

Directing Companies Through Perilous Times

Hammering together merging, Old Economy companies is a carpenter's art that **Bill Holland** has practiced for more than 20 years. The attorney-cum-manager's latest masterwork is **EnPro Industries**, a public company spun off from **Goodrich**. In his six years as non-executive chairman, the managers that Holland recruited and the board members he handpicked have coaxed profit margins to 35% at the industrial-parts maker. That bests the industry average and surpasses competitor **Caterpillar** by nearly 11 points. A thousand dollars' worth of EnPro common shares bought back in 2002 is worth \$26,000 today.

Perhaps as noteworthy: EnPro had to overcome legal claims and financial write-downs connected with its asbestos-related past.

Holland cut his teeth as general counsel and eventually chairman and CEO of **United Dominion Industries**, which he helped sell in 2001 after laboring for nearly three decades at the Canadian construction and building products manufacturer. Currently, he serves on the boards of EnPro, Goodrich and snack food company **Lance**. *Agenda* recently spoke with Holland for his insights on board membership, clawbacks and how to make smart acquisitions in perilous times.

Q Given the breakdown in risk management over the past year, do you advocate that boards set up special risk committees, or should that oversight fall to audit committees?

A Companies should [put] broad oversight of risk in their audit committees because that's the one that's looking at the company's financials in detail. At Goodrich, we have risk divided between the financial policy and audit committees. But some companies don't have a financial policy committee, so obviously they can't have that.

Even though the name "financial policy committee" implies something that deals with dividend policy, we [oversee] all of the areas that are likely to be problematic — foreign exchange, derivatives, insurance coverage, any kinds of unusual risk.

Q What's the biggest issue for directors today?

A Liquidity and risk. Making sure that companies have adequate cash and credit to steer the course. In this environment, even very good companies should make sure their credit facilities are intact and [can] be accessed.

This is the most difficult time I've seen in 40 years. I've never seen it as infectious as it is right now, in every sector and geography

in the world. Right now, the biggest issue for the board agenda is to ask questions: Can we sustain a 20% to 40% decline in volume? What do we do if that happens?

Q As a member of two compensation committees, what's your opinion of clawbacks?

A Should there be clawback of bonuses for performance that ultimately didn't turn out to be what directors or shareholders thought it was? My answer is yes.

We're not talking about crooks here [but] circumstances that change dramatically. But shareholders are out of all of this money.

[My boards have] never done this clawback-type situation. But I have seen where bonus points or credits would be banked so that bonuses are tied to performance over a longer period of time. A lot of companies, [including] EnPro, Goodrich [and] Lance, have bonus plans that run for a three-year rolling period. You don't get paid on that three-year performance until the end of the three-year plan.

The other issue is you can't always tell what performance may be. You can analogize it to construction projects, which I had when I ran United Dominion. Let's say that you're working on a contract. You're paying your people as you go. Let's say it's 70% com-



Highlights of Bill Holland's Career

1962

Earns LLB from Univ. of Denver College of Law

1964

Corporate attorney, Southwestern Bell

1966 – 1973

Law partner at Bridges, Young, Matthews

1973

General counsel, United Dominion Industries

1986 – 2000

CEO, United Dominion

1987 – 2001

Chairman, United Dominion

1999

Board member, Goodrich

2002

Chairman, EnPro Industries

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

plete and your projections are that you're going to make X dollars. You paid them compensation bonuses based on that projection. [But] the last 30% of the project proves to be highly problematical and wipes all of those profits out. Do you demand the bonus back that you gave for the first 70%?

These things are not as simple as just saying executive compensation is excessive.

One thing I can say is if you link these plans to performance then you will at least mitigate the issue of excessive compensation.

Q You have a background in making acquisitions. What signs regarding liquidity, risk and culture should directors watch out for in an acquisition?

A I've probably been involved in several hundred acquisitions or divestitures — because it goes both ways — in my career. In fact, we built United Dominion by acquisition. We made dozens of them.

Keep in mind that over 60% of acquisitions are failures. It gets back to risk and liquidity. First of all, the acquisition has to make imminent sense [and be] absolutely strategically a fit. Secondly, you have to assess risk and liquidity. Certainly, that is a major [reason] that a lot of acquisitions don't work.

[Also], many acquisitions that ultimately end up being a failure, that extends from a cultural clash.

The liquidity issue is relatively easy. You know what it's going to cost you, what your operating needs are from a cash and liquidity standpoint. Then you build in a contingency factor that is very ample so that if things don't go as you anticipate you're not threatening the balance of the company.

Next, would be the risk factor. That takes experience, [and] due diligence, where you turn over every rock in the company. You have to come up with a collective judgment based on your management's experience, their knowledge of the product line, and say, "How do we assess this risk? High, medium, or very low?"

The third one is harder — to determine this cultural thing. In the acquisitions that we made at United Dominion when I was CEO, I don't think we ever messed up one on the cultural issue. Because we were buying operations that were so compatible with what we did and were run by people of like backgrounds. ■

Holland on Starting a Board from Scratch

Q You were on the Goodrich board when the spin-off occurred and agreed to go over to EnPro as non-executive chairman. You mentored the new CEO and put together a board. How did you approach that?

A They felt that Ernie Schaub [then-president and CEO] was a good man. But he was basically an operating guy. So they asked me to mentor him [and] help with the external affairs.

But more than that, we had a clean slate to write on. Everything about the company had to be brought together; a management team, new corporate office, a board of directors. We had to set up financing. So that's what we did. And we ended up getting a very good board essentially because of people that I knew who trusted me to be telling them the facts. That sounds a little immodest and I don't want it to sound that way.

Q What if someone says you built a board that has a lot of your friends on it when that's frowned upon?

A That's a good point. But I consider every one of these people to be unimpeachable in integrity. Not one of them would even consider doing something for me that was not 100% honorable, aboveboard and in keeping with the obligations of a director.

I knew the quality of these people as opposed to trying to bring people on whom we had no experience with. [Also,] none of us had any related-business dealings. So there really weren't any conflicts of interest.

Q How did you attract directors to EnPro, seeing how you had to make them aware of the asbestos problem?

A It was full disclosure. Everything was laid out in black and white. You have to answer that in people's mind, that they're taking on undue risk to serve as a director.

The second thing is that I personally knew these people. I was able to go over this with a great deal of credibility.

Q In EnPro's six years, profits have been sort of uneven. One year, a \$159 million loss; another year, \$50 million in gains.

A Since the spin-off of 2002, EnPro's [had] steady growth in sales, earnings and cash. The thing that has distorted those statements is that EnPro is an asbestos-affected company. The anomalies in EnPro's statements relate to a big write-down to take those claims onto their balance sheet.

Asbestos is one of the most ludicrous situations in the world, not just for EnPro, but for everybody that got affected. There's been effort in Congress to pass legislation to deal with it.