

BRUNSWICK REVIEW

A JOURNAL OF COMMUNICATIONS AND CORPORATE RELATIONS ~ ISSUE 10 ~ SPRING 2016

THE BOARDROOM ISSUE

View from the top table

SARAH HOGG

Confessions of a serial director

CHAIR AT TWO TABLES

Sony & Chugai's OSAMU NAGAYAMA

CEOs CHANGE RANK

POWER SHARING IN BRAZIL

Ford Foundation's

DARREN WALKER *drives the agenda
against inequality*

QUITE CONTRARY

Save a seat for dissent

OPEN FOR BUSINESS

The diversity debate



GOOD SAMARITAN

*To the rescue
of a Portuguese institution*

Plus THE LANGUAGE
OF BUSINESS DRESS

HOW UNICORNS
RISK EXTINCTION

BRUNSWICK

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The *Brunswick Review* is printed on Redeem 100% Recycled, made using post-consumer waste fibers and manufactured without the use of any secondary bleaching

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DECADES AGO, THE BOARDROOM felt like a cozy, wood-paneled club for the rich and powerful. Today, there is no safe haven, and boardrooms are under scrutiny from almost every one of their stakeholder groups.

In this issue of the *Brunswick Review*, we hope you will find some stimulating perspectives on how boards are dealing with this demanding new reality. The truth is, we could have created a whole publication on almost any of the topics covered. But by viewing them collectively, through the lens of our global contributors, these topics help outline an emerging international best practice.

Brunswick has built its reputation on dealing with the toughest challenges and most critical moments that corporate leadership teams face. It has often been during periods of intense pressure that we have had the privilege of being in the boardroom, witnessing at first hand the difference between high-performing, cohesive teams and ones fractured by dysfunctional relationships.

What has become clear is that routine competence in governance and fiduciary duty is necessary but no longer sufficient for a board's survival. Directors have to be able to grasp internal and external issues, agendas, and dynamics in order to navigate the complicated currents surrounding major organizations.

Poorly structured or ineffective boards are now much more likely to be ruthlessly exposed. Our clients in all sectors are facing increased and more vociferous shareholder activism, particularly in the US. But even in this environment, meeting the demands of equity investors and debtholders – who for a long time were the dominant interest group for boards – is now only one consideration of many. Multiple stakeholder groups expect to be heard and properly engaged with, and are increasingly effective at voicing their concerns. Regulators have activist agendas, as all our financial services clients will testify, as do politicians and the media. Digital and social media have helped other stakeholders such as NGOs and special interest groups to adopt an activist approach. And at the top of the activist

list must be employees, customers and suppliers, all of whom can express themselves increasingly effectively.

Any one of these stakeholders, or combination of them, are there to test a board, often to breaking point. The connected world has been central to creating this environment of perpetual exposure and challenge. The most effective leadership not only recognizes this, but embraces it. As William Blake said, "Opposition is true friendship."

The good news is that there is a trend toward a dynamic ecosystem for management and non-executive directors to work together to tackle a complex world. Alongside the traditional oversight of operational and financial performance, the boardroom is often the place where the bigger issues of purpose and broader social value are debated. And executives are looking to non-executives for insight and perspective, experience and judgment, and even – dare one say it – wisdom.

Boards must act as a mirror of the outside world, one that is only getting more complex. The evidence is increasingly clear that companies that fail to embrace diversity and inclusion, or to engage with the big issues in our society, will lose out.

In all of this, our deep-seated belief is that while there is not a single formula, the underlying values of honesty, transparency and openness to change are crucial. At times of stress these qualities will be tested more than ever. We believe that the most successful boards will walk toward risk and challenge with a boldness and honesty that defines them as part of the solution, not part of the problem.

In a way, the board itself needs to be seen as an activist seeking out the best possible solutions to the challenges its organization faces. Never before has so much been expected of board members, but equally the opportunity to contribute and provide leadership has never been greater.

SIR ALAN PARKER – *Chairman, Brunswick Group*



Edward Speed
— Chairman,
Spencer Stuart
PAGE 8



Siobhan Sweeney
— Business lawyer
and academic
PAGE 13



Osamu Nagayama
— Chairman, Sony;
Chairman and CEO,
Chugai Pharmaceutical
PAGE 16



Sarah Hogg
— The first woman to chair
a FTSE 100 company
PAGE 20



Pedro Moreira Salles
— Chairman,
Itaú Unibanco
PAGE 22



Janina Kugel
— Chief Human Resources
Officer and Managing
Board member, Siemens
PAGE 30



Adi Ignatius
— Editor-in-Chief,
Harvard Business Review
PAGE 38



Justus O'Brien
— Co-leader, Board & CEO
Practice, Russell Reynolds
PAGE 41



Tito Mboweni
— Former Governor, South
African Reserve Bank
PAGE 42



Sukhinder Singh Cassidy
— Founder and Chairman,
Joyus
PAGE 51



Richard Fenning
— CEO, Control Risks
PAGE 60



Darren Walker
— President, Ford Foundation
PAGE 64



Adrian Ellis
— Director, Global
Cultural Districts Network
PAGE 72



Michael Eissenhauer
— Director General,
Staatliche Museen zu Berlin
PAGE 73



Duncan Pescod
— CEO, West Kowloon
Cultural District Authority
PAGE 73



Eduardo Stock da Cunha
— Interim CEO and Chairman,
Novo Banco
PAGE 76



George Crumb
— Composer
PAGE 80



Kathryn Sargent
— Tailor
PAGE 82

THE BOARDROOM ISSUE



- 6 Introduction**
Brunswick CEO Susan Gilchrist says scrutiny of the board has never been more intense



- 35 Mind games**
The puzzle of personality types can affect a board's success



- 53 Tilting the scales**
The UAE leads efforts in the Middle East to put women in executive roles



- 8 Global trends**
Boards must adapt or risk becoming obsolete, says Spencer Stuart's Edward Speed



- 37 The end of the party**
How nonprofit boards became more professional



- 54 Solitary seat**
Making progress in India, one woman at a time



- 13 Sympathy for the devil**
All boards need a contrarian director, according to business lawyer Siobhan Sweeney



- 38 The new math**
Harvard Business Review's Adi Ignatius on a different way of measuring CEO performance



- 56 Higher authority**
Shariah takes a seat at the board table



- 14 The big ask**
Boards need to pose the right questions about cybersecurity



- 41 Goodbye, old boys' club**
Boards need to look beyond the usual suspects, says Russell Reynolds' Justus O'Brien



- 60 No risk, no reward**
Instability can make good companies better, says Control Risks' Richard Fenning



- 16 Two-seater**
Chugai's Osamu Nagayama also chairs Sony - to the benefit of both companies



- 42 Tito Mboweni**
Corporate responsibility is reshaping boards and the global economy



- 62 China and sustainability**
Companies are racing to shape strategy around social needs



- 20 Sarah Hogg, serial director**
The first woman to chair a FTSE 100 company recalls some tricky times



- 45 WOMEN IN THE BOARDROOM**
Seven stories that address women's place at the top table



- 64 Ford Foundation**
Darren Walker wants business to join him in tackling the really big issues



- 22 The power of two**
Pedro Moreira Salles on sharing control after the merger of Itaú and Unibanco



- 46 The 30% Club**
How a movement for gender balance spread around the world



- 25 The meaning of diversity**
Business leaders see the benefit of a broad definition



- 47 Ushers of diversity**
Nominating committees hold the key to equality



- 26 Open For Business**
Open, diverse and inclusive societies are better for business, economies and individuals



- 49 A look at the numbers**
Spencer Stuart research shows parity remains a long way off



- 30 Horizontal approach**
Siemens' Janina Kugel says successful communication drives good leadership



- 50 Quality versus quotas**
The executive pipeline is the most important target



- 32 Tri-sector athletes**
Strong leaders are confident in the nonprofit, government and business worlds



- 51 Silicon Valley solution**
The tech industry can close the gender gap, says Sukhinder Singh Cassidy

SECOND SECTION

- 70 Healthy reputation**
Communications can cure public distrust of the drug industry
- 72 Culture club**
A lively city needs an artistic heart
- 76 Good Samaritan**
Eduardo Stock da Cunha on rescuing a Portuguese banking institution
- 79 Don't believe the hype**
Silicon Valley "unicorns" can be their own worst enemies
- 80 Opus focus**
George Crumb's scores take musical notation to another dimension
- 82 Bespoke suits her**
Kathryn Sargent cuts through the language of business dress
- 86 Critical moment**
The Wright brothers, the first flight ... and a deafening silence

The Boardroom

A stylized, flat-design illustration of a city skyline. The buildings are in various shades of orange, yellow, and light blue. The sky is a pale blue with small, dark silhouettes of birds flying. The overall aesthetic is clean and modern.

When discussing “the boardroom,” we are in fact talking about many thousands of boards, each shaped by different cultures, industries, and political and regulatory environments. Yet despite their differences there is one thing on which most directors and business leaders would agree: the spotlight on them has never been more intense.

While business is regaining some of the trust lost after the financial crisis, the pressure on boards to continuously improve remains acute. Directors have to lead businesses that are increasingly global, complex and fast-paced, and contend with political, social and environmental pressures.

Undoubtedly, these circumstances also present opportunities. Boards able to look beyond their basic responsibilities and adapt to this dynamic environment not only help their companies, they also communicate – both internally and externally – about themselves and their businesses to a large, attentive audience. Importantly, successful boards help shape the agenda, rather than just react to issues as they come.

Issue

The background of the page features a stylized illustration of a city skyline. On the left, there are several light blue and grey skyscrapers of varying heights. A prominent orange skyscraper with a rounded top is positioned in the center-left. To the right, a dark blue building with multiple windows is shown. One of the upper windows is brightly lit from within, revealing the silhouettes of eight people sitting around a long table, engaged in a meeting. The sky is a light blue gradient.

Diversity is one of the most significant issues on the board's agenda today. Progressive companies are focusing on what it means to be inclusive, as opposed to simply ticking boxes and fulfilling quotas. It is an effort that encompasses far more than gender alone. True diversity involves different sexual identities, religions, socio-economic backgrounds, professional experience and personality types.

Fostering this inclusive culture in their own ranks, and in the businesses they lead, is now a core responsibility of those in the boardroom. Tabling the issue or ignoring it altogether is no longer a viable option for those who want to compete for millennial talent, win new customers and generate transformative ideas.

This challenging landscape calls on those in the boardroom to keep upping their game. This issue of the *Brunswick Review* offers a broad range of perspectives, as told by the men and women serving on boards, as well as those advising them.

SUSAN GILCHRIST – CEO, *Brunswick Group*

GLOBAL BOARD TRENDS

Board members must adapt or risk becoming obsolete, says Spencer Stuart's EDWARD SPEED

Boards of listed companies are operating under greater scrutiny than ever before, in a political and social climate increasingly characterized by cynicism and a mistrust of business. Directors are exposed and accountable to an unprecedented degree.

Under the weight of legislation, governance codes and listing requirements, it is easy for a board to get bogged down in compliance issues instead of dedicating sufficient attention to strategy and the ability of management to execute it successfully.

Every board has a responsibility to oversee management with active questioning, constructive challenge and support, wherever needed. But to do this effectively, the board has to be agile, engaged, responsive, diverse and above all, relevant.

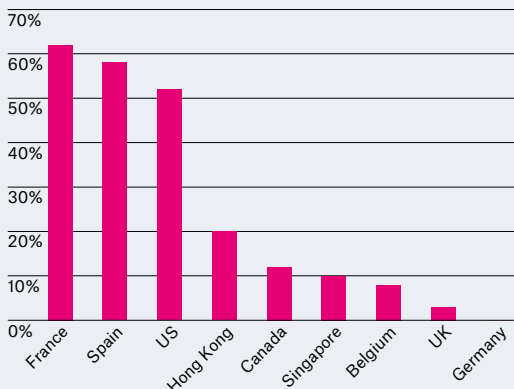
A board cannot fulfill its responsibilities without deep knowledge of the company and the context in which it operates. That means it needs to keep pace with such things as disruptions to the business model, digital transformation and cybersecurity.

Investors are responding to these pressures by monitoring board effectiveness and calling for more frequent changes in board composition.

These pages show some statistics and trends that define the state of boards today. It is important to note that boards are having to deal with a constantly changing agenda. They are going to have to be prepared to adapt even faster than they have in recent years – or risk becoming obsolete.

