

# The Changing Face



of  
**America**  
and  
the **Boardroom**





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*The Changing Face of America and the Boardroom*

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# Increasing Inclusion

By Judy Warner

As this special supplement to *NACD Directorship* goes to press, Twitter's imminent initial public offering (IPO) is stirring investor interest. The Internet sensation that has helped spur social and political change, promotes itself as "open to the world," and claims an astonishing 500 million tweets a day is also stirring some angst. When Twitter filed its going-public documents with the Securities and Exchange Commission in early October, it was revealed that its seven-member board would be composed entirely of white men. Nowhere in its listing and explanation of risk factors does Twitter management mention this failure to represent its diverse constituency. Will Twitter's experience continue to parallel Facebook, another big Silicon Valley-based technology company that rolled out its IPO with an all-male board, and only added a female perspective after an outcry from the public and investors? It remains to be seen.

These are just two of the most recent and highest profile examples of omission, and both underscore the importance of the National Association of Corporate Directors' (NACD's) mission: to advance exemplary board leadership. They also highlight the importance of NACD's continuing to serve as a catalyst for improving corporate governance, an important underlying reason for the development of this special supplement, *The Changing Face of America and the Boardroom*.

A year ago, the *Report of the NACD Blue Ribbon Commission on the Diverse Board: Moving From Interest to Action* focused on director selection and the need to improve board diversity as a competitive necessity. A key recommendation

from that commission was implementing tenure-limiting mechanisms, with the objective of increasing board turnover. More frequent additions of new directors would support that more diverse perspectives, skills, and backgrounds would be represented on the board.

"The diverse board, comprised of a well-informed and thoughtful group of individuals, can provide the varying perspectives needed as directors fulfill their fundamental responsibility to advise senior executives and oversee their work," said Ken Daly, president and CEO of NACD, in a statement.

**A proactive embrace of the changing demographics in America will undoubtedly lead to a better understanding of consumers and stakeholders while opening up new avenues for growth.**

Although director turnover has increased since then, board diversity has not followed suit, according to the just-released *2013-2014 NACD Public Company Governance Survey*. Respondents to this year's survey reported their boards had, on average, 1.3 female directors and a paltry 0.9 directors with minority backgrounds. It is the belief of NACD that increasing diversity is a strategic issue and, quite simply, that a board with diverse viewpoints can provide the company with a distinct advantage. A proactive embrace of the changing demographics in America will undoubtedly lead to a better understanding of consumers and stakeholders while opening up new avenues for growth.

The idea behind this special

supplement, posed more than a year ago, was to keep the spotlight on this important topic in the hope that boards would see and respond to the need for their composition to keep pace with the changing face of America.

Enter Contributing Editor Pablo G. Schneider. In addition to serving on private, nonprofit, and government-related boards for much of the past 20 years, Schneider is a longtime NACD member and a co-founder of NACD's North Texas Chapter. While his official biography lists his primary interests as private equity, media, and leadership, Schneider devotes

significant time to promoting the candidacies of highly qualified, diverse leaders for board service. In addition to hosting a series of networking dinners, Schneider publishes lists showing the names, faces, and specific strengths of individual board candidates. "There is a high degree of interest, but there's no cohesive blueprint for action. When it comes to board diversity, sometimes what is needed most is a catalyst to prompt or help add momentum to conversations on how boards need to evolve," Schneider says.

As you will read and see in the following pages, there is a "new mainstream" in America that all boards owe to themselves and their shareholders to proactively embrace.



# The Power of the “New Mainstream”

By Pablo G. Schneider

The face of America is changing. Within a context of increasing globalization and rapid technological change, the U.S. business environment is undergoing an unprecedented demographic transformation as America becomes a “majority minority” country. According to the Pew Research Center, America’s multicultural population has grown from 20 percent in 1980 to 33 percent in 2010, and will grow to 53 percent in 2040. This transformation is impacting every area of business, including the face of customers, the workforce, suppliers, strategy, management, boards, investors, shareowners, and external constituencies.

