

Common Sense and Character

Board lessons from Admiral Bobby Inman.

BY JAMES KRISTIE

He is a man who has had several prominent careers all wrapped into one extraordinarily accomplished life. Admiral Bobby R. Inman, USN (Ret.), has had, first of all, a distinguished military career. He served in the U.S. Navy from 1951 to 1982, when he retired with the permanent rank of Admiral. While on active duty he served as director of the National Security Agency and deputy director of the CIA.

After retirement from the Navy, he was chairman and CEO of the Microelectronics and Computer Technology Corp. (MCC) in Austin, Texas, for four years, and chairman, president and CEO of Westmark Systems Inc., a privately owned electronics industry holding company, for three years. He also served as chairman of the Federal Reserve Bank of Dallas from 1987 through 1990.

Then there has been his career as an investor and corporate director. His primary activity since 1990 has been as an investor in start-up technology companies. He is a managing director of investment firms Gefinor Ventures and of Limestone Capital Advisors, and holds a number of public and private enterprise directorships and trusteeships. He has been a director of Dell Computer and Oracle Corp. (both at the time of their going public), SBC Corp. (now AT&T), Massey Energy Co., Temple-Inland Inc., Xerox Corp. and others.

Adm. Inman keynoted the final day of PCGS 2016. The enviable assignment of interviewing this illustrious leader fell to Dennis Cagan, a man who knows what it is like to have a foot in many dimensions of the business world. Cagan has been a CEO and board chairman (and founder and co-founder) of both public and private companies, a venture investor, consultant and board member (of 52 boards and counting) over a tenure of 40 years. Here are several of Inman's preeminent "lessons learned" as discussed on stage in front of the PCGS attendees.

— James Kristie



From left: Bobby Inman and Dennis Cagan.

Lesson 1: Apply Common Sense

There was a lot of publicity when I retired in 1982 and left government, so I was invited to serve on a number of large corporate boards. One of them was Texas Eastern, the company that built the original big pipeline during World War II. It was a wonderful board. All of the other board members were wealthy former CEOs of companies, which was the standard at the time. I was there because I was the new celebrity.

I was on the board not quite two years when Oscar Wyatt of Coastal made a hostile — that is, “unsolicited” — offer to buy the company. The first thing the board did was to engage the Wachtell Lipton law firm. Marty Lipton came to Houston and told us we were in play, that the fact that there was a bid meant we had to put ourselves up for sale. That didn't make common sense to me. But the other members of the board all voted to put the company into

play. I voted against it. Four months to the day later the Delaware Chancery Court ruled that just because there was a bid did not mean you had to put the company up for sale.

What that taught me is that you seek legal advice early in the process and recognize that it is a hazard if you don't follow counsel's advice — but apply the common sense rule when you get it. And if the advice you get doesn't make sense to you, either go get different advice or say, "I'm not a fit for this" and resign and go on to do other things.

Lesson 2: Pay Attention to Character

A Pittsburgh-based company wanted me on the board. (The company will remain unnamed for reasons that will become clear as the story proceeds.) The CEO and his wife came to Washington and had dinner with me and my wife to make the pitch of why I would be such a great fit for their board and enjoy it. I agreed to be considered and was elected. As the first board meeting I attended was ending, one of the directors asked the CEO, "I heard a rumor that you are having an affair with somebody in the front office. Is that valid?" "Absolutely not. Not a word of truth to it," was the CEO's reply. Well, I go to the next quarterly board meeting and find out that the divorce from his wife is final.

It turned out the divorce was already underway but part of the deal for her settlement was that she had to come with him to Washington to make the board pitch to me. The day after the divorce was final, he married the young woman from the company — who was seven months pregnant. I recommended we fire the CEO. The board disagreed, so I resigned. Eleven months later the board fired him for a different issue where he had been untruthful about details to the directors.

The fundamental lesson for me from this situation is this: While you don't like to intrude in people's personal lives, there are standards about relationships with employees in the firm. And if somebody is untruthful with you about that, they likely are going to be untruthful about other things.

Lesson 3: Build Your Bench Strength

I was on the Southwestern Bell board, elected in 1995 and retiring from it in 2003 for age. Ed Whitaker was the best CEO I ever worked with in corporate America for career development. I served on the board's human resources committee. Twice a year we would meet with him. He had the key that opened what was a fairly small office with no windows. All around the room were pictures of the senior staff. These were the prospective successors, down through five levels of tracking. He would tell us about moving this person around because they need a certain kind of experience. It was the strongest bench strength of any corporation I had ever engaged with. There was never a question of the company not having solid candidates for each of its jobs.