SEPARATED ROLES LEADERSHIP

Where CEO and chairman are combined



While there is a global trend to split the CEO and chairman roles, France, Spain and the US are obvious exceptions. Combining the roles can be an effective temporary strategy, as long as the chairman can step back when the time comes. In some countries, such as Germany, governance law requires that supervisory boards be independent of management, so the CEO cannot serve as chairman

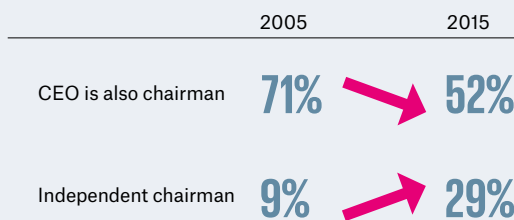
The role of chairman has changed in recent years as board work has become more onerous and there is a growing belief that the roles of chairman and CEO are best separated.

First, concentration of power in one pair of hands heightens risk. Board members should always feel free to challenge the CEO's decision-making process. When the chairman is also the CEO, directors can feel uncomfortable and at a disadvantage – although the presence of a lead director (or senior independent director) can mitigate this problem.

Second, running the board and running the company are two distinct activities, requiring different skills. A good independent chairman will focus on time-consuming board governance issues, freeing the CEO to take care of the day-to-day running of the business.

Boards that promote the outgoing CEO to the role of chairman need to consider very carefully a dynamic in which a chairman is sitting in judgment over his or her successor. This can introduce a layer of complexity to what is clearly the most important relationship in the business.

VIEW FROM THE US S&P 500 COMPANIES

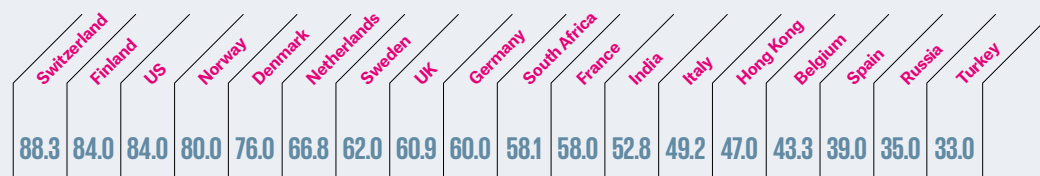


The chairman and CEO roles are still frequently combined in the US. However, a gradual, yet remarkable shift toward separating the functions has taken place over the past 10 years

RISE OF OUTSIDE DIRECTORS

INDEPENDENCE

Independent directors (%)



In many countries, board committees are required to have a majority of independent directors, with the audit committee comprising only independents. Boards with two-thirds or more independent directors find it easier to populate an increasing number of committees

For companies to be listed on the world's exchanges, authorities often demand that a majority of directors are independent. To be classified as independent, directors should be free of conflicts of interest.

However, independence is more than that: it is an attitude. Independent thinking is essential if outside directors are to challenge and support executives properly, and avoid groupthink. The best outside directors identify closely with the business while bringing objectivity to the board's deliberations. The truly independent director has

the interests of all the shareholders at heart and continually asks: what course of action will yield the greatest chance of success for all investors in the long term?

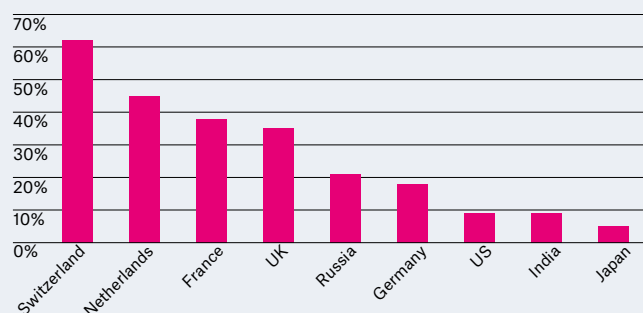
If a director is not prepared to question or, when necessary, challenge the executive on strategic issues, he or she brings little value to the board.

On the other hand, relevant experience among non-executive directors is essential. It is a mistake to rule out potentially useful board members because they do not comply with an overly rigid definition of independence.

INTERNATIONAL DIVERSITY

NATIONALITY

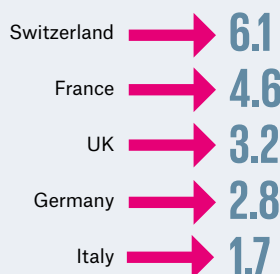
Foreign directors



In many countries, non-nationals now account for more than a quarter of board directors, often offering much-needed experience in strategic markets, in addition to technical expertise. But international diversity may not be easy

to create or to maintain – especially when the element of long-distance travel is factored in to an already steep commitment. For that reason, the majority of foreign directors for any given company tend to hail from the same continent.

Average number of nationalities per board



Swiss boards have not only the highest proportion of foreign directors, but also the highest number of different nationalities. Globalization and a shift in world trade toward the East is likely to result in boards becoming even more internationally diverse

► See

"Talking about diversity"
Page 25
"A look at the numbers"
Page 49

TALENT RENEWAL

Average ages of directors (US and UK)

		2005	2015
US	Non-executive directors	60.8	63.1
	CEOs	55.4	57
UK	Non-executive directors	57.8	59.2
	CEOs	50	53.7

Over the past 10 years, boards have gradually been getting older, for a number of reasons. Fewer serving executives have time to commit to an outside directorship; not all countries have term limits for directors; and mandatory retirement ages, where they exist, have steadily been going up.

As boards age, investors often become frustrated. They question whether it is sensible

to have the same people on your board year after year in an era when demographics, technology and consumer behavior are constantly changing and business models are getting disrupted. Boards need to step back and think as an activist would, asking themselves whether the diversity of skills around the boardroom table reflects the strategy of the business and its stakeholder universe.



In an era of accelerating change, growing complexity and unprecedented disruption, the fact that today's boards are older than a decade ago is a source of concern. While boards need experience and maturity, they also need to be continually refreshed. The best boards encourage individual directors to think critically about their own contributions and whether the experience they bring is as relevant today as when they joined the board

S&P 500 boards with mandatory retirement age of 75 or higher

2005

2015

8% → 34%

Annual turnover of S&P board seats

7%

EFFECTIVENESS ASSESSMENT

How well a board does its job cannot easily be captured in numbers. Statistics don't tell us how well a board is run, the nature of the debate, how directors are relating to each other, how well they really understand the business or whether they have the confidence of management.

Even so, annual board assessments are becoming more common and they play an increasingly critical role in improving board effectiveness. When done well, assessments can result in improved processes, greater accountability, more transparent communication, enhanced trust and better decision-making.

An external assessment conducted by an experienced and neutral facilitator will provide a far richer and more nuanced picture of how the board functions and how effective it is than one that is internally managed and purely questionnaire-based.

Many governance codes often recommend using an external facilitator every three years, although some companies prefer such a review every year. Despite a growing acceptance of the practice, few guidelines exist and the standards of how assessments are conducted vary. This is surprising given how much is at stake for the company – and the potential benefits.

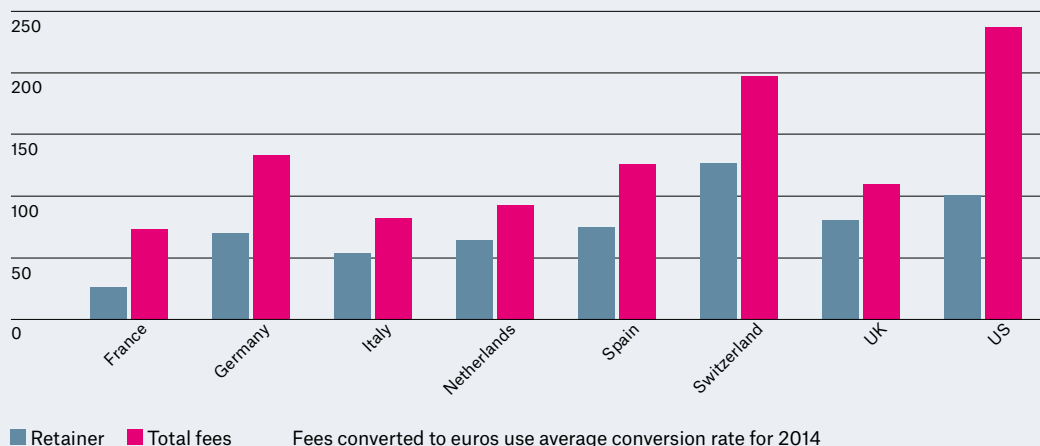
36%

of directors surveyed have served on a board that used evaluations to remove a director

PAYMENT

DIRECTORS' FEES

Breakdown of non-executive fees in Europe and US (€000)



Fees paid to non-executive directors vary enormously around the world, with the US and Switzerland compensating their independent board members most generously.

In most countries, directors earn additional fees to chair committees or serve as a committee member, lead director or senior independent director.

Compensation methods for non-executive directors can include any combination of

retainers, board and committee meeting fees, share grants, bonuses and other emoluments. This can make comparisons difficult. In addition, disclosure requirements are thorough in some countries, but patchy at best in others.

The chart above shows the wide range of retainer and total compensation available to non-executive board directors in a selection of markets where this information is readily available.

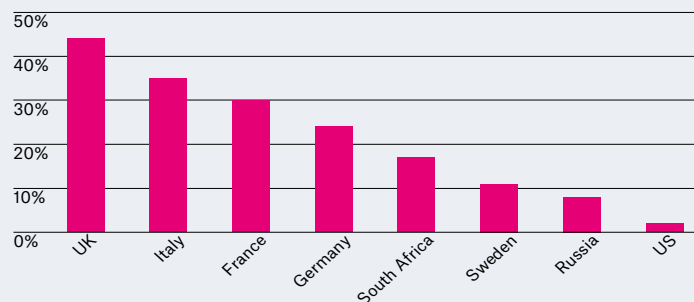


The compensation of outside directors should be in line with experience and the time commitment expected, but it should not be equal to that of top executives, as this could compromise the directors' independent view of the organization. An outside director whose lifestyle depends on fees from a single organization cannot be regarded as totally independent

Board evaluations done by an external agency

67%

of directors surveyed think that a director with whom they have served should have been removed from his or her directorship



While 98% of S&P 500 boards conducted an evaluation, only four companies (0.8%) disclosed that the evaluation was externally facilitated



Boards that have a positive view of annual assessments are more likely to improve. Many board directors view external board evaluation negatively, as a process designed to reveal their shortcomings. By embracing constructive criticism, a board can show investors that it is functioning effectively

WHO'S NEXT?

SUCCESSION PLANNING

Having the best possible talent around the boardroom table really matters. Boards need to be fluid and adaptable, capable of focusing on short- and medium-term issues while safeguarding the future health of the business. Boards with a long-term vision tend to be the ones taking succession planning seriously.

Let's start with the CEO. A carefully planned and rigorous succession process can last between one and four years. Because most non-executive directors are unlikely to be involved in a process like this more than once or twice in their career, they need to be supported by an experienced adviser who can escort them through the procedure and draw on best practice. For the most part, the mistakes that lead to hasty appointments or to the unnecessary departure of internal candidates can easily be avoided.

Boards achieve the best results when they tackle succession planning well in advance, with the full support of the CEO. Some boards are reluctant

Succession planning is about far more than the CEO, of course – it needs to span the whole board. And it takes time. It is still all too common for boards to address director succession only when facing an impending vacancy. By thinking about the big picture and planning further ahead, boards increase their options and make it easier to secure the very best talent when it is most needed.

STRATEGIC PERSPECTIVE

Some nomination committees maintain a skills matrix in order to fill gaps in directors' competencies to the benefit of the business. Since the balance of skills changes with each new appointment, this matrix needs to be reviewed continually, identifying opportunities for fresh perspectives that would be most relevant to the organization's future.

Board composition has to be aligned with strategy. Any new appointment should always be viewed in the broadest possible context, taking into consideration the company's goals, term limits, and the relevance of each director's skills and experience, both today and three to five years from now.

This point cannot be made too strongly. When the company's strategy shifts, tough questions need to be asked about the suitability of the present board to support and monitor management while that new strategy is being executed.

This is particularly true during a period of disruption or when the business is facing a new external challenge that requires some board-level expertise – for example in digital strategy,

multichannel operations, cybersecurity, sustainability, regulation or government relations. In such cases, it may make more sense for the board to add an expert in a particular area, rather than confront the challenge with the current team or seek advice from outside consultants.



EDWARD SPEED

Edward Speed is Chairman of Spencer Stuart and active on CEO succession and board searches globally. He has 25 years' experience in recruiting chairmen, non-executive directors, CEOs and top management for leading public and privately owned companies.

SPENCER STUART

Spencer Stuart is a global executive search and leadership advisory firm. Founded in 1956 and privately owned, it works with clients across a range of industries, from major multinationals to emerging companies, to nonprofit organizations.