The recently released *2013 Multicultural Economy* report by the Selig Center for Economic Growth at the University of Georgia shows that the U.S. multicultural economy is already composed of more than 100 million people with annual buying power of \$3.1 trillion. Over the next five years, multicultural buying power is projected to grow by \$900 billion to \$4 trillion annually, accounting for nearly one-third of U.S. buying power growth.

Selig Center estimates and projections of buying power show that African Americans, Asians, Hispanics, and Native Americans will command unprecedented economic clout this year and well into the future, observes Selig Center Director Jeffrey Humphreys, who authored the report. “Corporate board members should note that the fast-paced growth of the multicultural economy is a long-term trend that transcends the business cycle and is reshaping the commercial, retail, and political landscapes of America. Adopting strategies that recognize these fundamental structural changes in the U.S. market

will help to ensure the success of many companies; the failure to adopt accommodating strategies will result in the failure of many others,” Humphreys says.

Some facets of the growth of the multicultural economy, domestic emerging markets, and the reshaping of the American business landscape are underscored by the following statistics:

- On an hourly basis, according to Geoscape, America’s population grows, on average, by 298 people, including 36



Sol Trujillo

Anglos, 38 African Americans, 55 Asians, and 169 Hispanics.

- Between 2005 and 2050, according to the Pew Research Center’s Hispanic Trends Project, America is projected to grow by 142 million people, composed of 5.5 percent Anglos, 13.6 percent African Americans, 18.1 percent Asians, and 62.8 percent Hispanics.

- With buying power of more than \$3 trillion per year, the U.S. multicultural economy would rank as the fifth largest economy in the world, ahead of countries such as Brazil, France, Russia, and the United Kingdom, according to the World Bank’s *Multicultural Economy*.

- With buying power of \$1.2 trillion per year, the U.S. Hispanic market would be

ranked as the 14th-largest economy in the world, ahead of countries such as Mexico and South Korea (World Bank’s *Multicultural Economy*).

- With buying power of \$1 trillion per year, the U.S. African-American market would be ranked as the 16th-largest economy in the world, ahead of countries such as Indonesia and Turkey (World Bank’s *Multicultural Economy*).

- With buying power of \$713 billion per year, the U.S. Asian market would be

The dramatic change in the demographic makeup in the U.S. is what some people call “the ‘multicultural phenomenon.’ I call it the ‘new mainstream.’”

ranked as the 24th largest economy in the world, ahead of countries like Saudi Arabia and Switzerland (World Bank’s *Multicultural Economy*).

- Hispanics account for 47 percent of the increase in U.S. consumer spending growth, Anglos 21 percent, Asians 19 percent, and African Americans 13 percent (Geoscape).

- Based on cumulative lifetime spending, Asians are the most valuable consumers to acquire today; Hispanics are ranked second, Anglos third, and African Americans fourth (Geoscape).

Sol Trujillo—who served as CEO of three Global 500 companies including U.S. West, Orange (France Telecom), and Telstra (Australia)—is also a veteran of corporate

board service. He currently serves on the boards of Target, Western Union, and WPP, and as such possesses a singular and informed perspective on both domestic and global economies. In an interview for *The Changing Face of America and the Boardroom*, Trujillo made the following observations on the multicultural economy and corporate governance:

“My view is market-based. As companies have globalized, they’ve learned that if you’re going to be in China, you need people who understand China; if you’re going to be in India, you need people who can give you insights on the Indian market from an Indian perspective. We’ve learned that, and we practice it in our global companies.

“What has happened in the United States right before our eyes is a dramatic change in the demographic makeup of America. Some people call it the ‘multicultural phenomenon.’ I call it the ‘new mainstream.’ Hispanics are a key part of it. That’s why the composition of boards should reflect the new mainstream of the markets they serve. This is not about representation in a political sense. This is about ensuring that leaders with insights into multicultural markets are seated in the boardroom and in key decision-making positions. This is about prompting innovation and maximizing economic opportunities.

