WILLIAM G. BOWEN

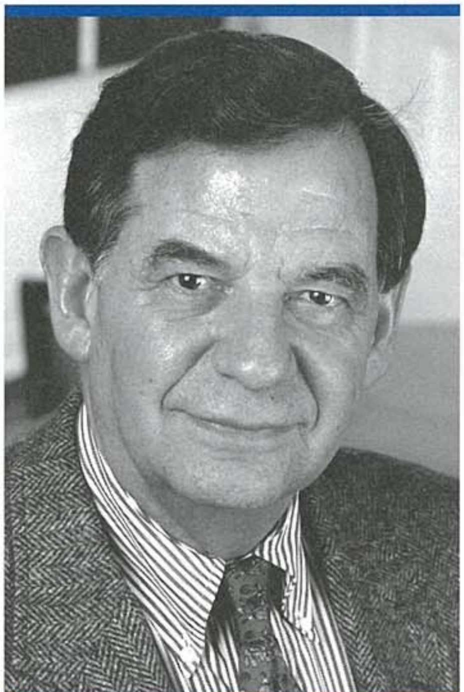
For sticking to his principle that retiring CEOs should not stay on as chairman

AS A DIRECTOR OF **American Express** and **Merck**, **Bill Bowen** oversaw two CEO successions. Both were unique in their own way. Both were successful in their own way. And both incorporated a pioneering governance principle of Bowen's that subsequently has become a "best practice": Neither of the departing CEOs stayed on as chairman.

"I'm a strong believer that when the CEO goes, the CEO should go," declares Bowen. "One leader at a time is enough. Sometimes it's more than enough."

Bowen's words carry weight because he has "been there." Over the past four decades, Bowen has served on the boards of a wide range of high-profile business and nonprofit organizations. In each instance, he has left his mark.

Back in January 1993, in a story that was to become governance folklore, the American Express board requested and received the resignation of **James Robinson III** as CEO and chairman. During Robinson's tenure, the stock price had halved as his attempts to create a financial supermarket failed.



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The board elevated American Express president **Harvey Golub** to CEO. When it appeared that Robinson would remain as chairman, three board members resigned in protest. Four days later, Robinson was out and outside director **Richard Furland** became interim chairman. Insiders credit Bowen with resolving the issue.

Under Golub, American Express's stock price recovered as the company focused on its credit card business. And when it came time for Golub to hang up his stirrups, he did so under the Bowen principle. When Golub retired at the end of 2000, he told *Business Week*, "If [my successor] **Ken [Chenault]** wants my input, he knows where to find me."

At **Merck**, the search for a new chief began as CEO **Roy Vagelos** approached the mandatory retirement age of 65. Vagelos had been with Merck since 1975, and had headed the research department for nine years before becoming CEO in 1985. Merck had launched 10 important new drugs in the 1980s, but the company's research budget flatlined in the early 1990s — with severe consequences. Merck's applications to the Food and Drug Administration for new products peaked at 270 in 1983, and fell to a low of 86 in 1993.

In addition to the research slowdown, managed care was rearing its head as an issue that would affect the industry for the foreseeable future. Yet few Merck insiders had significant experience dealing with HMOs. "There was no obvious internal candidate who had the requisite breadth of experience," Bowen recalls.

"Bill and I felt that for a company with the stature of Merck, we should cast a wide net," says **Bruce Atwater**, a former Merck director and the retired chairman and CEO of **General Mills**. Atwater chaired the board's Compensation and Benefits Committee at the time, and headed up the search with Bowen and **Larry Bossidy**, former chairman and CEO of **AlliedSignal** and of **Honeywell**.

"We did a difficult and courageous thing by looking outside the company," Bowen continues. No outsider had ever been CEO of Merck. The committee hired a search firm that brought **Ray Gilmartin**, president and CEO of **Becton Dickinson**, to its attention. Becton Dickinson had dealt with hospital group purchasing organizations since the late 1970s, and Gilmartin was comfortable with that mode of doing business. In fact, at the time, 80% of Becton Dickinson's sales were to managed care organizations and large buying groups.

In keeping with Bowen's belief about the changing of the guard, Vagelos retired as planned, and Gilmartin became president, chairman and CEO of Merck. Here again the board broke with a long-standing tradition. Retired CEOs had remained as chairman at Merck, but "Vagelos agreed that should stop," notes Bowen. "It's very difficult to discuss what's been done in the past at a company, to decide what is working and what isn't, with the former CEO in the room," Bowen says.

