



© 2007 Jay Gullixson

## Getting Straight: How Jack Krol Cleaned Up Governance at Tyco

In less than five years Krol rebuilt beleaguered Tyco's board and created two new boards from scratch

By Heather Wolf

**H**ow could a nice guy like Jack Krol end up in a place like Tyco? During the summer of 2002 Krol was answering that question for himself and, more challengingly, for his wife. He had just met Ed Breen, the new chairman and CEO of the scandal-ridden conglomerate, and accepted Breen's offer to sign on as Tyco's new lead director.

Since then, Krol has gone on to

completely restructure Tyco's governance and rebuild its board from scratch. He has also been a key strategist for getting the company back on track and positioned for the future after the Dennis Kozlowski debacle. Kozlowski, Tyco's former chairman and CEO, was forced out in 2002 after being accused of looting millions of dollars from the company. In his wake he left chaos and \$9 billion in losses. When Breen

signed on, he believed that Tyco's core manufacturing businesses were solid, but he wasn't sure how far across the organization the corruption reached. Nor was he exactly sure how to avoid bankruptcy. He needed a partner, and fast. Fellow board members say Krol's contributions to Tyco merit his distinction as an Outstanding Director.

**Getting Straight** continued on page 12

**Getting Straight** continued from page 11

“Getting Jack to come on board as early and quickly as he did was huge,” says Breen. He believes Krol’s reputation and total commitment to the task were major factors in both saving the company and restoring its respectability. Harwinton Capital Corporation CEO Jerry York — who was one of Krol’s first recruits to the Tyco board — concurs. “Jack is a terrific corporate board member and a terrific member of the human race,” he states emphatically.

Krol retired as chairman and CEO of DuPont in 1998, after a 35-year career that saw him rise through the ranks from entry-level researcher to the top job. He quickly developed a reputation as a valuable director on the strength of his service at JPMorgan, Armstrong Holdings, MeadWestvaco and ACE Limited. He also still had some time for golf and family vacations. That is, until Tyco.

“I kept hearing the same name over and over,” Breen says as he describes his hunt for a lead director to help him rebuild the tattered conglomerate. The two liked each other instantly. More importantly, their thinking dovetailed on the subject of saving Tyco. “Jack told me he had a list of 10 critical actions that he believed were necessary to save the company,” recounts Breen. “I said, ‘Let me show you mine first.’” They both swear that a good seven of 10 items were the same. At the top of the list was the need to build a completely new board.

To start to regain credibility with investors, customers and suppliers, all of whom were ready to flee, Krol confirms, “the whole board had to go. We couldn’t risk them taking another nap on the job!” This proved more difficult than either he or Breen had imagined, as five members of the old board initially refused to step down. Krol spent hours discussing and negotiating with the directors, some of whom had en-

gaged legal counsel, and eventually a deal was struck. No one would seek reelection at the next annual meeting, but two former directors would stay on as non-voting advisory members for one year.

From an original pool of around 300 names, Krol recruited 10 new direc-

in order to survive the workload. Krol took on governance, allowing Breen to focus on the numerous investigations and flagging operations. When Krol began to look for something to build on, he was startled by the vacuum he found. “I couldn’t find any evidence of basic governance. No delegation of au-

**DIRECTOR’S SNAPSHOT**

**Born:** October 16, 1936, in Ware, Mass.

**Education:** BS and MS in physical chemistry from Tufts University

**Career Highlights:** Chairman and CEO, E.I. du Pont de Nemours & Co.

**Family:** Wife Janet of 48 years, two daughters, four grandchildren

**Hometown:** Chadds Ford, Penn. and Bonita Springs, Fla.

**Favorite Summer Job:** U.S. Navy flight orientation in Corpus Christi, Tex.

**Favorite Movies This Year:** *The Prestige* and *Fracture* (“But *Patton* is my all time favorite.”)

**Favorite Book This Year:** *The World Is Flat* by Thomas L. Friedman

**Favorite Charities:** United Way, Muscular Dystrophy Association



Jack and Janet Krol with grandchildren

**Favorite Artists:** Andrew Wyeth and his son, Jamie Wyeth

**Won’t Leave Home Without:** “My golf clubs”

**Favorite Quote:** “People don’t care how much you know until they know how much you care.”

**Something People Would Be Surprised to Know About Me:** “I dream of playing for the Red Sox and getting my pilot’s license. I just might achieve the latter.”

tors. “The old board was full of talkers. Our directors have actually run something,” he states. They include five active or recently retired Fortune 500 CEOs: Krol, VF’s Mackey McDonald, Dow Chemical’s Bill Stravropoulos, ACE Limited’s Brian Duperreault and Brendan O’Neill from British chemical giant ICI. “It’s the best board I’ve ever sat on,” says York.