“So that’s why I say I come at this issue from a market-based perspective. Even if you are domestic-focused—meaning that you have a material percentage of your revenues tied to the U.S. market—it is imperative to have direct access to the wants, needs, and temperaments of the new mainstream. This is not about excluding anybody. It’s about including more perspectives in the boardroom conversation, in the C-suite, and at virtually every level of a company’s management and operations.

“I can show you companies today that may be very traditional in terms of their perspective, and they may be performing just fine. But fundamental questions remain: Could they be growing faster? Could they be delivering higher returns? Could they be building a business that is sustainable for 20 or 30 years? These are important questions, because when we look at the demographics and we look at the lifetime value of a consumer, they are shifting now, and they are shifting materially.

“Fiduciary duties are about accurate and proper representation in compliance with all legal and regulatory elements to a business, but also the returns and the protection and perhaps the assurance to shareholders that the board and management are focused on giving them competitive, better-than-market, and even high-growth returns.

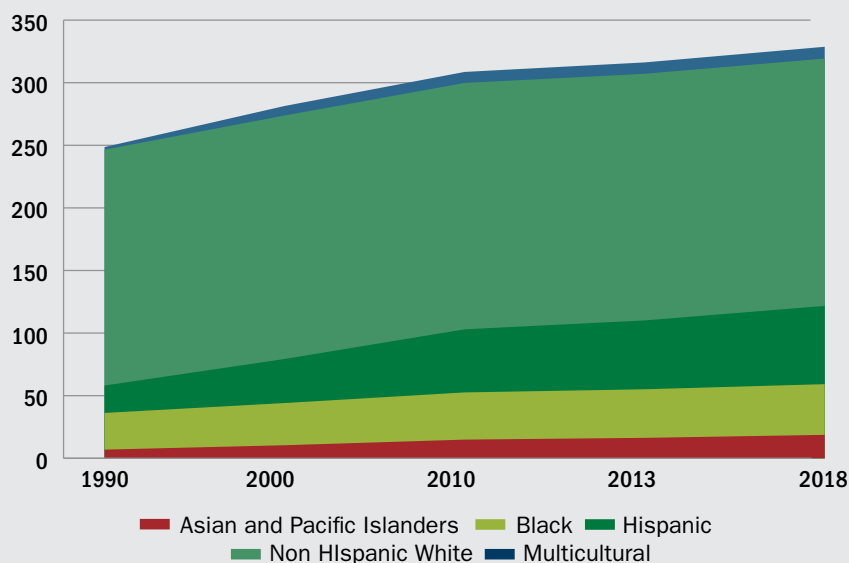
“So the questions you have to ask are: How are we focusing on these high-growth segments of the market? Are we allocating

dedicated resources? Who is sitting on the board who understands these new segments and can help management go to the right places, to think about them in the right way because they have true knowledge and insights—and not just assumptions—about changing opportunities?

“Everyone recognizes that a board needs financial experts. A board needs people with CEO backgrounds who know about operations. It is just the same when it comes to a board’s need for market experts, including people who truly understand the new mainstream. You have to have insights that spring from firsthand knowledge and experience.”

In this inaugural edition of *The Changing Face of America and the Boardroom*, leaders from across the corporate governance spectrum share their views and suggestions for harnessing the power and potential of this transformation, the source of which Trujillo rightly describes as the rise of the “new mainstream.”

### By 2018, the population of the three largest ethnic groups in the United States will be nearly 122 million.



Note: Puerto Rico is not included in Hispanic figures.

Source: Geoscape American Marketscape DataStream 2013 Series and the U.S. Census Bureau.

# The Risk in a Board's Failure to Evolve

An interview with Alvarez & Marsal's Faye Wattleton and John Suckow

By Pablo G. Schneider

**F**aye Wattleton and John Suckow are managing directors with Alvarez & Marsal, a global professional services firm specializing in turnaround and interim management, performance improvement, and business advisory services. Wattleton's career spans more than three decades, including service as the CEO of national nonprofit organizations and as an advisor to boards of publicly traded companies across multiple sectors. For more than 25 years, Suckow has advised management teams, boards of directors, and other constituent groups. He currently is CEO of Lehman Brothers Holdings Inc. In this interview, Wattleton and Suckow provide veteran perspectives on governance, risk, and the changing face of America.