The ideal time to discuss the topic of succession is shortly after a new CEO has taken up the post

to raise the issue mid-way through the CEO's tenure and thus delay the process, creating unnecessary stress.

The ideal time to discuss the topic of succession is shortly after a new CEO has taken up the post. When succession appears regularly on the board agenda it is understood as an aspect of planning rather than a question mark over the CEO's competence.



SYMPATHY FOR THE DEVIL

Business lawyer and academic **SIOBHAN SWEENEY** says all boardrooms need a “contrarian” director to challenge the majority view

IT WOULD BE UNTHINKABLE for a prisoner to be sentenced without the defense being given an opportunity to speak. Only in the least fair, least open and least democratic states would such behavior be tolerated. And yet, across boardrooms in the most advanced economies on earth, such one-sided examination of issues is all too common, resulting in flawed verdicts and avoidable errors of judgment.

The reason for this sorry state of affairs may lie in one word: comfort. From the people they choose to surround themselves with, to the procedures that guide board meetings, leaders often go to great lengths to avoid being challenged in front of others. Knowing that dissent can be seen as disloyalty, many directors choose to remain silent (and employed).

The boardroom needs to become less cozy for directors. A good place to start would be for the principles of the courtroom – a balanced discussion and examination of facts – to find their way to the board table. To that end, every company board should appoint a “contrarian” director.

On any important recommendation, the contrarian would consider a complete range of outcomes, including “extreme” scenarios, investigate the issues without bias, and recommend a truly independent and impartial course of action. The contrarian would outline the case against the recommendation through a written report that would then become the basis for a board discussion.

To make sure the contrarian director was acting in the company’s best interests he or she would serve a non-renewable three-year



term. An institute should be established to help companies choose contrarians with the right experience and skills.

While the contrarian’s recommendations would not require action by the company, they would make leaders aware of ideas and risks they had not yet considered. At best, having a contrarian in the boardroom could institutionalize skepticism and improve a board’s ability to make decisions and manage risk.

Some may argue that independent directors play this kind of impartial role already. But they face the same pressures and incentives as other board members and are prone to the same mistakes. At Enron and WorldCom, 80 percent of the directors were “independent.”

Why should the position of contrarian director be any more effective? Because it makes uncomfortable discussions the product of a *position*, rather than a

personality. Instead of being regarded as troublesome or subversive for sharing concerns, contrarian directors would be understood to be doing their job.

There is precedent for this kind of role working successfully. The Advocate General of the European Court of Justice delivers impartial opinions on contentious cases. The ombudsman role serves a similar function, hired by a government to investigate on behalf of its accusers. Perhaps the best-known position is one which no longer exists: the “devil’s advocate,” a role created by the Catholic Church to argue against a candidate being canonized. The devil’s advocate identified any potential gaps in a case for sainthood – an unpopular duty, but one that was essential to the integrity of the canonization process.

The best leaders should welcome a modern-day devil’s advocate into the boardroom. Asking tough questions and challenging assumptions may be uncomfortable, but it is the price for informed decisions. A robust discussion on difficult issues is the hallmark of great leadership, not the work of the devil.

SIOBHAN SWEENEY

A Fellow at the Centre for Risk Studies at the University of Cambridge’s Judge Business School, Siobhan C. Sweeney previously worked at corporate law firm King & Wood Mallesons. Her paper on contrarian directors won the 2015 Cambridge-McKinsey Risk Prize. She is also an entrepreneur.

Siobhan Sweeney spoke with **ROSHEEKA FIELD**, a Director in Brunswick’s London office.

BIG ASK: WHAT DON'T YOU KNOW ABOUT CYBERSECURITY?

Boards need the best information.

For that, they need to know the right questions,
say Brunswick's **GEORGE LITTLE** and **SOFIA MATA-LECLERC**

IN THE PAST THREE YEARS, a growing number of high-profile attacks in a broad range of sectors, including financial and healthcare, have exposed the personal records of millions and propelled cybersecurity to the top of the corporate board agenda. The concern is real. A recent study by IBM found that 94 percent of C-suite executives believe it is probable their companies will experience a significant cybersecurity incident in the next two years.

A breach can result in a loss of data, intellectual property and customer trust. In more severe cases, a breach can cripple a company's ability to operate. Aftershocks include reputational damage, resignations, fines, regulatory action, lost business and class action lawsuits. The average cost of a data breach has risen 23 percent since 2014, according to the Ponemon Institute, a data security research organization.

Recent Brunswick Insight research finds 74 percent of board directors agree that it is important to understand the cyber risks. Yet Gavin Patterson, CEO of telecommunications group BT, told delegates at the World Economic Forum in Davos that most boards still lack the experience to handle such challenges.

"The risk is changing in its nature and is becoming more sophisticated," he said. "While I think there is a recognition at board level now, I'm not always convinced when I talk to other CEOs that there is a high technical understanding."



Meanwhile, the stakes are getting personal. Data-breach related lawsuits have been filed against the boards of Target, Wyndham Worldwide and Home Depot. Plaintiffs claim that board members failed to fulfill their fiduciary duty to protect customers' information.

Cybersecurity is a complicated issue that can arise out of any business decision, not just those involving IT. While board directors aren't expected to be experts, they do need an advanced understanding of the risks facing the company and a familiarity with the procedures in place to handle a cyber attack. Boards should seek outside cyber expertise, says Holly Gregory, a Partner at corporate law firm Sidley Austin.

But in the end, the responsibility for the effects on the company rests with the board.

"Ultimately, the 'business judgment rule' should apply to any decisions regarding oversight of cybersecurity issues," Gregory says. In other words, "directors should abide by the core standards of care, loyalty and good faith that apply to board actions generally."

Regular dialogue about a company's cyber risk management helps ensure this remains a priority for leadership. The form and frequency of board briefings will vary according to the company's size, type of data collected and the nature of the cybersecurity issues it faces.

Each board must decide for itself how to structure that conversation among its members. Some may

choose to appoint a cybersecurity director or create a specialized committee.

No matter how it is handled, an effective cybersecurity strategy requires more than just one decision or discussion. Boards must make a commitment to regularly review and update their understanding of the risks.

They may not need to be experts, but they must be informed. For that, they need to know what to ask.

.....
GEORGE LITTLE is a Partner in Brunswick's Washington, DC office, specializing in crisis, cybersecurity, reputational and public affairs.

SOFIA MATA-LECLERC is a Director in San Francisco, specializing in crisis, cybersecurity and corporate reputation.

Five questions every board should ask



1. What procedures do you have in place to manage a breach?

An ideal response will demonstrate that the company has thought through multiple scenarios. Plans for handling a breach should go beyond simply escalating the situation to the IT and legal teams, and should include customer relations and employee communications. Board directors, management and the business's various departments all need to understand their role within the overall plan. Multinational corporations must consider reporting requirements and account for additional coordination complexities across regions.



2. Have you tested your preparedness plans?

A table-top simulation allows a business to stress test and improve how it would handle a crisis. This exercise helps companies uncover areas where more preparation is needed. Who should be in charge of these simulations will vary from company to company. But the trials should include high-level participation across the organization, including the CEO. The group has to make sure the simulation incorporates a response that addresses affected stakeholders, taps into all relevant resources and procedures, and points out the unforeseen problems that actions in one department can cause in another.



3. Do customers understand your data collection and usage practices?

You don't want customers to learn about the data you have from a breach notice or media coverage. Instead, your company should periodically evaluate its data collection and uses, and assess how they could be putting the business's reputation at risk. Make sure your data story is clear and that you're articulating the value that the usage provides to customers. Increasingly, organizations are writing their privacy policies with this in mind, clearly outlining what they collect and why.



4. How do you decide how much to invest in security - and where?

One hundred percent security is not possible and the number of possible avenues of attack alone prevents an ironclad defense. In addition, some companies may choose to take on more risk in order to improve the customer experience. In light of this, companies need to weigh the degree of security against the needs of the business. The smartest companies are thinking about security early in the product development cycle. Companies should organize security into tiers, focusing additional resources on the most sensitive data and working outward from there.



5. Are you educating employees on the best cybersecurity practices?

Increasingly, a company's employees are seen as the weakest link in any data security regimen. They are vulnerable to "spear-phishing" attacks, when an email from what appears to be a trusted source – an individual or business – requests secure information about the company. The hope is that the recipient will reply automatically, handing over the keys to the castle in the process. Five out of every six large companies – those with more than 2,500 employees – were hit by spear-phishing attacks in 2014, according to a recent Symantec Internet Security

Threat Report. That's a 40 percent increase over the previous year.

To counteract such scams, more companies are choosing to educate employees about common cybersecurity risks. These programs should complement the use of any hard controls, such as mandatory password strength requirements. The goal should be to empower employees by arming them with basic knowledge: how to spot an attempt to breach security, where to go to ask questions, and who to inform when they identify a potential threat.

THE VIEW FROM OUTSIDE

OSAMU NAGAYAMA leads the board of two companies, to the benefit of both, he tells Brunswick's **DAISUKE TSUCHIYA**

OSAMU NAGAYAMA DIVIDES his time between pharmaceutical company Chugai, where he holds both the CEO and Chairman posts, and electronics giant Sony, where he is an independent director and Chairman of the board.

In an interview in a conference room in Chugai's Tokyo headquarters, he says that while the two businesses are very different, the responsibilities of their boards are the same, making the transfer of his skills from one to the other a natural step. In addition, working with the leadership of the two companies has allowed him to enhance his own experience and expertise, to the benefit of both businesses.

Sony and Chugai are both international companies and have governance structures that require external directors on their boards. Traditionally however, Japanese boards have been almost exclusively comprised of executives and insiders. Nagayama sees that changing quickly, despite cultural resistance, spurred in part by governance reforms instituted by Prime Minister Shinzo Abe's administration.

Contrary to what most people might think, Nagayama says the main function of a board is not to make money for the company. Instead, it is to create transparency. The relationship between the board and executive management provides an important set of "checks and balances" to the benefit of all stakeholders, including shareholders.

In light of the board's oversight function, Nagayama makes the case that the CEO and chairman should be on good terms, but says a close friendship is "dangerous."





Being CEO and Chairman of Chugai is a very demanding position. What led you to also take on the Chairman role at Sony?

I joined Sony's board in 2010 and was appointed its Chairman in 2013. The management and Yotaro Kobayashi, Chairman at the time, invited me to consider the post. Because Sony is quite a large, diverse, globalized company, I instantly thought about the challenges I would face, being a board member. I knew I had a perspective to bring – life experience and business knowledge. I also thought that being on the Sony board might benefit Chugai, providing insight into ways to improve its management and governance. I was a little hesitant, but in the end, after some consideration, I accepted.

I have also been a fan of Sony for a long time. Over the years I have loved products such as the Walkman and its digital cameras. I had a Trinitron TV, for instance, and still use my Sony DVD/Blu-ray player. To be fair, I think it would be hard to find Japanese people who have not used Sony products. The company is somewhat iconic here. Some of the products, such as the Walkman, helped define parts of popular culture worldwide.

Coming from the pharmaceutical business at Chugai, were there any big surprises when you got to Sony?

The biggest surprise was how closely scrutinized it is. Sony's businesses cover everything from electronics to entertainment to financing and insurance – and the company is all very consumer focused.

Any company action, any issue about Sony, attracts huge amounts of public attention. That doesn't happen at Chugai, where our customers are mostly medical professionals.

That was a big surprise, but in fact, it helped me at Chugai. We now spend more time looking beyond our professional customers for ways that our products impact the users. As a result of my Sony experience, we are more sensitive to the needs of those who see the benefit of our products – to patients and society.

In other ways, too, being on the board of Sony has broadened my perspective, particularly in the way global operations are run. Chugai is much smaller, but our drugs are designed for the whole world.

Do you feel pressure to prioritize shareholders' interests over other stakeholders, such as customers or workers?

When people talk about shareholder interest, usually they are really talking about profitability and increasing the stock price in the short term. Long-term shareholders, on the other hand, expect there will be some ups and downs, trusting that the company will grow soundly over time.

My experience tells me that no global company can make a short-term profit unless it also invests in the long-term future. On the other hand, many companies might keep a losing division because it represents the future of the business. That's fine for losses of two or three years, but not more than that. Saying that you are investing for the future doesn't allow you to go on losing money each year.

Some business leaders of large companies, such as GE, primarily think about the long-term future. But, of course, they never forget to satisfy shareholders and stakeholders through dividends or increasing the value of the company.

So you don't have to choose short-term or long-term success. You have to achieve those in tandem.

In Japan, traditionally only a small group of listed companies have had multiple external directors. The new governance code recommends each board has two or more. Is that a positive move?

