



presents **2010 Outstanding Director**

Isaiah Harris, Jr.

Harris is driving a redefinition of CIGNA's culture by championing new executive compensation that is truly tied to performance.

DIRECTOR'S SNAPSHOT

Born

West Memphis, Ark.

Education

BS, Iowa State University;
Executive MBA Program,
University of Minnesota

Career Highlights

Accountant, Peat Marwick;
Executive, SUPERVALU; President
and CEO, Bell South/AT&T
Advertising and Publishing

Family

Wife Charlene; children Solomon
and Sonya; grandchildren Samuel
and Alia

Current hometown

Palm Coast, Fla.

Most memorable summer job

Working at a meat-packing plant
in Ames, Iowa

Best book this year

Wild at Heart by John Eldredge

All-time favorite movie

Glory with Denzel Washington
and Morgan Freeman

Favorite charities

OFC Venture Challenge, Atlanta;
Parkview Baptist Church

What is your idea of bliss?

Sitting on the dock at home
in Florida

Most admired historical figure

Jesus Christ

What is your motto?

Whether you believe you
can or believe you cannot,
you are generally correct.

Current directorships

CIGNA, Deluxe, Wells Fargo
Advantage Funds



Ike and Charlene Harris at Ike's AT&T retirement party in 2007.

Ike Harris: Driving a Culture of Account

I don't like the notion of having a successful operation and the patient dies," says Ike Harris with a smile. "Good governance is more than good processes and procedures. It requires a good outcome."

When Harris became chairman of the CIGNA board's People Resources Committee (PRC) in 2007, he began to push for better executive compensation outcomes. "We were very good at designing compensation plans. The mechanisms that were in place were solid," he explains. "But we as a board had to exercise discretion on the back end."

"Personal accountability was missing," notes Bob Campbell, a CIGNA director until his retirement in December 2009. The former chairman and CEO of Sunoco adds, "Trying hard had become a proxy for succeeding."

Led by Harris, and spurred by the financial and economic crisis of 2008, the committee began to look for ways to better align executive pay with shareholder results. "The competitive landscape was more aggressive" in 2008, Harris notes. "It was clear to me that CIGNA needed to migrate culturally."

"The board took a really hard look at the long-term compensation plans and how they were paying out vis-à-vis the shareholder experience," Harris says. Put another way, he adds, "Is the mechanical outcome of the plan appropriate given the environment?"

The PRC believed that incentive compensation decisions gave too much weight to outside factors that management would blame for affecting company results. "The board needed to send the message that many of those factors were controllable and that we expected management to control them," Harris says.

Exercising Discretion

The directors decided not to award annual incentive bonuses to CIGNA's top three executives — the CEO, president/COO and CFO — in 2008. The company's stock had declined roughly 60% that year. Though CIGNA's performance was better than that of peers, Harris and the PRC considered it a case where the patient had died.

Harris and his colleagues exercised downward discretion on long-term incentive payouts of strategic performance units in response to a negative three-year total shareholder return. Management agreed to eliminate base salary merit increases in 2009. The PRC also cut long-term incentive targets by 20% for the 2009 grant, and they capped the number of options that could be granted to each executive officer.

Carol Cox Wait, a fellow CIGNA director and president of Boggs, Atkinson, credits Harris with pushing to reconcile negative shareholder results with the on-target earnings payouts executives had been receiving. "After many years of a formula-driven scheme, he decided it was time to exercise board discretion with respect to incentive pay," she says.

"We took a deep breath and did what



PHOTOS BY: SIMON OOSTHUIZEN

had to be done,” Harris says. “CIGNA has to develop a culture of accountability, and the board has to be fair but impartial.”

Campbell acknowledges that there was “heated debate” about the changes the PRC was implementing. The task, he says, “was to bring management’s expectations down to where they should be.” He adds that Harris, a former professional football player, never backed away from tackling even the thorniest issues. “He’d often come out of a meeting battle bloody, but he never wavered,” says Campbell.

“A couple of members of senior management were very forthright about their displeasure,” Harris says diplomatically. Despite the pushback, the board set its sights on longer-lasting change.

Digging Deeper into Compensation

They started by addressing what Campbell describes as “a very close relationship between management and the compensation consultants.” He says that Harris “worked to establish the correct relationship between the committee and the consultant.”

