



Ronald D. Sugar

Apple, Uber, Amgen, Chevron. What Ron Sugar Has Learned About Boards.

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For the next installment of our interview series called "The New Director's Chair," my colleague David Reimer, the CEO of The ExCo Group, and I sat down with Ron Sugar, the former CEO of Northrop Grumman who is a director at Apple, Amgen and Chevron, and who recently joined Uber as its board chairman. Sugar, who I'm proud to call a colleague because he is also an ExCo mentor, shared many smart insights with us about all the lessons he's learned from navigating boardroom dynamics. Stay tuned for more interviews with other leading directors.

Reimer: In your years of being a director, what's changed about the role?

Sugar: When I first became a director almost 20 years ago, it was at the end of the era when it was highly prestigious and rewarding to be a director. It wasn't heavy lifting. That was also the end of the era of the imperial CEO, when many held onto their jobs for years and it sometimes didn't much matter how the company performed.

Then the rules changed. As a CEO, you had to perform, your directors were not your friends and family, and the love was all conditional upon performance. And the same was true for

directors. Social activism and corporate governance reforms redefined what a company was supposed to be. Patient shareholders weren't the only important constituents anymore; hedge fund activists and other interest groups began to put more pressure on directors and create more reputational risk for them, as well as personal financial exposure. And directors began to realize they had to spend more time engaging with the role.

Bryant: Given that shift you've seen in board engagement, what are your best tips for first-time directors?

Sugar: Even before your first board meeting, you want to personally meet with every key executive in the company, if you can – the CEO, the CFO, the general counsel, the chief human resources officer, and the top operating business leaders.

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Then, as a new director, you've got to listen at meetings much more than you talk. As you get to the second or third board meeting, you should feel free to speak up if you're talking from a position of having done your homework.

If you have done your homework, you will ask good questions. And you've got a few opportunities as a new director in the first meeting or two to show that you're going to be a quality director. Unfortunately, you never get a second chance to make a first impression.

Bryant: What are the moments that separate great directors from the merely good?

Sugar: They happen when the board has to make a really tough decision on a key issue, like whether it's time to replace the CEO. I've seen situations where the CEO is really not going to get us where we need to go, but we all love the CEO and we would all hate to see anything happen to him or his family. He gave his heart and soul to the company and did a lot of good things, but we have this issue.

We all feel bad about it, and there'll be a sentiment around the room that we should stick with our CEO out of loyalty. But then there's the director who says, "Look, I feel like you do about this individual, but we have a responsibility to make a tough decision here. And if we're unable to, then we should not be directors."

Reimer: In the case of companies Wells Fargo, the board was faulted – fairly or unfairly – for not knowing what was happening culturally. What is the board's appropriate window into culture?

Sugar: In the earlier part of my tenure as a director, I would have said not much. That's why we hired management. We picked the leader, and as long as the leader was leading, that's great. It doesn't quite work that way anymore.

"The board has to get three things right for a company – its leadership, its strategy and its appetite for risk."

But there's a fine balance in which mature directors and a good board will know how deep they should go, without actually overwhelming the system and the CEO, to find out what's really happening. I've chaired a couple of audit committees, and I believe I have the authority to go anywhere in the company anytime and talk to anybody about anything. Now, with that access comes a responsibility. I have to be mature about it. If I do pick up signals, then I need to bring those to the boardroom and the CEO in a constructive way.

The board has to get three things right for a company – its leadership, its strategy and its appetite for risk. Anything the board does should be mapped into those three coordinates. And if you can't map into those coordinates, the board shouldn't be spending a lot of time on it. If you think about culture, what has emerged in the era of social media, #MeToo, and everything else is that reputation risk is very serious and materially important for a company.

Reimer: What is your advice to first-time CEOs on how to work with the board?

Sugar: I learned from my mistakes early on. You have to put time in to develop a relationship with every single board member outside the regularly scheduled board meetings. Those relationships are important. Just because they are polite in the board meeting and they're nodding their heads doesn't mean they always agree with you. In some cases, they do, and in other cases, they do not.

Reimer: You mentioned rookie mistakes. How did you figure out that you needed to adjust your approach?

Sugar: You get little signals. You sense that there's a little discontent, that there's not high-level alignment or that they are having longer executive sessions without you. A great lead director will give you feedback that you may not want to hear, but you can act on. Your directors are all wise women and men. They're your elders, but they don't all have superior wisdom on every matter. They do not know as much about the company as you do, but they've seen a lot of other similar movies out there. So the question is, how do you tap into them for their collective wisdom?

One of the best practices I've learned is for the lead director to ask the CEO to remain in the room at the beginning of executive session. I learned this first-hand. They used to throw me out, and they'd have a fact-free discussion about all kinds of issues, and give me action items based on a misunderstanding of what was really happening. I decided that I would never do that to my CEO if ever I became lead director.

So, as lead director, I go around the table and ask every director to speak their peace, and not just the vocal ones. I want the CEO in the room for this part of the meeting. We have this give and take, and the issues are aired, and they're not done in a fact-free environment. They're done with the benefit of the CEO, who can hear the flavor of the discussion and can influence the thought process. Once that's done, then I ask the CEO to leave so the board can have its private executive session.

Bryant: What are the most important leadership lessons you've learned?

Sugar: I developed the following principles of being a leader: 1) Figure out where you want to go. 2) Surround yourself with the best group of folks you can find. 3) Share with them openly everything you can. 4) Empower them to go do what they've got to do. 5) Go to work for them. This one is hard for a lot of leaders. Even though you're the boss, you have to ask your folks, "What can I now do for you to help you be successful?"

And finally, when your team achieves success, 6) Give them all the credit, because they got it done. You don't need to talk about yourself. Everyone knows you're the leader.