**What are some of the most pressing risk issues today from a governance perspective?**

**FW:** The growth of multinational corporate relationships has increased risk and created complex governance challenges, particularly as it relates to innovation, cyber protection, and the proliferation of social media. It is the board's obligation to set the framework and understand and adapt to heightened compliance responsibilities, governance expectations, and risk exposure for the company, as well as individual directors.

**JS:** The board is responsible for the corporation. An awful lot of empowerment was given to executive management of companies. There has been a boomerang in the form of Sarbanes-Oxley in 2002,

with a recalibration of the board's role versus executive management's [role].

**How do boards set the tone at the top to create a risk structure?**

**FW:** Directors often bemoan the challenge of keeping pace with an array of governance roles. This creates the temptation to delegate, absent a policy structure, and to ask management to report back to the board, which can lead to disconnected expectations, dysfunction, and corporate failures. To set a



Faye Wattleton

productive tone, boards must own risk and opportunity while not becoming management in the shadows. Shareholders will not let directors off the hook for insufficient oversight.

**JS:** The way to get the board and executive management more involved is to create a number of subcommittees that drill down into their particular areas and then report to the board as if they're executive management. What's really important there is to

know management will be better, more accountable, and the development of respect will go both ways: management to the board, board to management.

**How does the changing operating environment, especially in terms of demographics, affect the responsibilities of boards?**

**FW:** Successful companies will reflect these changing characteristics. Governance responsibilities must be approached with an eye toward the end point of the company's business—the

**“The growth of multinational corporate relationships presents perhaps the most daunting challenge for directors.”**



scrutinize the boat, to test it, and, occasionally, to rock it.

**JS:** I usually get involved in companies when they're in trouble. By then, the board is already in a defensive posture. Directors are focused on personal risks and on determining what a company needs to do to turn around the situation, or at least maximize the value of potentially going into bankruptcy. It all ties back to the reality that corporations are in an ever-challenging, more competitive world, meaning that executive management and the board have to be more diligent in focusing on risks and opportunities. A board can make a meaningful impact on that: if you put nine brains together with nine different points of view, the consensus among those nine, most of the time, is going to be better than one opinion.

***How does a lack of diversity of perspective in the boardroom create governance risk?***

**FW:** A lot depends on how the board is managed. Discouraging differing points of view and pulling toward "groupthink" can create serious governance risks. Directors who present diverse knowledge are vital to a boardroom's culture. They help to foster an environment of checks and balances and prevent differences from being relegated to the sidelines for the sake of harmony. The ambition to achieve a utopian tolerance and consensus requires continuous attention and diligence. Objectivity is tough to maintain 15 or 20 years down the line.

**JS:** I don't think of diversity in terms of race, gender, or age, but as having directors who are willing to express their views. They have to do their homework, have a view, and be willing to debate it. One of the most effective things I've seen is end-of-year director

evaluations of one another that include the question: "Did they express their view and have an opinion?" It doesn't mean one view is better than another, but they all ought to be heard on anything that's a sensitive, mission-critical issue.

***How do boards get off track where there is a gap between the reality of the changing face of America and leadership and oversight by boards?***

**FW:** There is a trend toward using independent advisors to objectively assess and gain insight about emerging issues: How are we doing? How can we improve? What are the looming



**John Suckow**

challenges?" As one CEO once said to me: "It is probably a good idea to kick our FCPA compliance tires from time to time." After all, isn't that the role auditors have played throughout the history of commerce? This practice can trigger management concerns. Frankly, I think this is healthy, and should be welcomed by a confident CEO. Another positive development in governance risk avoidance is actively engaging the changing faces and attitudes of empowered shareholders through assertive

