

When Firing a CEO Means Firing a Friend

Shortly after Harvey Golub left his post as CEO of American Express in 2001, he joined the Warnaco Group board at the request of the CEO, Linda Wachner, whom he was close to. Soon after he joined, Golub found himself immersed in a troubled company. Warnaco was forced to file for bankruptcy after reporting a year-end loss of \$338.3 million compared to a prior-year profit of \$97.8 million.

Five months later, Golub had to personally tell Wachner she was fired. The CFO became the next to go. Golub, who is being honored as an Outstanding Director, recently spoke with *Agenda* about his experience at Warnaco, his leadership as non-executive chairman of Campbell Soup and the controversial decision at Dow Jones, where he was an independent director until 2007, to accept a buyout by News Corp.

Q Right after you joined the Warnaco Group board, the company filed for bankruptcy and you had to let the CEO — and shortly thereafter the CFO — go. When you were appointed to the board, did you know what you were getting into?

A No, I didn't. I had known the CEO of the company for years, Linda Wachner. She had asked me to serve on the board for a long time. I went on the board after retirement from American Express to try and be helpful to Linda. I admired her immensely.

Q How difficult is it to let someone go that you had a relationship with?

A It's an awful position to be in. Firing somebody, even somebody you don't like, let alone someone you like and consider a friend, is extraordinarily difficult. As a director, what you have to do is what is in the best interest of the company and take actions that are likely to improve the performance of the company. So we did it. I was chairman of the restructuring committee, so I had the task of telling her that she had to leave.

Q Are you still friends with her today?

A Yes, I see her every so often. We get together and play golf or we have lunch every so often.

Q How much time did you spend on your board service at Warnaco when it was under Chapter 11 compared to before and after?

A I would guess it was probably three times, maybe four times as much as before it filed bankruptcy. Fortunately we had a very good restructuring person who acted as CEO, Tony Alvarez. But even with that it still took three to four times.



Partial Timeline of Harvey Golub's Professional Career

1990–1993: Vice Chairman of American Express

1993–2001: CEO and Chairman of American Express

1996–2004: Director of Campbell Soup

1997–2007: Director of Dow Jones & Co.

2001–2003: Director of Warnaco Group

2004–Present: Chairman of Campbell Soup

2006–Present: Chairman of Ripplewood Holdings
(private equity firm that owns Reader's Digest Association)

Editor's Note: Questions and answers have been condensed. This is the fourth of 11 discussions with this year's Outstanding Directors. The Outstanding Directors program, a sister program to Agenda, recognizes a select group of directors annually for making valuable contributions to their boards. Nominations come from fellow board members, with final selections made by the Outstanding Directors Editorial Board.

Q I wanted to ask you about your role as non-executive chairman of the Campbell Soup board. There's been a greater push this proxy season to have companies appoint a non-executive chairman. Do you think there are unique benefits to having this leadership role on a board?

A Companies have come to different approaches. Some use presiding directors, which is probably the weakest form of governance oversight. The second is a lead director, which has a little more permanence.

Having an independent outside director as chairman has benefits and difficulties. The benefits are that there's somebody whose sole responsibility is monitoring the functioning of the board, the flow of the information to the board [and] the communication between the board and the CEO. But if the CEO is doing a really outstanding job, then the chairman ought to do a really outstanding job or he will be in the way of the CEO. You need clarity of the role and a sound personal relationship between these two people.

Q After you joined the Campbell Soup board, Dale Morrison became CEO and David Johnson, the former CEO, became chairman. Can there be pitfalls to that situation?

A The number of bad things that can occur can far outweigh the good things, and there are very few cases, in my judgment, where the CEO ought to hang around.

Q What should be considered when you're deciding whether to have the CEO stick around?

A I think the presumption ought to be, in most cases, that the prior CEO go away. And there would have to be, in my mind, some compelling reason for the CEO to stay as chairman.

Q What were the reasons for having David remain chairman at Campbell Soup?

A I won't comment on that particular situation, but normally the reasons are either practice — it's what [the board has] been doing for a long time — or [the board] still has some questions about the new CEO. ■

Harvey Golub on....

Whether the trend of U.S. companies' separating the chairman and CEO positions will continue:

"I think it'll grow somewhat. It almost never is going to happen unless the company is in trouble or there's a change in CEO. My guess is there will be an increase in independent chairmen but it will be a slow change and it will be some number that's well below 100%."

Whether he has noticed fewer sitting CEOs serving on boards post-Sarbanes-Oxley as statistics indicate:

"On the boards that I sit on I haven't noticed that kind of a difference. Sitting CEOs are still willing to serve on some companies, and coincidentally the ones I serve on do not have issues about attracting competent active CEOs there. But I think midsize companies may have had more difficulty and companies that were in difficulty may have had more difficulty."

Whether it's relevant for the board to consider constituents other than shareholders during M&A or buyouts:

"I think that directors are allowed to consider any factor that they think is relevant to the decision. At the end of the day the primary factor has to be what works to the benefit [of] shareholders the most. And essentially that decision revolves around the simple question of, is the present value of likely future earnings less, equal or greater than the current offer price."

On how divisive the decision by the Dow Jones board to be acquired by News Corp. was:

"[The decision] wasn't divisive. The members of the family and the various trusts held a majority of shares of the stock, so the family shareholders as a group could decide whether or not to do the deal. Some were very concerned about the question of editorial independence and were willing to make significant trade-offs on economics for editorial independence. But that was not a divisive question. If the family had said we won't consider an offer then there would be no point in considering an offer."