Harris respected the abilities of Mercer, the compensation consulting firm, but, he says, “I had to not only give them the opportunity to have direct dialogue with me, but to demand it.” Harris began meeting with the Mercer team each time it was preparing to present a report to the board. “I asked them which iteration this was and what changes management had made” to the prior drafts.

Next, the PRC tackled the peer group that management and the comp consultants used as a benchmark for executive pay. “We were a slightly different entity than the pure-play managed-care companies we were comparing ourselves to,” Harris

explains. “It was appropriate, but it wasn’t clean. We had managed-care competitors within our peer group, but they were four times our size.”

Harris says the PRC had a “robust discussion” about the composition of CIGNA’s peer group. With the help of Mercer, CIGNA management took a look. “They had to go back to the board a few times,” says Harris. But ultimately, the PRC was satisfied that the group was appropriate. United-Health Group, though a major competitor, was dropped due to its size, and life insurance companies were emphasized. CIGNA now uses two peer groups to home in on appropriate compensation comparisons — a size-adjusted insurance industry peer group and a supplemental managed-care industry peer group.

“The peer group is more constrained in the dispersion of size,” says Campbell. “It’s not just the top three. Compensation is much better based now.”

Leading During a Transition

In the midst of the changes the PRC was implementing, long-time chairman and CEO Ed Hanway announced his plans to retire. “He’d been in the job 10 years, and it seemed like a good time to pass the baton,” Campbell explains.

“Ed did a lot of wonderful things for CIGNA,” Harris says. One of the most important, Harris believes, was Hanway’s support of the CEO succession process. President and COO David Cordani was tapped to become CEO. “Ed was very supportive of David,” Harris adds. “He was willing to give David a seat at the table” during the transition.

The board decided to split the chairman and CEO roles. Harris was named non-executive chairman, even though there were longer-serving directors on the board.

"Evidence of Ike's contributions speaks for itself. We made him chairman of the board," notes Wait. Harris served as vice chairman from July through December 2009, and became chairman at the end of 2009 when Cordani succeeded Hanway.

The CIGNA board established a non-executive chairman role simply because it believes it is a good governance practice, not because Cordani is a first-time CEO. Both Cordani and Harris are pleased with their working relationship. "Ike and I are extremely aligned in terms of what we're trying to accomplish and how we want to accomplish it," says Cordani. "I believe

ments in the event of a change of control.

Harris's colleagues believe the board and management are better for the new approach. "The proper structure is in place," says Campbell. "It's congruent with where executive comp is headed today."

Wait says, "As a board, we can honestly say, 'We're doing our job.'" She adds, "It has been an extremely healthy experience for management and has triggered a palpable culture change at CIGNA."

"The boardroom dialogue has improved," Harris concurs. "And management is being held to a higher standard because the board knows more and sees more."

"After many years of a formula-driven scheme, [Ike] decided it was time to exercise board discretion with respect to incentive pay."

Carol Cox Wait, President, Boggs, Atkinson

management needs to have a preponderance of rewards that are variable based on the performance of the business."

"David is a very accountable guy," Harris says. "In 2008, he said, 'I don't deserve a bonus.'" Discussing the compensation changes, Harris adds, "That is where our CEO wants to go." Today, roughly 91% of Cordani's pay is performance-based. For CIGNA's other named executive officers, that number is north of 80%.

As for Harris, he spends time each week at CIGNA's Philadelphia headquarters, rather than the home he and his wife Charlene retired to in Florida. "Ike is not just a figure-head chairman," Campbell says. "We wanted him to be hands-on, and he continues to absorb more work."

Making an Impact on the Culture

Harris calls the compensation changes a work in progress. And progress continues to be made including a recent decision to eliminate tax gross-ups for severance pay-

As non-executive chair, Harris has been attending CIGNA's monthly management reviews in order to encourage greater transparency. "When I walk in, that's the board walking in," he says.

Asked to assess the impact of the new compensation strategy on CIGNA's performance, Harris replies, "Early indicators are positive that the strategy is working. But it's difficult to assess because of the effect of the health care overhang on the stock price and on employee morale."

Harris's commitment to CIGNA has affected his plans for retirement. How did his wife react to his new job and frequent trips to Philadelphia? "As she's said to me more than once in 36 years of marriage, 'Harris, you owe me big-time,'" he chuckles.

— Karen Murray

Ike Harris will speak at ODX New York on October 6 – 7, 2010. Please contact Dan Fink at 212.542.1255 or DFink@TheODX.com for details.

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