Ken Freeman: Boards Set The Tone For How Management Teams Should Act

For the next installment of our interview series, “The New Director’s Chair,” my colleague David Reimer, the CEO of Merryck & Co. Americas, and I sat down with Ken Freeman, who recently stepped down as Dean of the Questrom School of Business. Freeman has deep experience as a CEO (he led a dramatic turnaround of Quest Diagnostics), worked extensively in private equity with KKR, and has served on many boards, including Laureate Education, where he is currently chairman. Freeman has a rare skill of making the complex simple, and he shared with us his thoughts not only on board dynamics, but also his playbook for company turnarounds. Stay tuned for more interviews with other leading directors.

Reimer: How have the roles and responsibilities of directors changed over the years?
Freeman: What’s changed most dramatically is the heightened focus on risk and compliance with regulations. It’s a very different landscape now, partly caused by the financial crisis, and also a creeping bureaucracy, that requires much more focus compared to when I became CEO of a public company for the first time in 1996. Back then, information technology was starting to become known as being a strategic activity, and now it’s the lifeblood of companies, of course, and it can bring them down.

Even if the company isn’t in a technology business, the board needs to have expertise to see into the future. With 5G, every organization is going to be dramatically changing yet again, so boards have to prepare themselves to deal with a topic that in the past was often considered a back-office activity.

Bryant: What is your framework for thinking about the director’s job?
Freeman: You have to listen to management and not tell management what to do. Our job as board members isn’t to run the company. We’re there to provide strategic oversight, advice and counsel to the CEO. Hiring and firing the CEO is perhaps the most important decision we can make.

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The board also has an obligation to model the behaviors in the boardroom that we want management to model in running the company. If the company is striving to create a certain culture and the board acts differently every time we interact with senior management, it will confuse people. We can respectfully disagree, but everyone should be on the same page in terms of how we engage with each
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other. If they see us eating nails for breakfast, then they’re going to think they should eat nails for breakfast. If they see us starting meetings late and ending meetings late, everybody’s going to start their meetings inside the company late and end their meetings late.

Reimer: What were some early lessons for you as a first-time CEO on dealing with a board?
Freeman: If I were to do it over again as a first-time CEO, I would have more quickly established a close relationship with each director on a one-on-one basis beyond the boardroom. Early on, I thought the key was dealing with them as a collective whole. I also had to learn the right level of information to share with a board.

There was a huge learning curve there that I didn’t anticipate. In my case, I had roughly 18 months of knowing I was going to be a CEO before I got the job. Most of us say to ourselves, “I’m ready to be a CEO.” But once you’re in the chair, it’s so different. With the board, it was learning the tempo, figuring out what they need and what they don’t need, and really developing those personal connections outside the boardroom.

Reimer: You spent time working with KKR. Can you talk about the difference between public and private boards?
Freeman: On the private side, there’s a level of urgency that is much more intense. People tend to think of private equity as having a “buy it and flip it” short-term orientation. But they have a longer-term perspective than many corporate boards that are worrying about next quarter’s earnings. They are much speedier in terms of decision making, and much less concerned about what’s for dinner and what’s for lunch, if you will, during the board meetings. It’s a very pure investor model, but they all are aligned in wanting to create value.

On the public side, it’s much more diffuse. There are many benefits of much greater diversity on a public board, but at the same time, there’s a real logistical challenge in bringing everybody together. It might take three weeks to arrange a call.

Bryant: Any patterns you’ve seen of rookie mistakes for first-time directors?
Freeman: Talking too much or too little would be right near the top. Another is not taking the time to learn the company. Some first-time board members don’t know what their responsibilities are. A lot of people still think that being on a board is a symbol of prestige and there’s not a lot of work involved. There is a lot of work involved if we do the job right.

Bryant: What are the moments that separate the very best directors from everyone else?
Freeman: You learn about people in a crisis. We can’t hide. We have to stand up and be counted. We have to be always thinking about the stakeholders and be prepared to make very difficult decisions. Often it relates to CEO hiring and firing or misbehavior. In those situations, it takes one or more board members to stand up and say, “We can’t ignore this. We must take action.”

Usually one or two people emerge as being the sagest of the sage. They speak less, but when they speak, everybody listens to every single word they say. And they’re able to simplify complex problems. The board members that have really stood out to me are able to simplify, express their views, and through their demeanor, experiences and their insights, they’re able to command the respect of the board.

Reimer: Beyond the obvious performance and misbehavior problems, what else makes directors furrow their brows about their CEO?
Freeman: It is very much driven by circumstances, but one problem I’ve seen is when the CEO stops listening. The CEO needs to remember that he or she has a boss and it’s called the board of directors. When the CEO becomes so happy about their successes that arrogance takes over, that’s when it’s time to start asking the questions. And if the CEO is not treating his or her board members with dignity, fairness and respect, the odds are pretty good that the CEO is not treating the employees of the company with dignity, fairness and respect. To me, that’s a lightning rod.

Reimer: When you’re hiring a CEO, what are the X-factors you’re looking for?
Freeman: When I interview people for the CEO job or senior leadership jobs, the first thing I ask myself is, do I want to show up for work every day and engage with this person? Will he or she treat me with dignity, fairness, respect? Or will arrogance get in the way? I’m always on the lookout for arrogance, and I’m always on the lookout for integrity, so that when the going gets tough, they’ll do the right thing. Those are bright lines. If I get a pit in my stomach about somebody on either of those, I don’t go there.

Bryant: You’ve done many turnarounds in your career. What’s your playbook?
Freeman: I’ve tended to think about three questions when I go into a turnaround. The first one is, is there any imbalance if significance in this company or in this industry? Are there any clear problems in terms of, say, compliance or customer service or controls?
"It has to be simple, but simple is hard."

The second question I ask is whether senior leadership is aligned. I’ll engage the team, ask them to imagine a matrix of behaviors and results, with x and y axis going from strong to weak, and then ask them, which box are we in? If you get a lot of different votes from the leadership team, particularly when you have the data that shows the financials are all broken, you know there’s something wrong. The third question I ask is, what’s the level of accountability of employees for performance? I’ve always asked those three questions, and use these simple ways to talk to everyone in the company. It has to be simple, but simple is hard.

Bryant: What were some important influences early on in your life?

Freeman: I was musical early on. For many years, including when I was going to college, I wanted to be a musician, and I played piano and organ. My first job was in seventh grade, playing the organ in church. I played at funerals and weddings, and I had a rock group. I learned self-reliance and I learned to put myself out there. If you’re playing and you make a mistake, you can’t blame the trumpet player. I learned about accountability.

Another important moment for me come during my first performance review at work. I went to work at Corning out of college. My boss had been a Marine in Vietnam, and I thought I needed to emulate him. This guy ate nails for breakfast, so I figured I should do the same.

During my review, he said, “I have a one-word performance review for you, and the word is empathy. Do you know what that means?” I fumbled around and then he said, “You don’t know what it means. Do you realize all of your colleagues, including the secretaries who you think love you, say they can’t stand working with you behind your back? You’re going to be limited dramatically in your life if you don’t get it together.” It was a powerful message, and I’m so grateful I learned it early on.