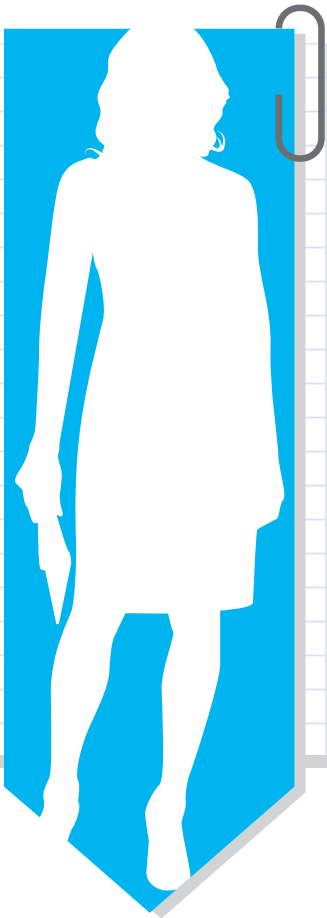
communications. The days of noblesse oblige are waning. Directors are increasingly embracing their responsibilities to stakeholders as trustworthy caretakers.

**JS:** I'm tainted by everything I do in the crisis management world, so I'll say that up front. I come at this from a pretty idealistic perspective because crisis management is very action-oriented. There's not a lot of time to pontificate, and sometimes we have to make decisions with only 90 percent of the facts as opposed to 100 percent of the facts. Most boards are functioning at a reasonable level but can get off track. If they've selected 10 individuals and 2 are strong personalities and 8 are very

**“A board can make a meaningful impact...if you put nine brains together with nine different points of view, the consensus among those nine, most of the time, is going to be better than one opinion.”**

quiet people, you're off track already. Boards and executive management teams need to ask if the board is adding value. If not, then something must change. In an ineffective public board, eventually somebody will revolt and it will become public and ugly. Boards are an asset, not just when things are bad but when things are good. I've had great boards with lots of different opinions. The really good boards become collegial, respect one another, and have the ability to forge consensus.

# THINK DIRECTOR?



# THINK WOMAN



**Catalyst Corporate Board Services (CBS)** works to increase board diversity in corporate boardrooms around the globe. Visit [catalyst.org/what-we-do/services/corporate-board-services](http://catalyst.org/what-we-do/services/corporate-board-services) to learn more about our action-based initiatives.

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# What Directors Should Ask to Spur Action

## An interview with Director Blythe McGarvie

By Pablo G. Schneider

Harvard Graduate School of Business senior lecturer, author, and former Fortune 500 CFO Blythe McGarvie has substantial boardroom experience, currently serving as a corporate director of Accenture, LKQ Corp., Viacom, and Wawa. Here, she shares her insights on how effective directors prompt action to diversify their own boardrooms.

### **Where will competitor and future market threats arise?**

The first time I was in Singapore in 1991, there was a construction project right next door to the hotel where I was staying and the work never stopped, even at night. They would turn on lights. It was bright as day. They worked 24 hours a day to get this building done at a pace and with resources that we would consider primitive, like bamboo instead of more expensive metal scaffolding. They were able to accomplish a lot with less. That's part of what it means to be competitive and to understand where the future opportunities and threats are. Globalization is a clear driver, and there is tremendous competition coming from outside the United States. Not paying attention to what is happening on a global scale can lead to being blindsided.

### **When has being a woman in the boardroom made a difference?**

I can give you two examples. A high-level executive once told me she stayed at the company because she saw that I was on the board providing a woman's perspective. That meant a lot to me. One time I was in a committee meeting in the boardroom of a major corporation. I was looking at the planning calendar and asked: "When are we

going to be reviewing our diversity efforts?"

I was the only woman in the committee. And they looked around and one of them said:

"I guess we missed it. Let's put that on the agenda." We then started doing reviews twice a year. Who knows if that would have been missed on the planning calendar if I hadn't been in the room?



Blythe McGarvie

### **How do you ensure there is board and management alignment on diversity?**

Pay attention. Do you see people of different colors, ages, and genders? Is the company implementing initiatives—community, employee, and management efforts? In 2040, America will be a "majority minority" country, with more than half of its population being ethnically diverse. We can't wait that long to make a difference in the boardroom.

