INTERVIEW WITH PETER BROWNING

Peter Browning: I think you've been sitting on boards in the midst of changes during the past few years, the era of the Great Recession and Dodd-Frank. How has your view of being a board member changed over the past few years?

Peter Browning: The best way to view the role of the board member and change is to go back not five, but 11 years. If we take a look at the bursting of the dotcom bubble, the market falling off, and the events of 2001, best exemplified by WorldCom, Enron, Tyco, we see two legislative responses. One was Sarbanes-Oxley, which impacted the audit committee, external auditors, and this whole question of internal reporting and integrity of the numbers. The other was the New York Stock Exchange Corporate Accountability and Listing Standards, which really changed board structure. From that point on, people began to look at boards with changed expectations. What came out of that was a whole list of things such as annual elections, the majority vote, and examining this whole question of risk. But the board's ultimate responsibility has never changed, and the board can't run the company. A board needs to ask things such as, do we have the right CEO? Do we know who the immediate short-term successor is, and do we have a good, robust long-term succession plan? Do we have the right strategy and is it being implemented well?

CSI: On a related topic, what are your views on having independent consultants?

Peter: The idea of having independent compensation consultants was part of this governance change, this new environment in which active shareholders were much more engaged and involved. The issue was raised when Pfizer's then-CEO retired with a very handsome package, and the comp consultant who was also advising on Pfizer's pensions and benefits was criticized for being conflicted. We began to see a change in which large firms that consulted on pay and benefits began to move away from compensation practices. Companies on their own then started to state in their proxies who...
CSI: What do you think of that?
Peter: To me, that’s fine. It’s a good change. It doesn’t change one to one the quality of advice that you get.

CSI: So how, as a board member, do you view executive compensation structuring, in particular for the CEO?
Peter: As I mentioned, make sure you have the right CEO; then make sure you have the appropriate compensation construct. Let’s look at long-term incentives, which are at least 50% of a CEO’s pay, if not 60%. So make sure you have the right strategies being implemented well, certainly that there are incentives for that large piece of compensation, and that the program you have fairly reflects what the board and management feel should be driving that strategy.

Where companies get in trouble is when they have a disconnect between large pay packages when in fact you don’t see performance.

CSI: Along those lines, where do perks fit in?
Peter: The whole question of excessive perks first came up years ago, and I can tell you they’ve all disappeared from companies whose boards I’m on. The biggest issue remaining has to do with use of the company plane, and that’s started to diminish when we consider the need and the importance of the CEO’s and team’s time. Personal use of the plane, if anything, would be the remaining issue—but even this is not the case on any of the boards I’m on.

All this other stuff is gone, whether it’s cars or clubs. All that went away, believe me, starting in ‘03 and ‘04.

CSI: Many companies have stock ownership guidelines in place for directors. How effective do you think those are? Are you involved in them and what other ways are there to keep your interests aligned with that of all shareholders?
Peter: The board is elected by the shareholders to represent their interests. So if you’ve got the right people on board, that’s their job. On the boards I’m on, more than 60% of directors’ pay is in the form of a stock grant, and you can’t get it until you leave the board.

The reality is a board can only focus on the long term. You know, share-holders are sometimes viewed in abstract as a monolith, and they’re not. They comprise a wide cross-section of interests and drivers. Some are more interested in social issues than the dividend and the stock price. But a large number of them are very concerned about their own quarterly performance.

Some are mechanical in the sense that they’re driven by formula, and if your business happens to fall into that category, they pick you up. Others are closely managed.

The only thing boards can focus on is the long term, what’s in the best long-term interest for shareholders. That means short-term survival and providing a fair and good long-term return to shareholders for the money they’ve invested.

CSI: We’d like to talk a little bit about innovation. One of the boards on which you sit, Nucor, is a well-known, long-time innovator in an old-line business, the steel business. What lessons can we learn from Nucor?
Peter: I grew up in Bethlehem, Pennsylvania, so I watched the demise of old steel. What made Nucor unique was the leadership of the CEO, Ken Iverson, and his management belief, philosophy, and style.

He had very few layers of management, very highly incented workers, and when the industry was soft, Ken’s pay was low like everyone else’s. So everybody shared and he clearly was never overpaid. Neither is the current CEO Dan DiMicco—far from it.

This company continues to have an environment in which everybody is supportive of each other, highly incentivized to produce good quality at the lowest cost.

There is also a willingness to be very open-minded. So rather than have an expansive research and development process like the one that used to sit up on top of a hill for Bethlehem Steel, Nucor’s leaders were and are willing to take risks and try new technology. The mini-mill, for which Nucor is famous, was a concept from Europe, for example.

CSI: So for other board members who read our publication, can you take some of this wisdom and some of these lessons and impart it to the current day?
Peter: Look, if you don’t have the right CEO, the pay doesn’t do anything.

What it does is reinforce direction and people are very efficient at trying to optimize outcomes when it comes to pay. But a pay program doesn’t make anybody work any harder at the senior level and it doesn’t make them any smarter, trust me. It never has, it never will.

And if you’re not open to innovation and change, you’re not going to make it in this day and age.

“a board does get involved and engaged in more detail when there’s a crisis, but that’s part of its fiduciary duty in terms of acquisitions, mergers, and significant strategic events”