Who can say what is right in this case? It is a challenge but it is promoted vigorously by Prime Minister Abe's administration. These changes in Japan are happening all of a sudden – demand for external directors is growing but the pool of candidates is still limited.

The reality is that the domestic market is shrinking. As businesses look to expand overseas, they have to adapt to the cultures or requirements of those countries. Putting two outsiders on the board is a first step toward internationally accepted governance where external board members are a key element.

Now, whether it's better to have more external board members or more executive board members – that depends on the organization. There is no one-size-fits-all solution. Sony has 10 external directors out of a board of 12, but that fits with its diverse international agenda.

So, we should not be too dogmatic about the style of corporate governance. Certainly for Sony, which is running a diverse business, it is better to have the experience of people in different industries or with different viewpoints.



“... changes in Japan are happening all of a sudden – demand for external directors is growing but the pool of candidates is still limited”

No matter how many external directors a board has, its role is to look after the interests of all stakeholders and ensure the necessary transparency of management.

Do you feel some companies would be better off without adding external directors?

Japanese business has been reliant on this internal board style for so many years. I don't see anything particularly wrong with that, but the business environment is changing quite rapidly. With a greater supply of potential directors and with more time, I think we will see companies moving toward more external directors.

Right now though, a lot of people are still skeptical about the role of external board members – not just people in Japan but outsiders as well. As a CEO, I might think, why do I want a board member who doesn't know about my business? But that misunderstands the role of the board, which is really to judge management's effectiveness. It's about ensuring transparency. That is something external directors can do very well.

What do you think makes a good external director? What do you look for?

It's not like a university test, where if you score so many points on each item, you pass. In general, you need someone with experience managing a business and someone who knows what transparency is. The role of an external board member is not to coach the management to make more money or succeed in the business, but to check what management has promised to achieve and to consider whether they are doing it right.

Even in a company like Sony, there are still relatively few women and few foreigners on the boards. Do you see that changing?

As companies adopt the new governance code, they will realize they need to have a more diverse board. Some large companies are already recruiting more outside and non-Japanese board members. The opinions of non-Japanese directors can be very different and that's valuable.

Women are coming to executive and board positions, but a little slower than in the West. There is not yet a critical mass of women eligible for those roles and Japanese companies have only recently begun to recruit and train them. As a result, the numbers are growing rapidly and more women are gaining experience. It's only a matter of time before they come up through the ranks.

In light of the board's checks-and-balances relationship with management, should a board with external directors be involved in forming specific business strategy?

That's a challenging question for any outside board member to answer. Our primary mission is to judge whether management is serving the best interests of all the stakeholders. For business matters, internal directors will typically know better.

Sony has gone through a little turbulence in the last couple of years and had a very difficult time with some poor financial performance – we're making a recovery now. As outside board members of this diverse company, we had to think a lot about whether each business was worth keeping or whether we should get out of it.

Sometimes we had to demand enough material information for us to judge. In those moments, when a critical decision is required, there's no way to draw a clear line or to say board members should or shouldn't be getting deeply involved in the business. So it's a difficult question. We just have to try to do what's best for stakeholders in each case.

At Chugai, you serve as both Chairman and CEO. At Sony they are separate roles. Ideally, should they be split?

If the chairman has good management and transparency in mind, then it doesn't really matter whether he is an outsider or an executive. In a critical period, stakeholders might demand more transparency and objective judgment. In those cases, the chairman might have to be an outside board member.

When the roles are split, it's very important that there is a spirit of cooperation between management and outside board members. But that should not be translated into a close friendship necessarily. That can be dangerous. Boards have to make judgments – cooperation with management has to translate into objective conclusions.

A board of outside members may even have to dismiss the management. That's an extreme example of the board's function. Our mission is to help improve the running of the company.

On the other hand, I think you can push it too much, keep the CEO at too much of a distance – you could wind up making a wrong judgment. That's dangerous too.

DAISUKE TSUCHIYA is a Partner in Brunswick's London office. Previously, he worked for 15 years as a diplomat with the Japanese Foreign Ministry.



OSAMU NAGAYAMA

Osamu Nagayama currently serves as Chairman and CEO of Chugai Pharmaceutical. He led Chugai in the establishment of a strategic alliance with Roche in 2001 and now manages Chugai as a Roche Group unit. Since 2006, he has been a member of the Enlarged Corporate Executive Committee of Roche as well. He has also been a member of the board of directors at Sony since 2010, and was appointed to the Chairman position in 2013.

CHUGAI PHARMACEUTICAL

One of Japan's leading research-based pharmaceutical companies with a focus on biotech, Chugai was founded in 1925. It specializes in prescription drugs and is one of the sector's largest companies on the Tokyo Stock Exchange. As a member of the Roche Group, Chugai is involved in research and development activities in Japan and abroad.

SONY

Founded in 1946, Sony has grown into a leading global maker of electronic equipment and software for consumer and professional markets. Its businesses include mobile communications, game and network services, imaging products, entertainment and financial services. Sony is headquartered in Tokyo, Japan.

"The role of an external board member is not to coach the management to make more money or succeed in the business, but to check what management has promised to achieve"





CONFESSIONS OF A SERIAL BOARD DIRECTOR

SARAH HOGG, the first woman
to chair a FTSE 100 company, recalls
some tricky times at the top table

ON REALLY SLEEPLESS NIGHTS, when the sheep just won't go through the gate any more, I start counting the different boards I've been on over the past 20 years. Nine big, publicly quoted companies, from energy businesses to a chocolate-maker. One big private company (British retailer John Lewis). Public sector institutions, from the BBC to Her Majesty's Treasury. Investment businesses, above all the private equity investor 3i, where I found to my astonishment that I was the first woman to chair a FTSE 100 company. A historic engineering business (GKN); a brand new economics consultancy (Frontier); a dual-listed ocean cruise group (Carnival); and a national charity (The Queen Elizabeth Diamond Jubilee Trust).

I've done startups, mergers and de-mergers; I've even chaired a regulator – the Financial Reporting Council (FRC). In fact, I sometimes think the only kind of organization I've managed to avoid is a football club, and it's going to stay that way.

All those years of experience as a non-executive director (NXD, or NED) really ought to have taught me something about what makes a good board. You'd think. The temptation is to focus instead on

what makes a bad board. However "bad" is harder to define. The *Anna Karenina* principle applies: like families, all happy boards are broadly alike; every unhappy board is unhappy in its own way.

Yes, it's easy to list some disaster signs. Beware the boards where the chairman sits in the CEO's pocket, or has his hands around the CEO's throat. I once sat on a board where "NXD" spelled "psychotherapist": no meeting day was complete without evening calls from both chairman and CEO to complain about each other.

But sometimes signs are misleading. Quite small trouble spots can suddenly make a board dysfunctional, while large defects can still allow it to operate well enough. All things considered, it's better to concentrate on common factors that make boards good than to try to draw lessons from the bad.

It may seem a cliché to start with the chairman, but it is that person's job to make sure the board runs well – that's what the separation of powers between chairman and CEO makes clear. Never join a board if you don't fancy the chairman (in a strictly business sense, of course).

However, the whole triangle of leadership is important – chairman, CEO and lead or senior independent director (SID). The SID was a great invention of modern corporate governance, almost as important as the separation of chairman and CEO. He (now, sometimes, she) is the anchor in a storm. The SID can, indeed must, speak truth to power, and tell the chairman or the CEO to change behavior or go. But more than that, the SID can facilitate board debate and ensure that a paid-up member of the "awkward squad" (a vital board component) gets a fair hearing.

After the financial crisis, when I was at the FRC and responsible for reviewing the UK Corporate Governance Code, I talked to many former bank NXDs, smart and respected people. They were asking themselves, how had their board failed to see trouble coming? Had they given up too easily, or not wanted to make trouble? Had the chairmen and CEO simply brushed them aside? Those who had spoken up plainly felt they were struggling alone: too isolated to make much impact. Lesson: a good board is one on which the NXDs work together, not always in agreement, but in tacit understanding that their colleagues must be properly heard.

Which depends, of course, on mutual trust and respect; and that, in turn, depends on knowing each other reasonably well. That doesn't mean coming from the same mold, because a diversity of



thought, approach, culture and gender is essential to a lively – that is, well-functioning – board. It does mean spending enough time together to forge an understanding. It's the leaders' job – the chairman and the SID – to ensure that happens.

That needn't mean more of those weeklong board jamborees to far-flung parts of the corporate empire. Facilitating short visits by groups of NXDs can be much more productive, for both learning and bonding. Like so much in board life, all these processes and rituals benefit from being constantly changed and refreshed if they are to add value.

Which is why I am a strong believer in board evaluation and a good test of a chairman is to see if they share in that belief. Twenty years ago, a FTSE 100 chairman expressed his conviction that formal evaluation wasn't needed thus: "A chap generally knows when other chaps are doing a good job." So much is wrong with that sentence that one can only rejoice at how much has changed since.

But evaluation doesn't relieve the chairman of the continuous task of assessing and refreshing. Identifying the right NXD to slot into the mix is like a hunt for unicorns: they're easy to describe but hard to find. And as the business changes, so does the appropriate mix of directors.

What's more, board members, like wine, mature at different rates. It's wise not to leave anyone in a committee chairmanship for too long: either they get so good that others become lazy, or they themselves become lazy and run round the same track each year.

"The Anna Karenina principle applies: like families, all happy boards are broadly alike; every unhappy board is unhappy in its own way"

Baroness Hogg

Above all, I believe the chairman's responsibility is to make the board fun. If the debate is lively, if members have the confidence to give and take vigorous challenges, if left-field questions are welcomed and enjoyed, then members will turn up well-briefed, fully engaged and spoiling for action. If it's dull, pre-cooked, process-driven and led by people who resent challenge, directors will be tempted just to go through the motions. And you'll hear the noise that an experienced chairman told me you learn to dread most: the sound of the board briefing pack being ripped open only as the directors sit down at the table.

BARONESS HOGG

Sarah Hogg is Lead Independent Director of the Treasury, a member of the Takeover Panel, Non-Executive Director of the Financial Conduct Authority, Chairman of the Audit Committee at John Lewis Partnership and an Independent Director of Times Newspapers. She is also a member of the House of Lords. From 2010-14 she was Chairman of the UK Financial Reporting Council and before that Chairman of 3i Group and Frontier Economics. She led Prime Minister John Major's Policy Unit from 1990-95.

Sarah Hogg spoke with **MICHAEL HARRISON**, a Partner in Brunswick's London office.



THE POWER OF TWO

PEDRO MOREIRA SALLES tells Brunswick's **MARCOS CAETANO**
how the merger that created Brazil's Itaú Unibanco
involved sacrificing control for the greater good

In 2008, Pedro Moreira Salles helped orchestrate the Southern Hemisphere's largest-ever deal in the financial sector: the merger of two leading Brazilian banks, Itaú and Unibanco. Moreira Salles, then CEO of Unibanco, credits the success of the deal in part to his constructive relationship with his opposite number at Itaú, Roberto Setúbal. Now, with Moreira Salles as Chairman of Itaú Unibanco and Setúbal as CEO, Moreira Salles says they have built a constructive institutional environment that allows the combined bank to thrive.

Moreira Salles is a member of a Brazilian family, prominent in both business and the arts, that has run Unibanco since its founding as the Moreira Salles Banking House in 1924. His father, Walther, grew the company into one of the most important components of modern Brazil's banking system and also served as the country's Minister of Finance as well as its Ambassador in Washington, DC.

While Pedro chose to follow in his father's footsteps, his brothers went into very different endeavors. Walther Junior, better known as Walter Salles, directed *Central Station*, which won many international prizes, and the Academy Award-winning *The Motorcycle Diaries*. Another brother, Fernando, co-owns one of Brazil's largest book publishers and also runs CBMM which produces niobium, an element most commonly used to strengthen steel. Youngest brother João makes documentaries and publishes the respected Brazilian magazine *piauí*, often compared to *The New Yorker*.

Pedro has chosen to focus on culture of a different sort: in the boardroom. Here, he discusses the creation of Itaú Unibanco, the influence of his father and the decision to give up his CEO seat. It is the culture of the merged company, where "one plus one is greater than two," that he feels is his greatest achievement.

Just how difficult was it to decide to merge Unibanco and Itaú?

Every major fork in the road, every critical decision, is complex for a business – and a boardroom. Certainly for me, the decision to create Itaú Unibanco was the most challenging I have faced. On the one hand, it was an exciting prospect to form a company with such enormous potential. On the other, it would create a new dynamic, one where independence – and therefore influence – could be substantially diminished.