### **How do you convert the wish list into reality, particularly when looking for a new board member who comes from a different area, race, or gender?**

Part of it is looking for the right people to represent the organization, allowing for more effective leadership and a reflection

of the community. Thinking along those lines will help a board find the right candidates. I'm on a couple of nominating and governance committees, and we might still use a search firm, but we reach out to the people...who have more insight into some communities. I might know some people of ethnic diversity, but I reach out to people who have a much better sense of that.

**"Life is a journey, and you need to celebrate your success along the way because then you're also putting the spotlight on what is important to the board, to the company, and to management."**

Likewise, I am often asked about potential female candidates. Asking others opens up your perspective and a broader range of candidates. Further, those suggested by board members are now on the search firm's radar screen for future reference and review by other organizations.

### **When do you know you've achieved success?**

This is a trick question because success is never fully achieved. You need to maintain a long-term view. Life is a journey, and you need to celebrate your success along the way because then you're also putting the spotlight on what is important to the board, to the company, and to management. You're making it known.

# Have You Spoken to Your Shareholders Lately?

By Jeffrey D. Morgan

Just as the dramatic changes in the demographics of America are having profound effects on the C-suite and the boardroom, there is also a new reality in the critical arena of board-shareholder communications. Shareholders want to speak directly with boards. This is the new reality. And if your board hasn't yet been approached for one of these conversations, chances are it will be—soon.

This is now such a hot topic that we have devoted sessions to board-shareholder communications at the National Investor Relations Institute (NIRI) Annual Conference. We also recently conducted NIRI's first board-shareholder communications survey to better understand current practice and establish baseline data.

While direct board-shareholder communications are more common in Europe and the United Kingdom, many U.S. publicly traded companies have traditionally assigned this responsibility to corporate managements for a number of reasons, such as controlling the company's message through one central voice and allaying regulatory concerns (i.e., Regulation Fair Disclosure, or Reg FD). All very valid reasons—no one wants to be responsible for muddying their company's message or becoming known for a Reg FD enforcement action by the Securities and Exchange Commission (SEC). Nevertheless, rising corporate governance interest, evolving communications mediums including social media, demands by activist shareholders, and globalization, among other factors, are putting pressure on boards to engage more directly with shareholders. All of this highlights the key link between companies and their shareholders—the investor relations (IR) function. Boards should rely more directly on

their investor relations officers (IROs) for information and insight into their shareholders. And boards should view this new environment as an opportunity to work with IR to develop new and better methods for *appropriately* communicating with shareholders.

I stress *appropriately* because I do not advocate stepping into the traditional management-shareholder communication realm (i.e., regular communications regarding operational and financial performance). There are times, though, when it makes sense for boards to communicate with those investors interested in doing so on matters clearly within the board's wheelhouse.

In the preliminary results of our survey, the majority report that their boards do not currently speak with shareholders, yet anecdotal evidence and news reports indicate that more boards are facilitating this dialogue. Boards are realizing that these relationships bring the unfiltered voice of this important stakeholder into the

boardroom, while also enabling boards to help shareholders understand governance practices, thereby assisting with future proxy voting decisions.

Communications excellence in the form of complete, consistent disclosure can yield strategic benefits including strengthened credibility, reputation, and brand; board effectiveness and composition; and ultimately fair valuation. Boards have the opportunity to directly influence these benefits in this new environment of direct board-shareholder communications. A well-considered approach leverages the IRO who, in addition to bringing established Wall Street relationships to the boardroom table, has a unique understanding of finance, communication, marketing, and securities law compliance to enable your communications excellence.



Jeffrey D. Morgan, FASAE, CAE is president and CEO of the National Investor Relations Institute.

## Blueprint for Action

Best practices are obviously developing. We can, however, take a page from the Reg FD playbook and recommend the following:

**ESTABLISH AND FOLLOW POLICIES AND PROCEDURES.** It is a hard fact that public company financial communication is a regulated function. In enforcement actions, the SEC has shown favor on companies that have robust communications compliance programs and internal controls. Preliminary results from our survey show that three-quarters do not have a board-shareholder engagement policy.

