

## Pioneering the Lead Director Role

**W**hen **Liz Kennan** accepted the role of lead director at **Northeast Utilities**, she was entering uncharted waters. The year was 1996, a time when most board members hadn't even heard of lead directors. As Kennan says, "there weren't any models at that time" for the board to look to for guidance.

The lead director role appears to be a post-Sarbanes-Oxley development. This year, 95% of S&P 500 boards have a lead or presiding director, up from 36% in 2003, according to **Spencer Stuart**. Nasdaq and NYSE listing standards undoubtedly played a role in the meteoric rise of the position. Since 2004, the listing standards have required that boards hold executive sessions without management present, making a lead director necessary to run those meetings.

Kennan is a 2008 Outstanding Director, as nominated by her peers, in part for her role as lead director at Northeast Utilities. She has also been recognized for her ability to build consensus in the boardroom. She recently spoke with *Agenda* about her 12-year-and-running stint as lead director, how and when boards build consensus, and what it was like transitioning from the halls of academia to corporate boardrooms.



*Elizabeth Kennan is President Emeritus of Mount Holyoke College. She currently serves on the board of Northeast Utilities and is a trustee of The Putnam Funds.*

**Q You kind of helped pioneer the lead director role long before most boards thought they needed one. How did it come about at Northeast Utilities?**

**A** That was certainly a governance decision taken by the whole board, but it was taken at a time of stress for the company. At the time, we were under particular scrutiny from the Nuclear Regulatory Commission for safety at two of our plants and therefore asking questions about our safety procedures throughout the corporation. The board felt that it needed to be able to convene itself between regularly scheduled meetings and to take the initiative. It was really in that spirit that the board decided it needed a lead director.

**Q How did it play out?**

**A** It turned out to be very, very necessary. The board found itself not always in agreement with the CEO on the steps that were needed to respond responsibly and vigorously to the questions of the Nuclear Regulatory Commission. And so we did meet not infrequently at my call.

**Q And why were you chosen? You had been on the board for a while...**

**A** I had been on the board for a while, but I was newly out of a job. I stepped down in the middle of 1995 as president of Mount Holyoke, and so I think I was the only member of the board of some length of time in service who was not running an enterprise. I can remember one of my colleagues on the board turning with a twinkle in his eye and saying, "Well, you don't have anything to do, Liz." And so that's how it started.

**Q Was there any kind of model you looked to, or did you bring in an advisor? Or was it simpler than that?**

**A** Well, we didn't have any models at that time. But we wanted someone who could act independently, someone who would have access at any time to the CEO or to any persons with important information, who would spend the time to become more intimately familiar with the workings of the company in the areas of our great concern. It was a process first of all of guaranteeing in our bylaws that we had the right for the lead director

to convene the board, and second that the lead director according to the bylaws should have direct access to any information, and third, it was understood that the lead director was serving the collective will of the board and that that collective will was only determined when every member of the board had been fully informed and invited to express any views they had on a given problem. So my work in those days was obviously as a convener, but also as an information discoverer and then as a disseminator of the views of the board. And when I say information discoverer I don't mean it as though I was doing research on an academic problem, but to be fully in touch with the processes that were going on and the steps that were being taken to address issues. And that means to create a positive flow of information from the board to management and vice versa.

**Q Has the role changed since 1996?**

**A** It changes all the time, and that's such a good question. It changes with the circumstances of the corporation. And it's really intended to be a flexible role so it can respond to needs. There was one

*Editor's Note: This is the eighth 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.*

major change: As part of a settlement of a shareholder suit the board agreed to make this a permanent position. We probably would have done that anyway, but we never came to that point. We were really experimenting when we set it up, but now it's a permanent position and so noted in the bylaws and in the governance documents.

**Q What about the time commitment?**

**A** We went through a period in which I really didn't have to be quite as active. We didn't meet as much on an ad hoc basis. We had regularly scheduled independent meetings several times a year. The sharing of information never changed. That was the crucial role. The searching of any issues of concern or general interest to the board has been a constant. They must come forward and become part of the agenda. An agenda-building function became important at an early date. One CEO, just before Christmas, announced he was leaving in two weeks. There was a major jump in the lead director's responsibilities.

**Q How did that affect the lead director specifically?**

**A** The board asked me as lead director to become the acting chairman, and we asked a member of management to become the acting president and CEO. For that period of time, we separated the role of chairman and CEO while we had a search. But this will be interesting to those who are interested in the permanent separation: When we hired our permanent CEO, who was by the way the person we asked to step in on a temporary basis, we did rejoin those positions.

**Q Why is that?**

**A** We felt very comfortable with the role of the lead director and the capacity of the lead director at any time to convene the board, and because we had been through an intense history with the position, we knew it worked. We also felt the title of chairman of the board had some real advantages for the CEO.

**Q Do you have advice or insights for other boards looking at the lead director role?**

**A** I think one of the important things for those evaluating the role of lead director to know is that I serve year to year. I can always be recalled, of course, during the year. But I undergo a regular job evaluation every March.

**Q How does that work?**

**A** First of all, I'm evaluated by the governance committee. That evaluation is conducted first in the annual board evaluation and there are always questions about the lead director. That information goes to the governance committee, which does its own evaluation. I'm of course never in the room. It reports its findings and the written findings to the full board; I'm not present. They all opine. Then they either nominate me for another year or they don't.

**Q In general, what are some of the things they're looking at?**

**A** On the whole at Northeast Utilities our evaluations tend to be functional: Is the role adequate? Is it currently being fulfilled? Are you satisfied with the agendas? I don't know exactly what they talk about. But in the written instrument it's not about my baby blue eyes.

**Q One of the things you were honored for is an ability to build consensus. How important is that, to reach consensus as a board?**

**A** I think there are lots of times in the history of an organization, whether it be a college or a company, when the ability not to have consensus is extremely creative and produces insights. There's always a stage in every fundamental discussion where there's going to be creative disagreement. In many cases, such division can be carried forth in the final decision. There might be some people who are skeptical about a policy going forward; they might not vote for it. But when you are at a moment of stress the most important thing is the

ability to suspend the need to carry your own point in the interest of the good of the whole entity. At those times it is absolutely crucial to explore with each individual the fundamentals of their view. You must be sure you can make room for it, accommodate it, find a compromise position for it, harmonize it, or you can let it carry the day and harmonize everybody else. The person who is responsible to find that consensus really has to suspend her own opinion for the moment. You just have to be attuned to listening to every single concern until out of those many voices — that includes management as well as the board, and it includes crucial stakeholders at large — you find the points underneath the language where there is agreement. Then, let those points be seen. It's like iron filaments and a magnet: When the real fundamental issues can be discerned from everyone's concerns and laid bare, then you just find that the iron filaments will come around them and there will be a consensus. But it takes a lot of self-discipline on the part of the individual trying to get there.

**Q Let me ask you a little about your background. Directors are increasingly coming from a variety of backgrounds. You got into board work after running a college...**

**A** I had been a professor of medieval history, and then I went in 1978 to be a college president. I think I joined my first board in '79. I joined Northeast Utilities shortly thereafter.

**Q How is it going from running a college to getting involved in board service?**

**A** I'll tell you, I had a learning curve so steep I had to rappel up it. But except for the accounting I found it of a piece with being a college president in the sense that you were serving the public interest. You were putting aside whatever was dearest to you — for example, being a researcher and a teacher — in order to serve others. That made it an understandable transition. ■