So both you and Roberto Setúbal had to give up some control as a result of the merger?

Yes. I became the Chairman and he became CEO. For both of us, although in different ways, the merger meant an exercise in letting go. At the time, we had to make the decision to share control, and that is exactly what we did: we shared.

Before the deal, right or wrong, we could make decisions with a low level of consultation and a high degree of independence. So you relinquish some control. At the end of the day, you give up power and that's not easy.

How were you able to make it work?

We invested a lot of time. We spent almost a year and a half discussing the merger before deciding to go through with it. As our relationship developed, it became very clear how we complemented each other and exactly what our roles should be. It was a unique dynamic and, quite frankly, I don't know if the model we created could be replicated.

Why not?

It had a lot to do with chemistry, with trust. We committed to something unique that has been successfully tested many times: we agreed to agree.

Now we have a board that has been functioning for nearly eight years and many more people are involved in the process. The trust we have today is more institutional, it depends less on the two of us. When we started, we had an idea of a joint project; today we have a single project.

Did you outline what the limits of each role would be?

No. We spoke at length about how the roles would work, but we never wrote anything down. There were very few doubts about how it would be done, about what the process would be like. We also knew that we would learn as we went along. We had no road map. During the first few years, there was a

"It is the board's role to define and safeguard a vision, a direction. The company's culture can't be defined by an executive who, by definition, has a temporary mandate"

need for an intense, almost daily interaction – so much so that my desk was moved into the room of the Executive Committee, close to Roberto's.

But having been a CEO before, I recognized that we also needed a degree of separation, to make it clear that the new organization was not going to be run by a two-headed hydra.

Was the decision to split the Chairman and CEO roles partly symbolic?

Yes. We wanted to show everyone that the merger was in fact a *merger*, to reject the perception that there had been winners and losers in the process. It was a tremendous effort to try to create a culture that would represent the two organizations. For this to work, the situation demanded something more than the traditional setup of a board.

How so?

The agenda that I led went beyond the scope of a normal board and focused on people and culture. We wanted to create a personality for the bank that was neither Itaú nor Unibanco. Everyone needed to recognize this as a new era for each organization.

That was the example we wanted to set: one plus one is greater than two. And that's what ended up happening. Looking back, seven years later, it was an extremely good decision. The organization is much better than the companies that formed it.



PEDRO MOREIRA SALLES

Pedro Moreira Salles is the Chairman of Itaú Unibanco. Prior to the merger with Itaú, he was Unibanco's Chairman from 1997 to 2004. He was CEO from 2004 to 2008. He is also a Partner and co-CEO of investment firm Cambuhy Investimentos.

ITAÚ UNIBANCO

Itaú Unibanco is the largest financial group in Latin America and a publicly held company. The bank was formed in 2008 by the merger of Itaú and Unibanco. Unibanco was founded by the Moreira Salles family and Itaú by the Setúbal and Villela families.

Has the dynamic changed at all between you and Roberto?

We've never had a conversation such as, "Look, stop doing that, start doing this, this is my space, that's your space." Never. We obviously have dealt with different points of view, but we have always reached a consensus. Naturally, things change over time and our roles have moved accordingly. Today, what we do isn't the same as it was in early 2009.

What about the Itaú Unibanco board – how has that evolved?

We've changed the board substantially over these past few years. Some members retired, some were changed simply because we needed to represent different points of view.

Today, we do yearly peer reviews. Each director is evaluated by every other director. We have a much clearer picture of what works and the kind of profile we want. We try to create a mix of people: some with years of experience in the industry, CEOs from other sectors, individuals with strong academic backgrounds and some former central bankers.

Looking back to your time as CEO of Unibanco, you had a good record with really strong growth.

It was a period in which the bank did well. We assembled a group of people and gave them a new mandate. That created a sense of enthusiasm about what could be achieved, a new aspiration for innovation, growth and profitability.

As part of that, it made sense for me to assume the CEO role then. I'd been involved with the bank for nearly 20 years. Being CEO, it was easier to make decisions. I had all the company reports; I didn't have to try to influence one individual to get things done. The responsibility would be mine. But it wasn't something that I had ever had as a career goal, to be the bank's CEO.

What are the differences between the chairman and CEO roles?

The chairman and the board set the tone for the company's culture and values. This means the board should also set the standard for the type of people the organization recruits, and who, among its employees, is promoted or given incentives.

It is the board's role to define and safeguard a vision, a direction. The company's culture can't be defined by an executive who, by definition, has a temporary mandate. Although directors do change, the board in its institutional role doesn't. It is crucial to guarantee continuity. But of course, the



"That was the example we wanted to set: one plus one is greater than two. And that's what ended up happening"

CEO is the decision maker – and so the relationship returns to us two, the Chairman and the CEO. That relationship is a key element in the quality and effectiveness of any board.

You worked with your father when he was Chairman of Unibanco. Was he a big influence?

Yes. One of the most important skills I saw in him was precisely this effort to attract people with complementary skills, to get everyone to contribute. He left day-to-day activities to the executive team, but he most definitely gave direction to the company, most importantly through his emphasis on relationships.

It was my father who changed the bank's name from Banco Moreira Salles to Union of Brazilian Banks, or Unibanco, removing our family name. He wanted to get rid of the focus on personality, so the bank could grow as an institution. It worked, and that led directly to the creation of Itaú Unibanco.

Are there other companies whose culture you admire?

There are plenty, from Silicon Valley to some of the more traditional sectors. Google's culture is distinctive. So is Goldman Sachs'. Then, of course, there is Anheuser-Busch InBev, with its extremely strong culture – something at which it works very hard. More companies are coming to appreciate the difference culture can make. If you truly believe that people make a difference, then culture is the ultimate comparative advantage. To stand out in the talent recruiting war, you have to define yourself.

How important is communications in establishing a culture?

Very. The more complex, the bigger, the more geographically dispersed the organization, the more crucial the role of communications becomes.

It's impossible to speak with everyone in person; you need a way to reach them. But corporate communications is much more than the sum of distribution platforms. You need a set of key messages – and actions.

Growing a company is not an easy process. Many people cling to the past and refuse to change. To implement a change in culture, you have to have a strong communications strategy. It's very easy to talk about culture. The real challenge is getting it right.

MARCOS CAETANO is a Partner in Brunswick's São Paulo office. He previously worked for Itaú Unibanco.

WHAT WE TALK ABOUT WHEN WE TALK ABOUT DIVERSITY

The most progressive business leaders see the benefit of a broad definition, says Brunswick's **JON MILLER**

ACROSS THE WORLD, in all sectors of business, the subject of diversity is moving up the boardroom agenda. Companies are advertising their diversity credentials in order to compete for the best talent, appeal to millennial consumers and foster a culture of innovation. They are saying: we are a modern business with an open, accessible culture, a progressive workplace, and a global mindset.

From Davos to Milken to the Clinton Global Initiative, diversity is up for discussion. Business luminaries such as Warren Buffett, Tim Cook and Richard Branson are expounding on it. It is a hot topic, but what, exactly, does it mean? What are we talking about when we talk about diversity?

Understandably, “flashpoint” group differences, such as race, gender, sexual preference, religion or socio-economic class, attract most of the attention. These all carry a history of oppression in some form. But numerous other forms are nearly or equally as important for a dynamic workplace: diversity in health, experience, opinions, skills, personality, languages, wealth, values and many more.

Many businesses already have a proud history of working to allow everyone to participate in business life. In the early 1950s, as demand for IBM computers exploded, the company opened manufacturing facilities in the heart of the racially segregated southern US, where laws required separate housing, medical care, education and transportation for white and black citizens. IBM refused to comply with

those practices. As the company’s President at the time, Thomas Watson Jr., wrote: “It is the policy of this organization to hire people who have the personality, talent and background necessary to fill a given job, regardless of race, color or creed.”

This bold statement set out a business’s position on diversity more than a decade before the US Civil Rights Act. The company’s similarly progressive stand on women’s rights guaranteed equal pay for equal work in 1935, almost three decades before the US Equal Pay Act. And now, IBM is a proponent of LGB&T rights, even in countries

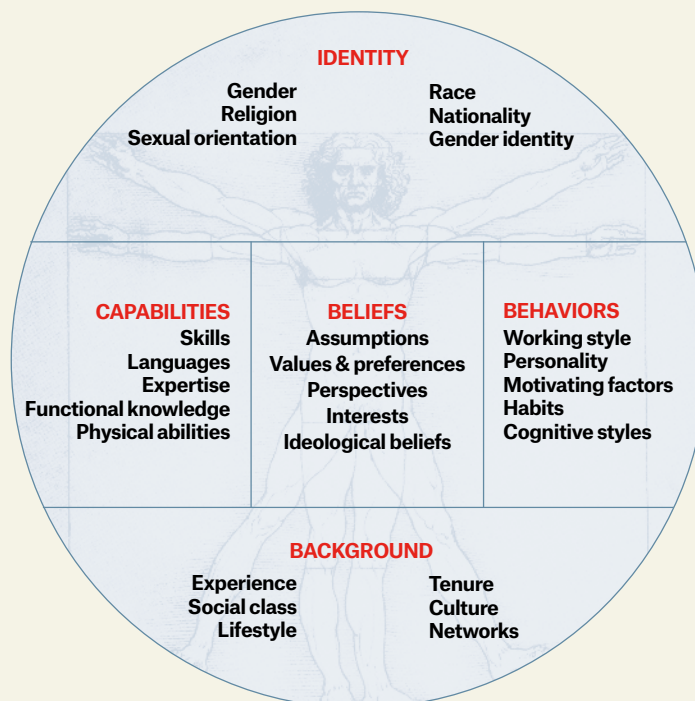
with anti-LGB&T laws (see “Open For Business” on the following pages).

Today, the conversation about diversity is led by some of the most progressive companies. At the forefront Apple, alongside companies such as Cisco and National Grid, has shifted to focus on inclusion rather than diversity, pushing the conversation forward: what matters isn’t checking boxes and filling quotas, but creating a culture where everyone can make a contribution.

See “Women in the boardroom” Page 45

JON MILLER is a Partner in Brunswick’s global Business & Society team and co-author of the Open For Business report.

DIFFERENCES THAT MAKE A DIFFERENCE





OPEN FOR BUSINESS

By Brunswick's JON MILLER and LUCY PARKER

In recent years, parts of the world have seen a growing culture of respect for lesbian, gay, bisexual and transgender individuals, and their ability to fully participate in society is often protected by law. Elsewhere, however, there is rising antagonism toward LGB&T people, who are suffering discrimination at the hands of politicians and lawmakers.

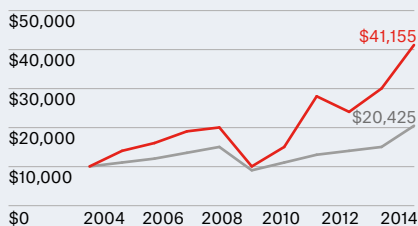
There are now more than 80 countries with laws that are repressive to sexual minorities and hostility is growing, fueled by a toxic mix of religious fundamentalism and populist politics.

The growth of anti-LGB&T sentiment has become a concern in the boardrooms of many leading global businesses. Open, diverse and inclusive societies have proven better for business, and better for economic growth.