**LIMIT COMMUNICATIONS RESPONSIBILITY.** Designate only certain individuals (e.g., the chair or lead director) to speak with shareholders in order to ensure consistent messaging.

**INCLUDE YOUR IRO.** Always include a member of management who knows the

company's record of disclosure. The SEC generally views the investor relations function as the corporate Reg FD gatekeeper, so it makes sense to bring the IRO into these conversations. Our preliminary survey results show the IRO is involved in 80 percent of these discussions requiring management presence.

**BECOME TRAINED.** Reg FD training must be a baseline for anyone speaking on behalf of the company to investors.

**DON'T WAIT UNTIL PROXY SEASON.** Establish these connections and explain your story outside of annual meeting season, when investors are not overwhelmed by thousands of proxies.

# Stepping Outside Your Comfort Zone

By Thames Fulton and Mary Kier

Public company boardrooms have changed dramatically in the past 10 years, and they continue to evolve as the business environment becomes more competitive and volatile than ever. Prior to the corporate meltdowns that plagued the early 2000s, boards were content to provide advice when called upon. Now, however, the best boards are a strategic asset to the organization. They are much more involved and engaged, providing strong oversight and direction, and boards—and the organizations they serve—that have embraced this approach are more productive.

board. This inclusive mindset promotes more knowledgeable discussions and, ultimately, better board decisions.

These boards conduct robust assessments of their own effectiveness in terms of performance and process for both individuals and the board as a whole. These directors are informed and aware. They are present and involved both inside the boardroom and outside to drive the board agenda. Modern boards are well-rounded groups with a firm grasp of a wide array of risks facing the company and how these risks impact strategy and operations.

stretch roles to bolster their experience.

Companies and business models are evolving faster than ever today, and boards need to evolve in sync—refreshing their skill sets, updating their attitudes about risk and reward, and increasing their diversity of experiences. This synchronization is probably one of the most overlooked aspects of board progression. Evolution should take place in the boardroom just as it does in every company and every industry.

Boards should ask themselves if they are prepared to deal with this rapid change. How do they maintain effective governance in this environment? How should they consider adapting business models to positively affect their organization's long-term strategic goals? Where will these new models come from? Have they adequately prepared for emerging markets and disruptive technologies? Is executive compensation in line with company performance and peer groups?

Given what boards have on their agendas and the rapidly changing business economy, it is possible to overextend and encroach upon executive responsibilities. Boards must strike a balance between providing modern oversight and actually running the business. Leading boards have embraced change, but many need to move further along the continuum and continue to evolve.

**Rather than seeking out new board members episodically or in times of crisis, effective boards engage in a regular, ongoing review of talent options.**

The best boards today are dealing differently with key issues such as director recruiting, succession, board effectiveness, strategy, and risk. They tackle these governance challenges head-on, and extremely effective boards do so deliberately and with rigor. They demand continuous improvement of themselves, just as they expect it in the rest of the organization.

Effective boards are open-minded in their thinking, and focus on skills and experience, not just titles, when planning director succession. When choosing new board members and to improve diversity, they step outside their comfort zone to consider candidates through the lens of not just gender or race but also nationality. These boards are open to a broader conception of scale and complexity in evaluating skill sets and experiences, and consider the candidacies of functional executives, to expand the views and perspectives of the

Rather than seeking out new board members episodically or in times of crisis, effective boards engage in a regular, ongoing review of talent options and connect with potential candidates early to see how their skills and experience map to gaps in the board's experience matrix. They think long term, and will allow the board to increase or decrease in size to reflect the needs of the company. They build a resilient board culture that is collegial yet honest, direct, and open when tackling difficult issues.

Naturally, broad-based succession planning is critical. Effective boards regularly engage in succession planning for themselves, the CEO, and members of senior management. They are active and visible to the organization and ensure that succession planning is a key part of the company's development strategy. They encourage and support promising leaders to take on

Thames Fulton is managing director and Mary Kier is CEO of executive search at Cook Associates Inc.





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The Investor Relations profession assists companies in achieving fair valuation through effective two-way communication between a company, the financial community, and the media, ultimately helping Board success.

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