Early on, Krol and Breen agreed they needed to divvy up the responsibilities

thority, no board principles, no evaluation processes, nothing,” he reports. One of his first moves was to create the role of chief governance officer and bring in Eric Pillmore to fill it. Pillmore was a highly respected executive with a track record as CFO of Multilink Technology, General Instrument Corp. and the Plastics Americas division of General Electric. Together they dived into the business, conducting rigorous risk assessments in the four largest operat-

ing companies and drafting everything from scratch. Krol then had the new directors “put their fingerprints all over the drafts” to ensure ownership of all the principles contained within.

The result is a transformation that has taken Tyco from “one of the most spectacular governance failures in history” (*BusinessWeek* 11/25/02) to a highly rated model. In 2002, GovernanceMetrics International (GMI) rated Tyco a 1.5 out of a possible 10. By 2006, Tyco was weighing in at nine out of a possible 10. GMI ratings are a risk measurement tool designed to accompany traditional security analysis and are based on securities regulations, stock exchange listing requirements and various corporate governance codes and principles.

Defining features of the new governance practices include Pillmore’s position as SVP of corporate governance, which reports directly to the board, as do internal audit and finance. Another feature is Tyco’s Guide to Ethical Conduct, on which nearly 300,000 employees worldwide are trained and all executives are evaluated. The guide covers fraud, conflicts of interest, compliance with laws and harassment. A new Delegation of Authority clearly delineates accountability for committing funds, and new Board Governance Principles define how directors are to oversee the strategic planning and operations of the company. An ombudsman network has been put in place to field both internal and external queries and complaints.

While putting the governance house in order, Krol was in daily conversation with Breen on another pressing matter: debt repayment. When Krol and Breen joined, Tyco was \$30 billion in debt, and \$4.5 billion of it was due in six months. With the company’s accounting and controls in shambles, it was in no shape to file 10K reports with the SEC. Without financial statements in place, no bank would touch them.

After scrubbing their balance sheets and imposing as many controls as possible, they got the go-ahead to file from the SEC with just two weeks to spare and bought themselves some breathing room with a capital injection.

“More than anything, Jack was a calming influence,” says Breen of those stormy days at the brink of bankruptcy. “He has what I call foxhole logic.” Having saved the company and strengthened its capital structure, Krol, Breen and the new board embarked on the next chore — fixing it. They shut off the acquisition valve and focused all the businesses on organic growth and

**“Jack set up a gold standard for governance.”**

Mackey McDonald, CEO, VF and former fellow Tyco director

the bottom line. “There was no more buying our way out of problems,” says Krol. “We had to run the company.” Reversing a long-term trend of underinvesting, research and development was put back in the budget. At the same time, restructuring and divesting of underperforming and non-aligned business freed up an enormous amount of cash. Free cash flow went from just \$700 million at the end of fiscal 2002 to \$5 billion today, proving Tyco was achieving its No. 1 goal: generating cash from operations instead of growing the business by acquisition.

With stable governance in place and a turnaround under way, Krol sharpened the board’s focus on more far-reaching value-creation strategies. The result is a consensus to break the existing conglomerate into three pieces later this year. Health care and electronics will become pure-play companies. Tyco International will retain the fire and security and engineered products.

Krol and his fellow directors admit there were originally strong differences of opinion about strategy and that getting to the breakup decision was an in-

involved process. They explored several scenarios, including continuing as a conglomerate, before the decision was made. “Jack was terrific at considering all the opinions and making the links. We were all very comfortable with the way he coordinated and communicated throughout the process,” says McDonald. Today board members are confident the company is poised to extract maximum value for shareholders. Morningstar concurs. An analyst report from February 28, 2007, states the one-time \$1 billion breakup cost will be outweighed by the benefits of having three separate companies sharply

focused on their respective sales channels, cost structures and customer characteristics.

With Krol as point man once again, 18 new independent directors have been signed on to populate the two new corporate boardrooms, while the original Tyco board stays intact. The goal was to find seasoned operators who would step right in and provide strong board leadership to electronics’ and health care’s first-time CEOs. The effort was capped by landing two highly respected non-executive chairmen — American Standard chairman and CEO Frederic Poses for electronics and Praxair chairman and retired CEO Dennis Reilley.

“Good people are committed and busy. Jack has done a stellar job of building two new boards in today’s corporate environment,” says York. “Jack set up a gold standard for governance,” sums up McDonald. ■

Jack Krol will speak about “Eliminating Static: How to Fine-Tune Your Strategy” at **ODX Chicago** on October 23, 2007. Please call Ajay Bhambri at (212) 542.1229 to attend.