To stem the spread of anti-gay laws, 20 international corporations have come together to launch Open For Business, a coalition that seeks to make the business and economic case for LGB&T rights. The partners are Accenture, American

PORTFOLIO IMPACT

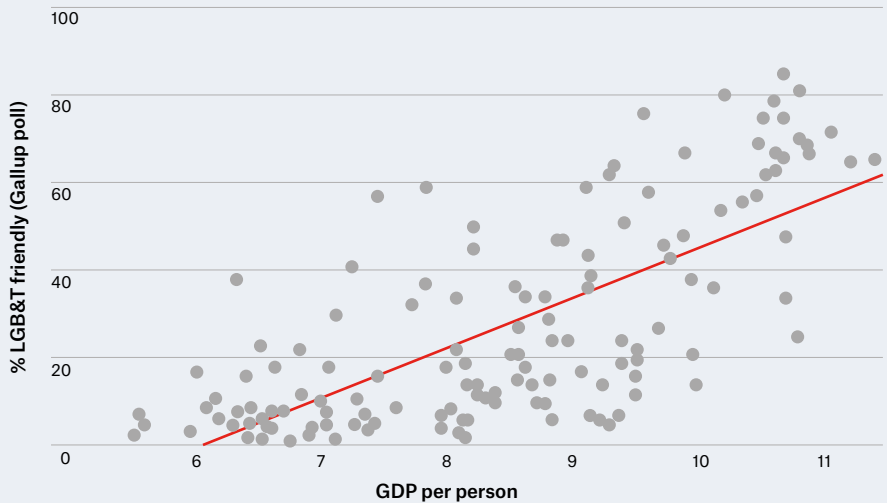
\$10,000 invested in companies ranked highly for LGB&T equality would have consistently beat the S&P 500 over 10 years



S&P 500 Index
HRC 100 companies, equally weighted
Source: Equality Funds

INCLUSION CORRELATES WITH ECONOMIC DEVELOPMENT

More prosperous economies tend to have the most respect for LGB&T rights



Log GDP per capita: less developed economies are represented toward the zero end of the scale
Source: Richard Florida, "The Global Map of Homophobia"

▲ Economist Richard Florida, in his article "The Global Map of Homophobia," notes a positive correlation between economic development and the degree of LGB&T acceptance (the red trend line above). In a separate study, Kees Waaldijk, Professor of Comparative Sexual Orientation Law at Leiden University in The Netherlands, found that on average, one additional right for LGB&T people is associated with \$1,400 more in per capita GDP

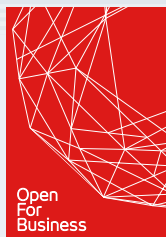
▲ In its Corporate Equality Index, the Human Rights Campaign (HRC) rates companies according to workplace policies that support LGB&T fairness. In 2014, HRC awarded 304 publicly traded US companies its top score of 100 percent. Comparing those companies with the S&P 500 Index over a similar period shows a strong correlation between share price performance and LGB&T inclusion

Express, AT&T, Barclays, Brunswick, Burberry, EY, Google, IBM, Inditex, LinkedIn, Linklaters, MasterCard, McKinsey, Microsoft, Royal Bank of Scotland, Standard Chartered, Tesco, Thomson Reuters and Virgin. Each contributes its time, resources and reputation – the first time businesses have joined together to tackle this challenge.

Alongside the moral case for LGB&T rights, there are powerful business and economic arguments. A comprehensive report published by the coalition, "Open For Business: the Economic and Business Case for LGB&T Inclusion," finds evidence on three levels:

■ **Economic performance** LGB&T discrimination often goes hand-in-hand with a culture of corruption, lack of openness, and weak civil society. LGB&T →

● **OPEN FOR BUSINESS** is a coalition for global LGB&T inclusion, comprising Accenture, American Express, AT&T, Barclays, Brunswick, Burberry, EY, Google, IBM, Inditex, LinkedIn, Linklaters, MasterCard, McKinsey, Microsoft, Royal Bank of Scotland, Standard Chartered, Tesco, Thomson Reuters and Virgin



● **THE REPORT** is the most comprehensive collection of evidence yet published on the economic and business case for global LGB&T rights, and shows that inclusion improves performance for individuals, for companies, and for economies www.open-for-business.org

In the Open For Business report, the case for LGB&T inclusion is made on three levels:

Economic Performance, Business Performance and **Individual Performance**.

These are divided into 23 Propositions:

ECONOMIC PERFORMANCE

Researchers have found a number of close correlations between economic development and LGB&T inclusion, particularly economic output per person – considered the basic measure of economic development.

They have also found that positive attitudes toward gay and lesbian people are associated with a wide range of other indicators of a region's economic and social progress, including the level of entrepreneurship, overall well-being, life satisfaction, human development and urbanization.

High-income countries are more likely than either low- or middle-income countries to have decriminalized homosexual acts or prohibited discrimination based on sexual orientation or gender identity. High-income countries are also more likely to have legally recognized some of the rights of same-sex couples.

Of course, these are correlations and do not prove causation. Yet it seems clear from multiple studies that development and inclusion go hand-in-hand.

Propositions 1 to 9
*Open For Business proposes that on an **economic level**...*

1. Urban economic growth
...inclusion signals a diverse and creative environment, which creates the right conditions for urban economic growth

2. Entrepreneurship
...inclusion results in higher levels of enterprise, creativity and innovation

3. Corruption
...discrimination often goes hand-in-hand with corrupt practices and a lack of openness

4. Foreign direct investment
...inclusion is associated with countries which attract higher levels of foreign investment

5. Global markets
...discrimination may inhibit local companies from connecting to global markets

6. Brain drain
...discrimination results in a "brain drain," the emigration of talented and skilled individuals

7. Health
...discrimination leads to negative economic consequences as a result of poor health outcomes

8. National reputation
...discrimination can shape perceptions on a world stage, with a negative impact on tourism, attracting talent and developing export markets

9. National productivity
...discrimination leads to lower levels of national productivity

BUSINESS PERFORMANCE

Some 89 percent of Fortune 500 businesses have explicit policies against discrimination based on sexual orientation. Of the 20 biggest companies in the US, 14 earned the highest score in the Human Rights Campaign's Corporate Equality Index (CEI), which rates workplaces based on LGB&T equality.

LGB&T inclusion is also strongly correlated to performance in capital markets: over a 10-year period, data shows shares of companies who score 100 percent on the CEI strongly outperform the S&P 500 Index (see "Portfolio Impact" on facing page).

The link between business performance and LGB&T inclusion holds true across the business world in sectors as diverse as law, banking, manufacturing, mining, transportation and energy.

Research by *Harvard Business Review* shows that companies with greater diversity outperform and are better innovators. *HBR* found inclusive companies were 45 percent more likely to report market share growth over the previous year, and 70 percent more likely to report that their business captured a new market.

Propositions 10 to 15
*Open For Business proposes that **businesses that are more diverse and inclusive**...*

10. Attracting talent
...are better able to compete for talented employees

11. Retaining talent
...have higher rates of retention of talented employees

12. Innovation
...have higher levels of innovation and creativity

13. Collaboration
...create an atmosphere of trust and communication, which is essential to effective teamwork

14. Customer orientation
...are better able to anticipate customer needs and to access a broader client base

15. Brand strength
...have greater appeal and loyalty with consumers who want socially responsible brands

inclusion is associated with higher levels of entrepreneurship and is correlated to economic growth.

■ **Business performance** Companies that support LGBT&T inclusion are better able to compete for talent, the evidence shows. They are also more innovative, more collaborative and perform better.

■ **Individual performance** All individuals in a company, not just the LGBT&T ones, have much higher levels of engagement and satisfaction in inclusive environments. They are also more likely to speak up with new ideas.

The world's most respected business leaders are speaking up for LGBT&T rights. Apple's CEO Tim Cook added his voice in an opinion piece for *The Wall Street Journal*, entitled "Workplace Equality Is Good for Business." He argues that equality is a critical part of the creativity that drives Apple. In a piece for *Bloomberg Business* on his own sexuality, Cook says that equality in business is good for society. "Part of social progress is understanding that a person is not defined only by one's sexuality, race or gender," he says.

It's not just boardrooms in the West that are discussing this issue. Multinationals based in emerging markets are also enacting explicit policies against LGBT&T discrimination. Companies such as ArcelorMittal, DP World, Embraer, Lenovo, Mahindra, Sasol and Tata, are among those that recognize the need for inclusion and diversity to compete in the global marketplace.

In fact, the way a country behaves toward the LGBT&T community can serve as a "canary in a coal mine." Evidence suggests that discrimination is accompanied by corruption and a broader lack of transparency. Inclusion, on the other hand, signals a healthy market in which to do business.

LGBT&T inclusion is also a bellwether for talent – another indicator of the health of a company. A business that embraces LGBT&T staff is likely to know

INDIVIDUAL PERFORMANCE

Evidence suggests that individuals working in open, diverse and inclusive environments tend to perform better. Most strikingly, a culture of inclusion and diversity can boost individual performance for everyone, not just LGBT&T employees.

The crucial link between individual performance and LGBT&T inclusion is employee engagement – the Holy Grail for today's business leadership. Creating a culture where employees feel motivated and confident is increasingly a key strategic issue in the boardroom.

An open embrace of LGBT&T individuals sends a clear signal to all employees that they are accepted and valued, that they are free to be themselves and that their contribution is welcome. A business that manages diversity well is likely good at managing people overall.

Evidence suggests that people working in open and inclusive environments are more productive, resilient, innovative and likely to go the extra mile to contribute to the life of the company. As Apple CEO Tim Cook writes, "when people feel valued for who they are, they have the comfort and confidence to do the best work of their lives."

how to get the best out of its people. Promoting diversity and inclusiveness clearly signals an open and progressive workplace for all employees.

All the evidence shows that discriminatory policies are bad for the reputation, productivity and economic well-being of countries and businesses. Countries with low levels of corruption and high levels of innovation, entrepreneurship and foreign investment, tend also to be the most actively inclusive.

Richard Branson, founder of Virgin Group, sums up the current view for

Propositions 16 to 23

Open For Business proposes that individuals in open, diverse, inclusive environments...

16. Authenticity

...are able to be themselves, instead of concealing important aspects of their identity

17. Motivation

...have higher levels of motivation

18. Affinity

...have greater affinity with the values and culture of the workplace

19. Satisfaction

...have higher levels of satisfaction

20. Health

...are free from discrimination that can cause poor mental health and physical violence

21. Speaking up

...are more likely to speak up with suggestions to improve performance

22. The extra mile

...are more likely to go beyond their formal remit and make a contribution to the culture of the company

23. Productivity

...have greater productivity – more efficient work with higher-quality outputs

LGBT&T rights from the multinational corporate boardroom: "The promoters of hateful laws often hide behind 'cultural differences' and complain that we are trying to impose our Western values. They can't do that anymore. We've moved the argument on. It's no longer just about values – it's about good business sense and good economic policy."

LUCY PARKER and **JON MILLER** are co-authors of the report, "Open For Business: the economic and business case for global LGBT&T inclusion." They are Partners in Brunswick's London office, where they lead the firm's Business & Society practice.

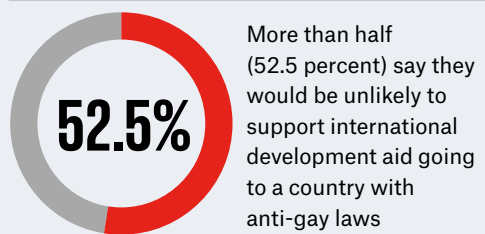
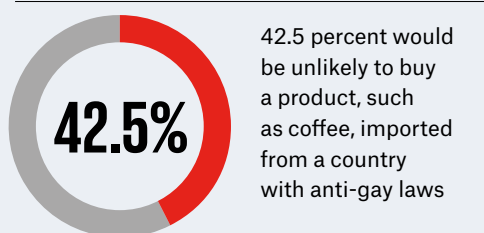
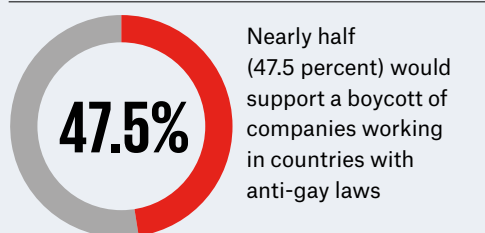
CITIES AND THE CREATIVE CLASS

It is no coincidence that the most creative cities – such as San Francisco, New York, São Paulo, London and Berlin – all have vibrant LGB&T communities. Urban economic growth requires the right mix of professions and skills – particularly the so-called “creative class” of scientists, technologists, architects

and lawyers, as well as people in design, education and the arts. Members of this group are attracted to cities where they are able to integrate easily and to flourish – and LGB&T inclusion sends a strong signal that a city is open and diverse. In turn, they become agents of economic growth, fostering innovation.

