

HAROLD 'HAP' WAGNER

for his ability to crystallize issues and get everyone on the same page and in synch



# THE CLOSER

**Wagner's non-confrontational brand of persuasion makes him particularly effective at getting things done on the boards of United Technologies, CIGNA, Paccar and Agere.**



It was another raucous shareholders meeting at Agere Systems. Retired workers from Lucent, Agere's former parent, had 401k plans filled with Lucent stock and watched in dismay as Lucent's share price plunged from nearly \$64 to \$2. One began shouting at Agere's CEO. Harold "Hap" Wagner, the company's non-executive chairman, let him go on for several minutes. Then Wagner sensed the audience had had enough and announced it was time to move on. And so they did, without further disruption.

"When you have a guy who is working in the ranks, and you're one of the suits, you don't want to sit on him. The rest of the room will sense you're not being fair with him," Wagner says. "So you gotta let him talk. But at a certain point...you've got to get through the meeting as well. You've got to know when to ratchet it down and get on with it."

It was signature Wagner, a man astute enough to know people need to have their say yet deft enough to ensure that, in the end, everyone says the same thing. His non-confrontational brand of persuasion served him well as chairman and CEO of Air Products & Chemicals, and it's made him a particularly effective director on the boards of United Technologies, CIGNA, Paccar and Agere.

"You're dealing with a table full of type A's," said Robert H. Campbell, retired CEO of Sunoco, who has sat on CIGNA's board with Wagner for nearly a decade. "So how do you go about influencing them? Not by saying, 'I'm in charge today,' but by being able to analyze and discern," Campbell said. "Hap quietly takes in information and invariably gets to the root cause or gut question and causes many of the other directors and management to rethink what they're doing."

At CIGNA, for instance, the board played a vital role when the company radically changed strategy in 2002, going from a broad-based financial services company, back to its healthcare provider roots. While Wagner, who

joined the CIGNA board in 1997, didn't lead the transformation, Campbell says he was instrumental in getting it accomplished by raising pertinent questions and challenging management and the board where necessary.

It wasn't easy. A major overhaul of CIGNA's outdated computer systems had so many glitches that 6% of its corporate clients defected. This, combined with higher than expected growth of medical costs and increased competition from both old and new rivals, dented profitability. The company posted a \$445 million net loss for the first nine months of 2002. Its stock plunged 40% from a high of \$135 a share in late 2000 to less than \$40 in late 2002.

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ROBERT H. CAMPBELL • FELLOW CIGNA DIRECTOR

Campbell reports Wagner helped management cut costs, increase services to consumers and make itself more attractive to the corporations which are its customer base. He also led the compensation committee, which had its own set of challenges as a result of the shift. CIGNA had linked long-term compensation to ROE. Once the company shed all of its business lines outside of healthcare, the management structure changed and ROE was no longer a relevant performance measure. So compensation had to be linked to a more pertinent benchmark. The board decided that standard was going to be revenue growth instead. "Hap managed to gain the support of both the board and management, even if it meant a pay cut for some," says former fellow CIGNA board member Louis W. Sullivan.

So far, the changes appear to be working. Unlike other major health insurers, CIGNA derives only 25%

of its business from providing health insurance for a premium—the most competitive part of the healthcare business. Instead, CIGNA has concentrated on administration, where it charges a fee to administer self-insured health plans. Its most recent net income of \$273 million for second quarter of 2006 exceeded analysts' expectations. After reporting that it was on track to increase enrollment, the company increased its income outlook for the full year from \$7.50–8.00/share to \$8.30–\$8.80.

"He's not the kind of guy who says, 'Here's what we've got to do, and here's why,' and then gives you 10 reasons. He listens, he analyzes, and he builds consensus by letting everyone have a role in deciding where the company should go,"

says fellow United Technologies (UTC) director Frank Popoff, the former CEO of Dow Chemical.

Such consensus building skills came in handy at UTC when its board faced the issue of succession planning for UTC's top performing CEO George David. Differences of opinion existed not only with regard to the candidates, but also to whether the entire succession planning process should be a full board or a committee program. Navigating through it all fell to the compensation and development committee, which Wagner headed.

"When you have a board with strong former CEOs, like Frank (Popoff), like JP Garnier, who runs GlaxoSmithKline, like the former Verizon chairman, Charles Lee, and Christie Whitman, former governor of New Jersey, you don't just tell them to sit down and be quiet and say this is what we're going to do," says Wagner with a smile.



