

HENRY SCHACHT

There are tough, successful leaders. And there are team players who know when to step aside in favor of a new team.

“He is an active contributor without mixing the roles of management and the board.”

—Richard McGinn, CEO Lucent Technologies

Henry Schacht is a rare combination of both: a talented director who has stepped into the CEO role, and then spearheaded efforts to groom his successor.

Schacht is the former CEO of **Cummins Engine** who was tapped by his fellow AT&T directors to head up **Lucent Technologies**. Lucent was created when AT&T spun off its technology businesses, including the old Bell Labs, to focus on communications services. Schacht stepped off the AT&T board and took on the job of assembling the Lucent board. He also agreed to serve as the new company's chairman and CEO. **Rich McGinn**, head of AT&T's

Network Systems, was tapped to be president and COO.

Schacht's mandate was finite. He was to create the new company, put a board together, groom McGinn to take over, and step aside. McGinn understood Lucent's technology and its customers. Schacht knew how to run a public company.

“Henry from Day One operated as a complete team player,” says McGinn. “He came in to take a role of short duration, yet approached it with the same vigor as he would have a longer one.” In October of 1997, McGinn became Lucent's CEO. The following February, Schacht stepped down and McGinn was named chairman. “It was seamless,” smiles McGinn. “There was minimal disruption and no stumbling blocks.”

Today, Schacht is a member of Lucent's board. “He made the transition to board member with great aplomb,” notes McGinn. “He is an active contributor without mixing the roles of management and the board.”

“At Lucent, he was able to take his wealth of business experience and utilize it to be a mentor to Rich McGinn,” nods **Paul Allaire**, chairman of **Xerox** and a Lucent director. Then, when Schacht went from chairman to director, “he was able to understand the difference and to back off; he was able to give advice without making decisions,” Allaire adds.

And, colleagues point out, the results are indisputable. Lucent Technologies has become one of the decade's great corporate success stories. The 1996 initial public offering raised \$3 billion – the largest IPO in U.S. history to that point. In 1998, Lucent's market capitalization surpassed that of AT&T. Today, AT&T is ranked number seven, and Lucent is number eight – not bad for a three year-old company. Lucent is



BORN

October 16, 1934, in Erie, Pennsylvania

EDUCATION

B.S., Yale University; M.B.A., Harvard University

CAREER HISTORY

Currently senior advisor, Warburg Pincus & Co.; formerly chairman and CEO, Lucent Technologies and chairman and CEO, Cummins Engine

FAMILY

Married; four children, nine grandchildren

HOME

New York, New York; Hilton Head, South Carolina

HOBBIES

Tennis, reading

RECENT BOOK

Guns, Germs, and Steel, by Jared Diamond. “My favorite book is *The March of Folly*, by Barbara Tuchman”

MOST ADMIRED PEOPLE

Irwin Miller, founder of Cummins Engine; Jim Henderson, CEO of Cummins Engine; Franklin Thomas, former president of Ford Foundation.

FAVORITE VACATION

Time spent at Hilton Head home

CURRENT BOARDS

Alcoa, Chase Manhattan Corp., Chase Manhattan Bank, Cummins Engine, Johnson & Johnson, Knoll, Lucent Technologies, New York Times Co.

North America's leading maker of telecommunications equipment and software.

"Henry did a fabulous job of creating a company with one of the largest market capitalizations in the U.S. out of what was considered a backwater of AT&T. It's a really noteworthy thing," sums up **Paul O'Neill**. O'Neill, chairman of **Alcoa**, is a Lucent director.

While his work at Lucent is what differentiates him from the pack in the eyes of many of his peers, Schacht's dedication to orderly succession has benefited more companies than Lucent.

Case in point? Fellow **Chase Manhattan Corporation** and **Chase Bank** director **Marina Whitman** reports he played a pivotal role in succession planning after the bank's merger with **Chemical Bank** in 1996.

"Two banks with two different cultures became one," explains Whitman. "A succession question arose fairly soon after the merger." When the two merged, both boards had agreed that **Walter Shipley**, Chemical's chairman and CEO, would become chairman and CEO of the new entity. **Thomas Labrecque**, Chase's chairman and CEO, was named president and COO of the new bank.

Eventually, the board of the merged entity had to decide whether upon

Shipley's retirement, Labrecque would succeed him. Since Labrecque is only a few years younger than Shipley, his tenure would have been short. The board had another option: pull from the ranks of the next generation of management. It went with the latter option, choosing **William Harrison** as CEO. Shipley stepped into the role of non-executive chairman. "Henry had much wise counsel on the matter," Whitman concludes.

Schacht is also a proponent of corporate responsibility. "Before it was fashionable, Henry believed that you can be successful and still be responsible to your many stakeholders," says Whitman. "At Lucent, where they've always been successful, it hasn't been difficult" to look out for stakeholders' interests. "But he also did it at Cummins Engine, where they had problems. There must have been pressure to cut corners, but Henry did not."

Schacht has used his Cummins experience to help managers and the board at Alcoa. For a meeting of Alcoa's business unit presidents and resource unit heads, O'Neill asked directors to speak for 15 minutes on an area about which they were particularly knowledgeable. Schacht talked about his experience trying to save Cummins from a Japanese onslaught. "He particularly stressed the human aspect of dealing

with high levels of compensation and still being cost-effective enough to compete," explains O'Neill.

At the time, Alcoa was experiencing a similar foreign threat. After the fall of the Soviet Union in the early 1990s, the Russians had exported copious amounts of aluminum, causing a worldwide glut. "Henry provided a great learning event for us about what it meant to deal with foreign competition and the implications for people," O'Neill says.

Schacht's sense of responsibility to stakeholders recently evidenced itself again at Alcoa. In 1998, the company donated its landmark headquarters building to the Pittsburgh community. "With Henry's background, that was an easy sell," grins O'Neill. While all of the Alcoa directors supported the idea, "Henry in particular" was behind it.

Whitman describes Schacht as a thoughtful person with "a dry wit, a great sense of humor and wide interests." O'Neill agrees that Schacht's "breadth of interests" sets him apart. "It's really fun to go places with him." Last autumn, O'Neill and Schacht traveled to Russia. The two belong to a group of 20 American CEOs and 20 Russian leaders in private enterprise – "folks that try to build bridges," O'Neill explains.

They and their wives toured Russia, taking the Red Arrow train from Moscow to St. Petersburg. The compartments were only six feet wide. "Henry is 6'3. He was folded in, but he kept his good humor," chuckles O'Neill. "We spent an entire day at the Hermitage. It was fascinating to do it with Henry because he's so knowledgeable about art and so interested."

For his part, Schacht enjoys "the variety of challenges being a director presents." The biggest challenge, he believes, "is to refrain from falling into the easy trap of, 'This is the way we did things there; you should do it that way here.' You have to figure out in each circumstance what will work."

Schacht and family at a recent reunion.