AN UNTOLD STORY: BOBBY INMAN'S BITE OF THE APPLE

Ed. Note: During their PCGS 2016 Q&A, Dennis Cagan drew Adm. Bobby Inman out on "the phone call you got from the young man in Silicon Valley"—a story that Inman has never told publicly and is little known among Inman's own friends and colleagues.

I'd announced my retirement from government. I was in New Orleans at an event where we were seated alphabetically—Inman with an I and Steve Jobs with a J sat next to one another and interacted over three days. During that time he said to me, "Why don't you come to Apple and be president?" I thought he was joking. I told him no—that I wanted to sort out a lot of things and was not ready to make up my mind. The next thing I knew he had hired Gerry Roche, who was chair of Heidrick & Struggles, to recruit me to take the job. I got lots of wonderful advice from Roche.

He told me that 75 percent of senior military officers who went into line jobs in industry were not successful because they did not relearn financial management, things like revenues and gross margins and SG&A expenses and all.

But he too was puzzled as to why Jobs would want a retiring admiral to run Apple. For some perspective, Roche went to somebody he knew well, former Deputy Secretary of Defense Frank Carlucci. Carlucci thought about it for a moment and apparently said to Roche, "Well, Bobby is probably the most unmilitary admiral I ever met." I resented that comment at the time but understood that this was a matter of different backgrounds and different upbringings of the parties involved. So I agreed to go through the process.

What I learned was that Steve wanted to go this way and the Apple board want-

ed to go that way. I'd just come out of the turmoil of dealing with the Reagan White House when I was at the CIA and didn't want to be in a situation like that again. So I passed. But I told Jobs that in my judgment Apple didn't need a strategic planner, they needed a marketing guy. They had a new product—it was going to be called the Macintosh—ready to roll out. So they then hired John Sculley. (When I saw what they paid him, I'd wondered if I had made a mistake!) But then the Apple board pushed Steve out, and I knew I had not made a mistake in not pursuing the position.

A footnote to this story. About two years after he was pushed out I got a call from Steve. He asked if I would go look at Pixar and tell him if there were potential defense applications in their technology. It was a fascinating company that was into automation and simulation processes. So I wrote him a report . . . and then never heard from him. I have to say that he was a unique individual. He was clearly focused on what it was that he was going after.

I never found another CEO who spent that much time focusing on career development. But it showed through in the M&A world when he made an acquisition. We bought Pacific Telesis, then Southern New England Telephone, then Ameritech, and then finally AT&T, just as I was leaving. He already knew not only how he was going to absorb the company but who was going to have the key positions. The other thing I came to love about him is he had no pride that kept him from recognizing that something wasn't working—whether it was a person or a structure—and would change it very quickly. That is a rare trait.

I contrast this to my experience on the Xerox board, where we had a CEO who did not want to prepare successors and skillfully pushed three potential successors out of the company. The board eventually did an outside search, hiring someone who looked great on paper but who had always been a No. 2. When he became the CEO he was an unmitigated disaster. After 13 months we had to ask him to depart. We brought back the previous CEO but he was not eager to stay, so we took a gamble on a woman who had been chief of staff. She was young but she knew more about all the parts of the company than anybody else, and happily she did very well. But it was a classic case of no preparation for succession, in contrast to Whitaker's constant

focus. And I emphasize that it wasn't just at the CEO level. He was focused on succession for all of the critical jobs in the company.

Bonus Lesson: Do What Is Essential

I encourage all of you [private company owners and board members] in what you are doing. In looking back over my career, it really is great fun to have the opportunity to work with founders and to take their ideas and turn them into productive companies that spur the economy. Your judgments about how good the founders and their ideas are won't turn out to be 100 percent accurate. One of the challenges I encountered many times was that as the company grew, it outgrew the original team. As painful a process as it can be, it is absolutely essential for the success of the company that you recognize when the job has outgrown the competence of the people who are running it. When the founding CEO has been forced out I very rarely have seen success ultimately ensue. It is that fire to be successful that that founder brings that is hard to transfer to somebody who you may bring in, particularly if it is fairly early in the company's development. If the new hire can't bring that same level of motivation as the founder had, they are not likely to be successful. ■