SUPPORT FOR INCLUSION

CONSUMERS ARE READY TO ACT



Open For Business commissioned a survey exploring the attitudes of the general public toward companies doing business in countries with anti-LGB&T laws. The results, published in the **Open For Business** report, show popular support for global LGB&T inclusion. In addition to the responses shown left, more than half of the respondents (51 percent) indicated they would be unlikely to take a holiday in a country with anti-gay laws

Source: Brunswick Insight

Arne Sorenson
Marriott International CEO

“The cost of inequality is a price businesses cannot afford to pay”



Tim Cook
Apple CEO

“Part of social progress is understanding that a person is not defined only by one’s sexuality, race or gender”



Howard Schultz
Starbucks CEO

“Sell your shares”

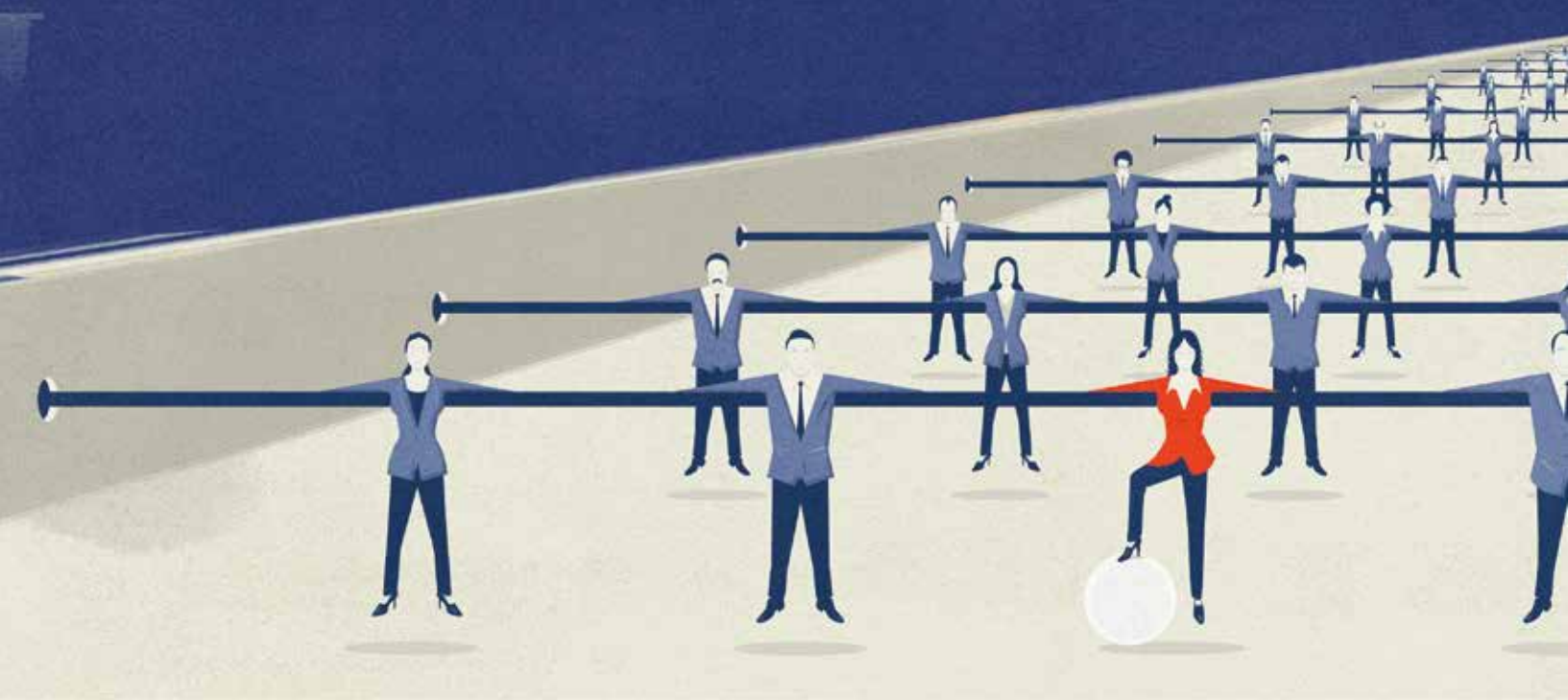
Replying to an investor who complained about the company’s support for LGB&T equality



Nandita Gurjar
Infosys Head of HR

“The focus has been to ensure employees have a safe and harassment-free workplace irrespective of their sexual orientation”





A SIDEWAYS LOOK AT LEADERSHIP

As a board member and Head of Human Resources at international conglomerate Siemens, Janina Kugel is responsible for more than 340,000 employees. When she took over human resources for America, the Middle East and Africa in 2013, Siemens was heading into extensive reforms of its businesses and strategies that required new forms of leadership. She now has a global role and joined the Managing Board in 2015.

Kugel is open, quick-minded and easy going. She questions “quasi-dictatorial” notions of authority and emphasizes effective communication. Modern leaders, she says, need to see themselves more as integrators. We spoke to Kugel about the challenges she encountered at Siemens and the changing directions of leadership.

With so many employees, how do you anchor leaders in a common culture?

We start by recognizing that there cannot be a single culture in a company that operates in more than 200 countries. Siemens Chile has a different culture than Siemens China or Siemens Germany. That being said, our values are our common

core – they unite us. We say exactly what we stand for and what our strategy is. Leaders then adapt this to their teams.

People tend to associate large companies with rigid, top-down reporting lines. You have said you favor a different style of leadership.

Yes, I do. I recognize every company needs structure and reporting lines, but an organizational chart should not dictate how a person leads. Naturally, different circumstances, cultures and processes call for different leadership styles. A large-scale construction site should be managed differently from an accounting department.

But the world is changing – quickly and profoundly. I am firmly convinced that an autocratic leadership style has no future. Our world moves too quickly, and the problems we face are too complex, for a hierarchical, quasi-dictatorial style of top-down leadership to work.

People today are less interested in working for the “right company” and more interested in being part of a team and feeling they belong. If leaders want to retain great people, they need to find ways to involve them, not talk

down to them. Leadership needs to become more horizontal.

Explain what you mean by “horizontal?”

Horizontal leadership means that the manager doesn’t need to make every decision personally, but is able to involve people in the organization based on their know-how and experience, and not purely on hierarchy. A horizontal leader takes the time to listen to employees in order to understand exactly where the problems and barriers lie. They also take the time to clearly communicate their expectations as well as feedback.

But let me be clear: involving a larger number of employees in the decision-making process does not necessarily mean every single individual’s opinion must be taken into consideration. Horizontal leadership is a balance.

That sounds great on paper, but how do you make it work in practice?

Take social media, for example. Even within a hierarchical structure, social media allows leaders to communicate faster and more frequently with colleagues, and to keep their teams informed and involved.



Siemens' **JANINA KUGEL** tells Brunswick's **KATRIN MEYER-SCHÖNHERR** and **CARL GRAF VON HOHENTHAL** that leadership needs a more "horizontal" approach

At Siemens, employees can contact me directly through our internal social network. And I reply to each employee who emails me. I don't always reply within 24 hours, and if they send me three pages I may only respond with three sentences. But they will receive an answer.

You keep emphasizing the role of communication.

Absolutely. For me, good leadership means successful communication. At Siemens, we want to motivate our employees by creating an open and friendly atmosphere to communicate and to speak up.

Some of the most important leadership changes start from the bottom up; the French Revolution did not start with the king. By the sheer force of their numbers, our employees have the strength and opinions to initiate change processes themselves.

But communication – no matter how frequent or open – is empty without follow-through. It is critical that we practice what we preach. If we claim to be tolerant of mistakes, we need to actually admit mistakes when we make them ourselves.

Can this style of leadership be taught?

To some degree, yes. We have different leadership training programs on all levels of the company. When we talk about performance management, we make it clear to our managers that not only the "what" is important, but also the "how."

But not everyone is capable of horizontal leadership – and they don't need to be, either. As I said before, a leadership style must be authentic, and appropriate for the business, the situation and the culture.

How should this change the expectations of leaders looking to bring people into their teams?

It should change their expectations fundamentally. Problems arise when managers gravitate toward employees who are similar to them, just because they feel comfortable around them. That isn't the best criteria to choose someone. A great team has members with complementary strengths, as well as a leader who understands this and delegates accordingly. Having people with different views and skills may lead to spirited debates and sharp disagreements, but it will certainly produce better results.



JANINA KUGEL

Janina Kugel is a member of the Managing Board of Siemens and serves as its Chief Human Resources Officer. From 2001 to 2012, she served in Siemens in Strategy, Executive Development and Human Resources. From 2012 to 2013, she was at lighting company Osram as Chief Human Resources Officer.

SIEMENS

With headquarters in Berlin and Munich, Siemens is the largest engineering company in Europe and a global provider of energy and medical technology, with employees in more than 200 countries.

KATRIN MEYER-SCHÖNHERR is a Partner in Brunswick's Munich office and Head of the firm's Insight practice in Germany.

CARL GRAF VON HOHENTHAL is Brunswick's Senior Adviser in Berlin, with a focus on public affairs.

TRAINING TRI-SECTOR ATHLETES

Society needs leaders confident in the nonprofit, government and business worlds, says Brunswick's **NICK LOVEGROVE**

WHAT DO THESE ISSUES have in common:

international terrorism, income inequality, climate change, infrastructure, education, healthcare, crime and corruption? Clearly, they are among the most vexing challenges of our time. But more than that, they represent complex, multi-disciplinary problems with various stakeholders who hold contrasting views on cause and effect, and have even greater disagreements about possible solutions.

For that reason, such problems cannot be solved solely by governments or any other single sector of our society. They can only be effectively addressed by government, business and civil society working together to provide lasting, sustainable solutions. For that, we need more leaders to be tri-sector athletes – able to engage across the divisions between the private, public and nonprofit worlds.

While they will likely have developed their broad capability by working in each of the three sectors at various stages of their careers, these individuals are distinguished as much by their mindset as by their experience. They can appreciate the needs, aspirations and incentives of people in all three sectors; they can speak the local language. When challenges arise for our organizations, we need leaders with those skills to help navigate the complexity of the modern world.

For instance, in 2008 and 2009 when the financial crisis threatened to wreck the global economy, the response was led by tri-sector athletes such as Hank Paulson and Tim Geithner in the US, Mark Carney in Canada, and Adair Turner in the UK. And some of the most successful CEOs in today's business world have played important roles in addressing major social challenges – people like Indra Nooyi at PepsiCo on water security, Paul Polman at Unilever on environmental sustainability, and Howard Schultz of Starbucks on the development of jobs and skills.

Yet as the tri-sector leaders who are needed to address such challenges are becoming more valuable, they are also becoming harder to develop. This is the result of a widening disparity between salaries in business, government, and at nonprofits, and the differing incentives and cultures of the three sectors. As Jack Donahue, a professor at Harvard's Kennedy School observes, "government is impermeable and business is sticky."

That's unfortunate, because research suggests that people who have succeeded in crossing sectors have had notable careers as leaders. Many have consciously sought to broaden their career experience and professional capability by doing so, and as a result have developed and applied six distinguishing traits of tri-sector athletes:

Moral compass Successful tri-sector athletes find ways to pursue overlapping and potentially conflicting professional goals. They do so by applying a very robust moral compass that enables them to build their career with a coherent purpose and secure sense of "right and wrong," so that they can navigate through conflicting motivations when they need to. Tri-sector athletes in business pursue not just shareholder value, but also "public value" – gain for society as a whole, not just for the corporation. As Bill Gates has argued, a "hybrid engine of self-interest and concern for others serves a much wider circle of people than can be reached by self-interest or caring alone."

Intellectual thread Many tri-sector athletes concentrate on a particular issue or theme over time, building subject-matter expertise in the process. This bolsters their credibility and capacity to cross sector boundaries, magnifying their effectiveness when they do so – they are no longer a "jack of all trades, master of none." In turn, by moving between sectors, they also increase the salience and impact of their subject-



“Tri-sector athletes ... recognize the similarities in seemingly unconnected situations, and sometimes identify unorthodox solutions”

matter expertise. This was illustrated by Julius Genachowski who spent more than a decade at IAC, the innovative media and technology company, before returning as Chairman to the US Federal Communications Commission, where he had started his career.

Transferable skills Business executives excel at allocating scarce resources to capture attractive market opportunities. Government officials bring competing interests together to create legal and policy frameworks. Nonprofit leaders devise creative ways to further the social good. Tri-sector athletes acquire elements of all three skill sets and, as they apply them to new challenges, they strengthen their ability to work across sectors. This enables them to recognize the similarities in seemingly unconnected situations, and sometimes

identify unorthodox solutions. (See the example of Steve Rattner on the next page.)

Contextual intelligence To select the right tools in their repertoire, tri-sector athletes must not only see parallels between the sectors, but also accurately assess the differences and translate across them. This is rooted in the very simple observation that *context matters*. Success often depends on an elevated ability to understand and adapt to different types of environments. For instance, the distinguished businessman and environmentalist Roger Sant took the style and approach he used in his early career in government and successfully applied it to a large energy business when he founded and ran US company AES. He used it again in another context when he chaired the World Wildlife Fund and other environmental nonprofits.

Integrated network When you ask people about the secrets of their success, they typically talk about other people – mentors who helped their careers, partners and collaborators who helped them tackle a difficult problem and friends who helped them through difficult times. Each of us has a network. Tri-sector athletes build broader and more diverse networks in order to strengthen their leadership teams, convene the groups needed to address knotty problems, and widen their own range of professional opportunities.

Prepared mind Tri-sector athletes build their careers according to the principle laid out by Louis Pasteur, “In the fields of observation, chance favors only the prepared mind.” They recognize that they must be prepared to make professional and personal choices – to be ready emotionally, intellectually and financially.