**BORN:** November 12, 1935, in Oakland, Calif.

**EDUCATION:** BA in mechanical engineering, Stanford University; MBA Harvard Business School

**CAREER HIGHLIGHTS:**

Chairman/CEO Air Products & Chemicals; President, Air Products & Chemicals Europe; vice president, business divisions; general manager of sales and regional development for the Industrial Gas Division (IGD); general manager of Continental Europe for IGD; various positions in IGD.

**FAMILY:** Married to Marcia 50 years; 3 daughters; 1 son; 6 grandchildren

**MOST MEMORABLE SUMMER JOB:** Summer playground director in Oakland, Calif.

**MOST RECENT BOOK READ:** *Paris 1919: Six Months that Changed the World* by Margaret MacMillan and Richard Holbrooke, and *Diplomacy* by Henry Kissinger.

**FAVORITE ARTIST/COMPOSER/POET:** Wolfgang Amadeus Mozart

**FAVORITE CHARITY:** Dorothy Rider Pool Health Care Trust, Eisenhower Fellowship

**SOMETHING MOST PEOPLE WOULD BE SURPRISED TO KNOW ABOUT ME:** "I had to have a notarized letter from my mother to give the minister in order to get married." (At 20, he was considered to be underage.)

**FAVORITE QUOTATION:** "It shall be done." — a motto from the U.S. Air Force's Strategic Air Command.

**CURRENT PUBLIC COMPANY BOARDS:** United Technologies, CIGNA, Paccar, Agere Systems



The process hit some bumps along the road. In 1999 the board settled on Karl J. Krapek, a 50-year-old UTC veteran who ran its Pratt & Whitney division. Krapek was named president and COO, and UTC's six business units were to report to him. But the plan fizzled when Krapek retired in January 2002.

"We appointed a guy much too early," Wagner admits. "Karl was terrific. He had done a great job running Pratt & Whitney for a number of years. But with such a long wait for him to become CEO, he lost his enthusiasm and George was not ready to step back."

The board was back to square one. After much discussion, it settled on Louis Chenevert, 48, who had been appointed to succeed Krapek at the helm of Pratt & Whitney. Chenevert was

elected president and COO in March of this year. He joins George David in the newly formed Office of the Chief Executive. Executives currently reporting directly to David will now report to the new office, allowing Chenevert maximum exposure and underscoring his authority.

Compensation and succession can challenge a board enough, but unseating an under-performing CEO is especially difficult. That's just what happened in the fall of 2005 at Agere, which supplies chips to the electronics industry. And Wagner, who chaired Agere's board, was the guy who had to tell him.

Agere was spun off in March 2001, when parent company Lucent sold 43% of its stock and took the company public at \$6 a share. The timing couldn't have been worse. Faced with a weakened

U.S. economy, Agere decided to sell its wafer fabrication plant in Orlando, Fla., cutting 1,100 workers. Over the next few years, it continued to cut costs, combining divisions, shuttering plants and slashing up to 7,000 jobs.

"The company was struggling. The CEO had done a good job downsizing and restructuring the company, but he had trouble developing and implementing a plan for sustained growth, and the investment community had lost confidence in him," explains Wagner. "The leadership Hap showed in that process was very significant and, quite frankly, something to be recognized," says Richard Clemmer, a former senior executive of Texas Instruments who sat on Agere's board and eventually replaced its president and CEO, John Dickson.

"Hap is someone who can give a fairly direct opinion but in a way that is not confrontational," sums up Sullivan.

At UTC's annual meeting this year, Wagner put this talent to bring closure to work once again. Some disgruntled workers, who had gone on strike but won no management concessions, showed up. They zeroed in on CEO David's compensation — which averaged \$40 million a year over the last five years and which had received a fair degree of publicity in the months leading up to the meeting -- as a catalyst for interrupting the proceedings. After multiple interruptions, Wagner stepped up and asked to intervene.

"I got up and explained how our process works," says Wagner. Then he made the point that since David became CEO in the early 1990s, the S&P was up 250%, the Dow was up 350% and UTC was up 1050%. "Stock appreciation over that period accounts for 70-80% of his compensation, which comes from exercising options after holding them for 10 years," Wagner continues. "I reminded the audience that David's leadership had brought an awful lot of wealth to many of them and that was what he was paid to do."

And with that, the meeting was able to move forward. ○