Bowen isn't just focused on getting retired management out, however. He is also focused on making sure the board gets to know potential successors. "Clearly Bill is someone who is incredibly thoughtful about what the key attributes for a CEO are and what needs to be consid-

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ered for succession,” says American Express CEO Ken Chenault. “He wants to be sure that people are getting the experience they need.”

Bowen’s interest in CEO succession is in keeping with the principles he laid down in his 1994 book *In the Boardroom*. The book profiled his controversial (at the time) recommendations on how boards can better serve shareholders. Among them is the ban on former CEOs’ continuing as chairman. Also among them is the responsibility for directors to “...establish and carry out an effective system of governance at the board level, including evaluation of board performance.” As chairman of Merck’s Committee on Corporate Governance, he keeps this concept front and center.

“He does a great job of replacing retiring members with directors with the right skills and experience — and does it on a timely basis,” says Gilmartin. “Although Bill engages me in terms of my reactions to various candidates for the board, it’s clear that the board is in charge of this process. My role is to talk to the potential director about the details of the company.”

Bowen explains that evaluating current directors is an ongoing process. “We encourage candid conversation among ourselves about people’s attendance, commitment and level of preparation,” he says. There isn’t a formal grading system, “but we encourage people to come to the committee or to me quietly.”

Bowen is president of the **Andrew W. Mellon Foundation** and former president of Princeton University. His years of boardroom experience include, in addition to American Express and Merck, service at **NCR**, **Reader’s Digest**, **TIAA-CREF**, the **Rockefeller Group**, the **Smithsonian Institution**, the **Sloan Foundation** and the **Center for Advanced Study in the Behavioral Sciences.**

HIS TIME IN ACADEMIA, combined with his long-time presence in America’s boardrooms, has piqued his thinking on other issues besides governance. One is diversity. “I’ve spent a lot of my life thinking about this issue,” he says. “It’s an enormously important subject in American life that appears in a corporate context.” This preoccupation led him to join with former Harvard University president **Derek Bok** to write *The Shape of the River*. The book, based on a study of the academic and career paths of more than 45,000 students of all races who attended selective universities between the 1970s and the early 1990s, discusses “how race-sensitive admissions policies actually work and what effects they have on students of different races.”

Bowen, a strong proponent of affirmative action, served as an expert witness for the University of Michigan in the cases on which the Supreme Court recently ruled. Both Merck and American Express signed on to friend of the court briefs supporting the use of race as a factor in college admissions. “I encouraged Ken Chenault to speak out. I said I thought it was very important for the country and for American Express. Fortunately, he agreed,” says Bowen with a smile. ■

DIRECTOR’S SNAPSHOT

BORN:
October 6, 1933, in Cincinnati, Ohio

EDUCATION:
B.A., Denison University
Ph.D., Princeton University

CAREER HISTORY:
President, The Andrew W. Mellon Foundation; President, Princeton University; Provost, Princeton University; Professor of Economics, Princeton University

HOMETOWN:
Princeton, New Jersey

FAMILY:
Married to Mary Ellen 47 years, two children, four grandchildren

BEST BOOK READ THIS YEAR:
Lincoln’s Greatest Speech: The Second Inaugural, by Ronald C. White, Jr.

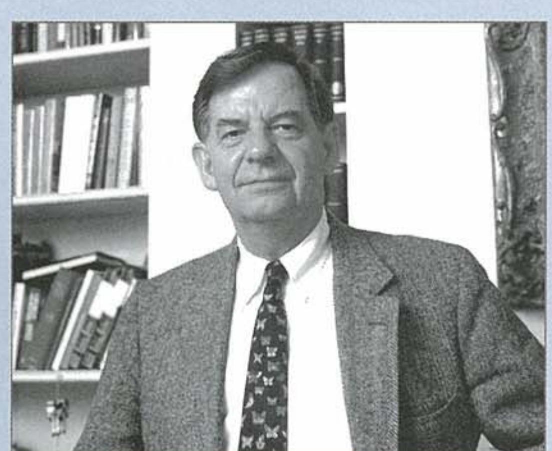
BEST VACATION PAST 5 YEARS:
Time in St. Croix

MOST MEMORABLE SUMMER JOB:
Assistant to vice president for industrial relations, Gardner Board and Carton Co., Middletown, Ohio

WON’T LEAVE HOME WITHOUT:
My Blackberry!

FAVORITE QUOTATION:
“New times always! Old time we cannot keep.”
–Burroughs

CURRENT CORPORATE BOARDS:
Merck, American Express



▸ William Bowen relaxes at home in his library