rebuilding the research productivity of the company and great success in restoring investor confidence.”

But Bowen says Bossidy’s role didn’t stop there. Once Clark was installed, the board took the unusual step of creating a three-member executive committee of Bossidy, Bowen and Harvard professor Dr. Samuel O. Thier, and Bossidy, as chairman of that committee, worked most directly with Clark, while Bowen handled the Vioxx litigation and Thier

“Larry is a different kind of board chair. He insists that ideas get translated into action.”

Shelly Lazarus, fellow Merck director

monitored health care regulation.

“Larry provided regular advice and counsel to Dick and made sure that the entire board was kept well informed of strategic decisions, management changes and the like,” Bowen says.

Indeed, Bossidy has such a commanding presence that when he was named chairman of the three-man executive team, people both inside and outside Merck were skeptical he would try to run the company. “I was trying to be careful I didn’t do that,” Bossidy says. “I would have resented it when I was a CEO.” But it was the fact that he stepped up to the plate that gave some confidence that Merck was going to pull itself out of a hole. He lent a sense of stability to the process, says fellow board member Lazarus.

“Everyone breathed a sigh of relief. Larry was there. Everything was going to be fine,” Lazarus says. “The thing that gave the board confidence was that Larry was going to be there for him. It was not going to be Dick alone.”

The market, for the most part, seems to like what they’re doing. While some

analysts are skeptical about Merck, saying its pipeline is too thin and some of its prize drugs, like Zocor, will soon face competition from generic drugs, the company’s stock price has nearly doubled, rising from a low of about \$25 in October 2005 to \$52, more than its industry competitors. Indeed, at the end of last year, Morningstar called the company a “diamond in the rough, with an improving pipeline of potential new drugs and a management team focused on improving efficiency and reducing costs.”

But Merck is just the latest chal-

lenge Bossidy has faced as a director. He helped JPMorgan with its acquisitions of Chase Manhattan Corp. in 2000 and Banc One in 2004.

“He added a great deal to what the board had to do in overseeing the integration of the banks,” says John R. Stafford, who sat on JPMorgan’s board with Bossidy until 2005. “He ran GE’s capital finance unit, which gave him an in-depth understanding of the financial issues that face major banks. So he brought a great deal to the table.”

Stafford, who also sat on Honeywell’s board, reports that Bossidy was fond of describing fellow Honeywell board member Robert P. Luciano, the former CEO of Schering-Plough Corp., as someone who “doesn’t miss many downfield tackles.” Stafford says he would describe Bossidy that way.

“Not much gets past him,” Stafford says with a smile. ■

Larry Bossidy will speak about “Is That You in the Journal?: Containing a Crisis” at **ODX Chicago** on October 23, 2007. Please call Ajay Bhambri at (212) 542.1229 to attend.

AGENDA PROFILE BAR