

## In WorldCom's Wake: Lessons for Today's Boards

In April 2004, **MCI**, formerly known as **WorldCom**, emerged from the largest Chapter 11 bankruptcy in U.S. history.

The company's fresh start brought with it a host of new challenges, not the least of which was working to build trust among its stakeholders after its epic collapse. Into the fray stepped a new board of directors. Under the leadership of CEO **Michael Capellas**, the board guided the company through its sale to **Verizon Communications** in 2005 while fighting off a competing bid from **Qwest Communications International**.

**Judy Haberkorn**, who joined the MCI board as the company emerged from bankruptcy, calls the Verizon deal "one of the greatest cases of snatching victory from the jaws of defeat."

Haberkorn, a former top executive at Bell Atlantic, which became Verizon, has been selected as a 2008 Outstanding Director in part for the role she has played on distressed companies' boards. In addition to her time at MCI, Haberkorn was on the board of **Armstrong Holdings** while its subsidiary Armstrong World Industries went through bankruptcy to resolve its asbestos liability. She has also been lauded by fellow board members for promoting and mentoring new female directors. She recently spoke with **Agenda** about her experience at MCI while touching on other important issues ranging from boardroom diversity to CEO succession planning.

### Q What made you accept the challenge to join the post-bankruptcy MCI board?

**A** The first thing is, I had already been through bankruptcy with Armstrong. We had not come out, but we had had to declare bankruptcy due to the asbestos issues. The word didn't scare me to death. I knew a lot about the process... What really took a lot of due diligence and soul-searching was the fact that MCI was something of an industry pariah at that time... But that said, I felt that it was very important that they have a woman on the board. And there was no one else at that point [on the board] who really had telecom experience. So I think what I brought to the party was a real grounding in the industry and an understanding of what it took to make that business work and, accordingly, some of the things that had gone wrong.

### Q As a board member, how did you go about gauging the mood of the company at the time?

**A** Well, first of all we had an absolutely extraordinary CEO in the person of Michael Capellas. Michael had in my experience a unique leadership style that was perfectly suited to the situation in which we found ourselves. Just to give you an ex-

ample: The first board meeting I attended Michael said, "OK, it's lunch time, everyone go to the cafeteria, find someone to have lunch with." As you can appreciate, that's pretty uncommon in the boardroom of a \$24 billion company. Some of these people were looking around like, "What?..." So that just gives you a little window into how we interacted with employees at MCI. I think Michael had several objectives in that. Obviously, he wanted the directors to get a feel for what was going on on the ground. But he also wanted the employees to touch and feel the directors a little bit and have a sense of who these people were in whose hands their future lay.

### Q When you joined the board was the goal already to sell the company?

**A** The goal was to stabilize the business and to do what had to be done to get it right with the government and to get the accounting straightened out. But I think along the way, with the other mergers taking place, it became clear that there were strategies that were likely to be more successful than others. I think what happened in the end, you may recall, is that we went through a very long process that played out on the front pages and had people on CNBC all day long saying the directors are a bunch of morons.



**Judy Haberkorn**

*Former President of Consumer Sales and Service at Bell Atlantic; Directorships: Computer Sciences, ExpressJet Holdings and Armstrong World Industries*

### Q No fun, huh?

**A** No fun. But in subsequent deals I've been involved in I just say to people, "When the shooting starts, don't worry, it's just par for the course. It has nothing to do with us. We're following a process. We're doing the right thing, and it will all work out." And it does. And in the case of MCI, I could not have envisioned a better outcome for the shareholders, for the employees and for the customers. You know, we really got to an excellent outcome.

*Editor's Note: This is the third 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 Why is that? What did everyone get in the end?**

**A** The combination with Verizon was a lot more strategic than it would have been with Qwest. The addition of MCI's expertise and resources was very useful to Verizon and Verizon's customers. It was a more robust situation for employees. And shareholders got more than they had expected.

**Q Looking back now, with WorldCom becoming the symbol it has become, how would you put into perspective what the board at MCI was able to accomplish?**

**A** I would say that it would have to go down in history as one of the greatest cases of snatching victory from the jaws of defeat. And I don't want to take any credit away from the board. However, if you believe as I do that one of the most critical responsibilities of the board is to get the right CEO, and to keep him, and to challenge him, and support him or her, et cetera, in that mix, I would say the board did its best work.

**Q What were some lessons from your experience at MCI that you were able to relate to your later board duties?**

**A** The greatest lesson is that if the board does its job right on the CEO, much of the rest falls into place. I've been in situations where we hired the wrong CEO. There isn't much the board can do to salvage those situations until you get the wrong person out and the right one in. And that creates its own set of very difficult problems — it has made me far more diligent in my concern for the selection process and for monitoring steps along the way.

**Q You mentioned you were the only woman on the board. In that capacity, what do you think you brought to the mix?**

**A** It's always hard to separate the why from the what. What I brought by virtue of my background was more my understanding of the business, of that specific business and industry. In many cases, I wound up being the spokesman for the people. A lot of people say that's a natural role that women in the boardroom fall into. You sort of become an employee advocate in some ways and represent that point of view, when you're concerning yourself with benefit plans and things of that nature. That is often a perspective that female board members feel very comfortable weighing in on. At MCI, I can't tell you how much of that was because I'm a woman or because I understood the business so well and accordingly the needs of the employees — what it was going to take to move the employees from point A to point Z. In the final analysis, it is all about working for the best outcome for the shareholder and helping to move the decisions forward that work to that end. ■

## On CEO succession planning

**B**ecause I serve on both the compensation committees and the nominating and governance committees on most of my boards, I consider it a critical part of my job to make sure the CEO and the board are doing the right job of succession planning. That being said, can you always hit a home run from inside? Not necessarily. Sometimes timing is against you. You may be developing a great bench, but if the CEO gets hit by a bus tomorrow your bench just wouldn't be in the situation you need or want it to be. But I consider that a major item about which I need to be thoughtful all the time.

## On women in boardrooms

**I** don't think we're making great progress in the boardroom. And I know we're not making great progress in the C-suite... There are many women out there that could be fine directors, and I make it a point whenever any of my boards are recruiting or searching for new directors to throw diversity into the pot as a requirement. The problem I find isn't that people are unwilling to do it. It's just that at the moment you need another solid financial person, the need for the financial person will trump the need for diversity every time. And sometimes you don't have the luxury of conducting a longer and longer search.

## On ethnic diversity in boardrooms

**P**robably the place I've seen the most difficulty really isn't so much finding female candidates. To give you an example: On one of my boards we felt that one place we needed a lot of help was in marketing to the burgeoning Hispanic population. And we really wanted to have a director who had some knowledge and experience in that area. I'll tell you, that was a long search. And when you have the luxury of time, it's one thing. But when you have a pressing need because you've had a board member resign for some reason... you don't necessarily have the luxury of that long search.

## On criticism of directors in the media

**I**n my experience directors are working very hard these days and it is often a 24/7 responsibility. There is a lot more going on than the scheduled meetings, and there may be directors somewhere who are overpaid and underworked, but I have not seen this phenomenon on any of my boards.