



Sheila Penrose



The New Director's Chair

Conversations with business leaders about changing board dynamics in an age of disruption.

"Leaders Need Trusted Confidantes Who Will Tell You What You Need To Hear."

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Adam Bryant [in](#)

Managing Director at The ExCo Group (formerly Merryck & Co. Americas)

***Sheila Penrose**, a director at McDonald's and JLL who is also a co-chairman of the Corporate Leadership Center, shared smart insights from her extensive board experience with me and **David Reimer**, the CEO of The ExCo Group.*

Reimer: How has the role of directors changed over the years?

Penrose: When I first joined boards, the CEO was the driving force. And then, because of Sarbanes-Oxley and everything that propelled it, the weight shifted to the board of directors, including establishing independent lead directors and fully independent committees. More recently, with the growth of both investor and social activism, boards are in more of a defensive posture.

Reimer: And is the bigger role of activists a positive development overall, or negative?

Penrose: The watchword must be “engagement,” because when you’re approached by an activist, you should engage. They will have observations that are worth listening to and considering. You may or may not choose to adopt them, but they do give you that outside view.

Most companies now do a “health check” with banking and legal advisors. How would we look from an outsider’s viewpoint, and where might we have some vulnerabilities? That’s a healthy exercise under any circumstances.

So the engagement is important, but the key issue is the real motivation

of the activist. Are their interests short-term, to leverage the company up to levels that really aren't sustainable just to give a quick jolt to the stock price? But if it's a thoughtful challenge around issues like capital allocation or the composition of your board or the way executive compensation is structured, those are legitimate things to consider and say, "Have we got this right, or do we need to take a fresh look?"

Bryant: What are your top lessons for newly minted directors?

Penrose: I would tell them to get to know the management team and their fellow directors on a personal level. I don't mean as buddies, but as colleagues. Understand not only where and how they can contribute in meetings, but also the experience and capabilities they bring to the group.

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The question of how a board is composed is important. It's not so much who you are as an individual, but you have to be able to meld with others around the table to drive some benefit for the company, management team and investors.

A second key point is how you think about the investor profile. Your responsibility, narrowly defined, is to serve the shareholders. So how do you understand who the shareholders are, and what their interests are,

and their time horizon? To what extent are they driven by ESG factors and sustainability issues?

A third piece of advice would be to find ways to really understand what the corporate culture is and to test whether the company is living its stated values.

Bryant: Which raises an obvious question — how do you as a director get a feel for the culture?

Penrose: You can pick it up. I've been chairman of a Fortune 200 company for the last 15 years, and if you are the chairman or an independent director and you're spending more one-on-one time with the CEO and other members of the senior management team, you do have an opportunity in those less formal moments to get a window into the culture.

One indicator of whether the company is being consistent with its values is when you look at the succession plans and you look at the talent pipeline. How much turnover are you seeing year by year? I don't just mean whether you are retaining people, but did the person who was highlighted as a star last year drop from the list? That can be a sign that management is not being consistent in how it is evaluating the values and characteristics they say are important.

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attributes differently."

This current crisis is causing us to evaluate skills and attributes differently. Some people who we thought were stars are proving not to be, and other people who perhaps we thought were a bit rough around the edges are the ones who are proving to be decisive and action-oriented, and better able to deal with ambiguity.

Reimer: What has this crisis meant for how directors are thinking about succession?

Penrose: Many companies are revisiting their emergency succession plans because they have to have a plan if someone is incapacitated for a while. So they are bringing out their playbooks around that issue and making sure that they are as fine-tuned as they need to be.

More broadly, I find it discomfiting if every succession slot in the board presentation has a name against it. If you've got that much talent on the bench, you're probably not utilizing it sufficiently or, more likely, you're over-evaluating people on their potential. I don't expect that every slot is going to have a ready-now candidate because I don't think that's healthy. And there are some slots that could be more readily filled externally than internally.

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ambiguity."

These recent weeks have reinforced the idea that you may hire people largely because of their IQ, but what they need is an increasing amount of EQ. They need the ability to empathize. They need good communication skills. IQ just isn't enough in these circumstances where people are having to deal with so much ambiguity.

Reimer: How do you ensure that candidates check all these important boxes you are describing?

Penrose: The best boss I ever worked for was asked a question about how he decides whom to promote through the organization. He said, "I don't. I look for the person who is being pushed up by their colleagues." That has always stuck with me as a wonderful template against which to make talent decisions all the way through from the top of the organization. Who is respected and admired by their colleagues, to the point that the team would stay if that person were elevated to be their leader?

Bryant: What are the X-factors that distinguish the best board chairs from others?

Penrose: Having your ego extremely well under control is an absolute prerequisite. Anyone who's on a board and has been in very senior management positions probably has a strong record of success. Your role as a board chair is not to demonstrate that. Your role is to support, counsel and advise the CEO and be an effective bridge for them to the

board.

You also have to make sure, to the best of your ability, that the valued perspectives of the board are pulled out during discussions. The skill then is knowing when to let the conversation run in the boardroom and knowing when to steer it or summarize it or move on, but always with that respectful and gracious tone so people don't feel they're being marginalized or minimized in any way.

Bryant: What were important early influences for you?

Penrose: I played field hockey. That made me both a team player and competitive. I had a father who told me I could do anything I put my mind to, and I had a mother who told me I could always do better.

My parents really didn't have much of an education. We grew up in public housing in the UK. My dad left school at 13 and my mom at 14, and the one thing they wanted for me and my brother was a good education. And then having sponsors and mentors and supporters along the way has made all the difference.

Reimer: What do you see as the most important leadership lessons you've learned?

Penrose: Failures are painful but highly instructive. And you can be extremely resilient and still be vulnerable. You can manage through just about any situation, but leaders need trusted confidantes who will tell you what you need to hear. Personal resilience and a willingness to be

vulnerable enough to hear from others is a powerful combination.