To paraphrase President Kennedy in his declaration of America’s commitment to go to the moon, people choose to be tri-sector athletes not because it is easy, but because it is hard. It is always inspiring to meet exceptional people who are building brilliant careers dedicated to addressing some of our society’s most difficult problems.

“To paraphrase President Kennedy ... people choose to be tri-sector athletes not because it is easy, but because it is hard”

But in most parts of the world, the tri-sector athlete is not yet the prevailing model for leadership success. For those who are willing to embrace the challenge, it requires tough choices, sacrifices and discipline. The result for the individual will be a more consequential and fulfilling life and career. Society, in turn, will gain a leader with more robust and creative approaches to our most vexing problems.

To help achieve those results, we need to change the way we select and develop future leaders in business, government and the social sector. We need to incorporate tri-sector issues in formal academic and executive training; set up exchange programs so that mid-career leaders can build cross-sector networks; and make the tri-sector experience a talent development priority for business leaders and prospective CEOs.

Only then will we create more of the tri-sector athletes we need to tackle the challenges of the 21st century.

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NICK LOVEGROVE is the Managing Partner of Brunswick’s US practice. He joined from McKinsey, where he spent more than 30 years working with clients in the public, private and nonprofit sectors. He is the author of *The Mosaic Principle*, to be published later in 2016.

STEVE RATTNER, THE “CAR CZAR”

Successfully leading the government’s effort to save the automotive industry drew on all the skills in his broad, tri-sector background

In 2009, without a day of experience in the car industry, Steve Rattner was appointed US “Car Czar” by President Obama. In the midst of a full-blown economic crisis, Rattner went on to lead a turnaround in the fortunes of the US automobile industry.

His story illustrates the capacity to transfer skills and experiences from one sector to another. Now a high-profile financial news commentator and Chairman of the investment company for Michael Bloomberg’s philanthropic assets, Rattner began as a reporter on politics and economic issues with *The New York Times*.

That led him to investment banking, where he spent more than two decades, while also taking on nonprofit and political

leadership roles. When the economic crisis hit in 2009, Rattner was asked by the incoming Obama administration to lead the task force that charted the auto industry’s recovery

path. “It turned out this was a problem we could fix,” Rattner says. “The financial restructuring skills that I and others had brought to government were directly relevant.” But that financial background was only one part of a broader skill set, drawn from work in public, nonprofit and private business.

“That’s why they wanted me,” Rattner says. “They thought that I could navigate this sensitive set of issues. I was certainly not hired because of my auto experience, which was precisely zero.”



Steve Rattner led President Obama’s Task Force on the Auto Industry in 2009



MIND GAMES

Social dynamics that embrace a variety of personality types can be critical to a board's success, say Brunswick's **ROBERT MORAN and **SARAH SALKY****

WHAT SORT OF TRAINING do board members believe would be most useful for them? Succession planning? Negotiation skills? Leadership development? According to a 2014 survey by the International Finance Corporation, a unit of the World Bank, most directors want to improve their “ability to deal with different personalities” — a sentiment shared by three out of every four who were polled.

This makes sense: we prefer working with people who are similar to us. Yet leaders should be wary of the inclination to see difference as an obstacle. Easy agreement, with little or no debate, can blind directors to important alternatives.

“I’m always amazed at how common groupthink is in corporate boardrooms,” Jeffrey Sonnenfeld of the Yale School of Management says in a 2002 *Harvard Business Review* article. “Directors are, almost without exception, intelligent,

accomplished and comfortable with power. But if you put them into a group that discourages dissent, they nearly always start to conform.”

An abundance of research suggests diverse boards outperform homogeneous ones. Traditionally, diversity has been defined by categories easily seen and measured: experience, gender and ethnicity. And these certainly do help create a balanced, inclusive leadership team. But diversity in appearance does not always translate into diversity of thought, particularly where differences of opinion are not properly valued and encouraged.

The ability to appreciate such personality differences can run counter to human nature. For instance, a study by the *Industrial and Organizational Psychology* journal found that while only half of the general population are extroverts, 96 percent of executives display extroverted personalities. Given that most boards are

staffed by former or current executives, the ratio in boardrooms is fairly similar.

Yet introverts have proven to be exceptional leaders. Both Abraham Lincoln and Mahatma Gandhi are considered to have been introverts, based on their writing as well as the observations of their contemporaries. Research indicates that introverts also serve as a counterbalance: they invite more conversation, exercise more caution and entertain more analysis than their risk-prone, extroverted counterparts.

Even such a cursory look at these broad types of personalities and the ways they interact can be beneficial to the interactions of a group. Psychiatry pioneer Carl Jung first observed this when he classified people as extroverts or introverts in the 1920s. Building on Jung's work, the Myers-Briggs Type Indicator was created in 1943.

Myers-Briggs proposed 16 distinct personality types that describe the way people interact with the world. These are still widely known and used today. But while they can provide interesting insights into patterns of interactions between personalities, they are far from a definitive predictor of how such interactions will fare.

"Myers-Briggs is information that is used to facilitate development and discussion," says Thomas Saporito, Chairman and CEO of management psychologists and consultants RHR International. "Those tests can be really helpful, if used in the right way. But they should never be used as the basis for a hiring decision."

Plenty of other tests have been created since Myers-Briggs. *The Wall Street Journal* reported in 2014 that workplace personality testing was a \$500 million dollar industry, growing between 10 and 15 percent per year. A Swiss startup, Karmagenes, is even experimenting with DNA testing to determine aspects of personality.

Yet none have definitively solved the issue of personality screening, even for low-level employees. And creating a good mix of personalities in the boardroom is a far greater challenge.

"What we know from our experience and from our research is that the dynamics of the board are the differentiators," Saporito says. A board functions best when its different personalities are in tune with one another, regardless of personality, he says. "The devil is in the dynamics."

Sonnenfeld, in his *Harvard Business Review* article, goes further, placing concerns for dynamics above even those of corporate governance. "The key isn't structural, it's social," Sonnenfeld writes. "The



Leaders should be wary of the inclination to see difference as an obstacle

most involved, diligent, value-adding boards may or may not follow every recommendation in the good-governance handbook. What distinguishes exemplary boards is that they are robust, effective social systems."

For executive assessments, Saporito and his team rely on rigorous strategies, often involving psychometrics and cognitive functions analysis. To avoid disturbing the nuanced dynamics of the boardroom, however, keen professional judgment needs to be employed in a less clinical approach.

"So, what would we interview for? It would depend on the dynamics of that particular board," he says. "There is no standard checklist."

The foundation is a clear, detailed company strategy, he says, with the overall board makeup always in mind. "Strategy drives leadership models, drives culture, and ultimately drives the question of fit," Saporito says. "Not only how this person will fit the company and the culture as it is today, but also the culture as it needs to evolve."

Obviously, a difference in personality or point of view alone isn't enough, he says. Executives who "like to fly solo," for instance, without regard for the opinions of the group, should be flagged. "Good board members bring a point of view and they know how to debate that point of view in a way that helps advance the discussion, as opposed to creating a dissonant atmosphere," he says.

If there's one thing leaders could do to ensure that the conversations of its board are constructive, Saporito says, it would be to appoint a "wise, inspired and trustworthy lead director." Open communication can unleash the power of the board, he says, and the lead director is "the key to focus the complex underlying dynamics."

The results from the International Finance Corporation study suggest that directors appreciate the importance of social dynamics in the boardroom. But it also shows they need to aim for a standard higher than simply being able to work together and "deal with" those who they deem different.

In the survey, board members seemed to equate "different" with "difficult." Training might be a good idea, but the truth is that different personalities should not be seen as a problem to overcome, but an advantage to be embraced.

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ROBERT MORAN leads Brunswick Insight, the firm's public opinion research function and is a Partner in Brunswick's Washington, DC office.
SARAH SALKY is an Associate in New York.



THE NONPROFIT LIFE IS NO PARTY

A board seat on a nonprofit used to be more of a social function. Today it is all business, says Brunswick's LISA SINGLETON

The author serves on several nonprofit boards in Dallas, Texas. Here she investigates how boards have become more professional.

AS THE ECONOMY tightened after 2008 and corporate boards came under intense pressure to deliver for shareholders, the nonprofit world was also struggling. Charitable giving dwindled, straining the ability of organizations to fulfill their missions, and more donors sought closer accountability for their contributions.

Nonprofit boards were forced to evolve. Once considered pastimes for the leisure class, today they operate much more as for-profits do, with strong businesspeople at the helm and rigorous expectations for members. No longer can they afford to be seen as volunteer opportunities or social stepping stones – the purview of those who want to use the board to broaden their network or increase their standing in the community. Donors who want to have their name on the board but do little else are finding few open doors.

“It’s not just well-intentioned people running these organizations, as in the past,” says Paige Flink, Executive Director of The Family Place, the largest service provider for victims of family violence in the Dallas area. “What we are seeing now are nonprofit leaders with distinct skills suited to advancing the organization.”

Rowland K. Robinson, President of the Baylor Health Care System Foundation in Dallas, says expectations are changing. “The nonprofit business is extremely competitive,” he says, “and the board needs to reflect the environment where dollars are under pressure.”

Robinson looks for directors who can offer an exact mix of resources and skills to best support fundraising efforts.

“I look for three characteristics: a connection with my organization; passion for what we do; and resources – either their own or from elsewhere, but they need access to the means to give. I need all three from my members.”

Mary Anne Alhadeff, CEO of North Texas Public Broadcasting, a nonprofit media organization, agrees: “If someone is searching for a board seat to raise their profile or for personal gain, we are not the right fit. I need businesspeople who are passionate advocates for what we do. My donors are my shareholders, and I need to keep them happy. The right board can make that happen.”

The professionalization of the nonprofit board brings inherent challenges that would seem familiar to any publicly traded corporation, such as succession planning, term limits and director evaluation. Putting best practices into place can make all the difference.

“The term for a board chair can have a significant impact on an organization,” says Alhadeff. Term limits and other structural parameters need to be balanced to deliver the organization’s vision, she says. Board member responsibilities and measures of effectiveness need to be spelled out for the relationship with management to be successful.

“At The Family Place, in vetting potential board members, we communicate the expectations clearly, up front,” says Flink. “Then, a board ‘report card’ is compiled at the start of each year – did they do what was outlined? Did they deliver against expectations? There is very real accountability.”

Both Robinson and Alhadeff stress that effective executive or advisory committees are critically important. While the full board can be effective as ambassadors for an organization, these smaller panels function as advisers for the CEO and management staff and are often where the real work gets done.

In the end, getting board dynamics right is critical to the ability of any nonprofit to fulfill its mission.

“The board of directors can be the single biggest threat to a nonprofit,” says Alhadeff, “but also its single biggest opportunity to achieve its goals.”

LISA SINGLETON is a Director in Brunswick’s Dallas office, advising on critical issues.



WELCOME TO THE NEW MATH, MR BEZOS

A change in a *Harvard Business Review* calculation shows how society is redefining leadership for the 21st century, says Editor-in-Chief **ADI IGNATIUS**

IF YOU CONSIDER A COMPANY'S share price to be the best measurement of leadership, you are way behind the times. That was the thinking behind our decision to change the way the *Harvard Business Review* compiles its annual calculation of the world's 100 best-performing CEOs.

Last year, for the first time since we debuted the ranking in 2010, we factored in environmental, social and governance (ESG) performance. Even weighted at 20 percent, adding ESG to the equation changed absolutely everything – it upended the rankings more than we anticipated. Amazon CEO Jeff Bezos fell from No. 1 to No. 87, for example, and Reed Hastings of Netflix fell off altogether.

The results surprised me, but they didn't make me second-guess our methodology. In the past, we'd compiled the list based solely on country-adjusted shareholder return and market capitalization. That was scientific and objective, which felt right, yet something felt increasingly wrong.

We write so much in *HBR* about how leadership means more than investor returns – how could we keep putting out a leadership list that relies solely on financial metrics? We needed to walk our own walk. To do that, we worked with Sustainalytics, a

"Measuring ESG obviously isn't as simple or as reliable as share price, but it is certainly more profound and needs to count"

sustainability research and analysis consultancy with a 20-year track record of working with investors and financial institutions. Their methodology relies on a rigorous, fourfold combination of a company's handling of ESG: risk preparedness, disclosure according to international best-practice standards, and quantitative and qualitative performance. Within those categories, the analysis looks at a broad range of indicators for some 4,500 companies around the world.

Since the list came out, people have asked me whether a CEO could be ranked No. 1 in both financial performance and ESG, or whether the two are mutually exclusive.

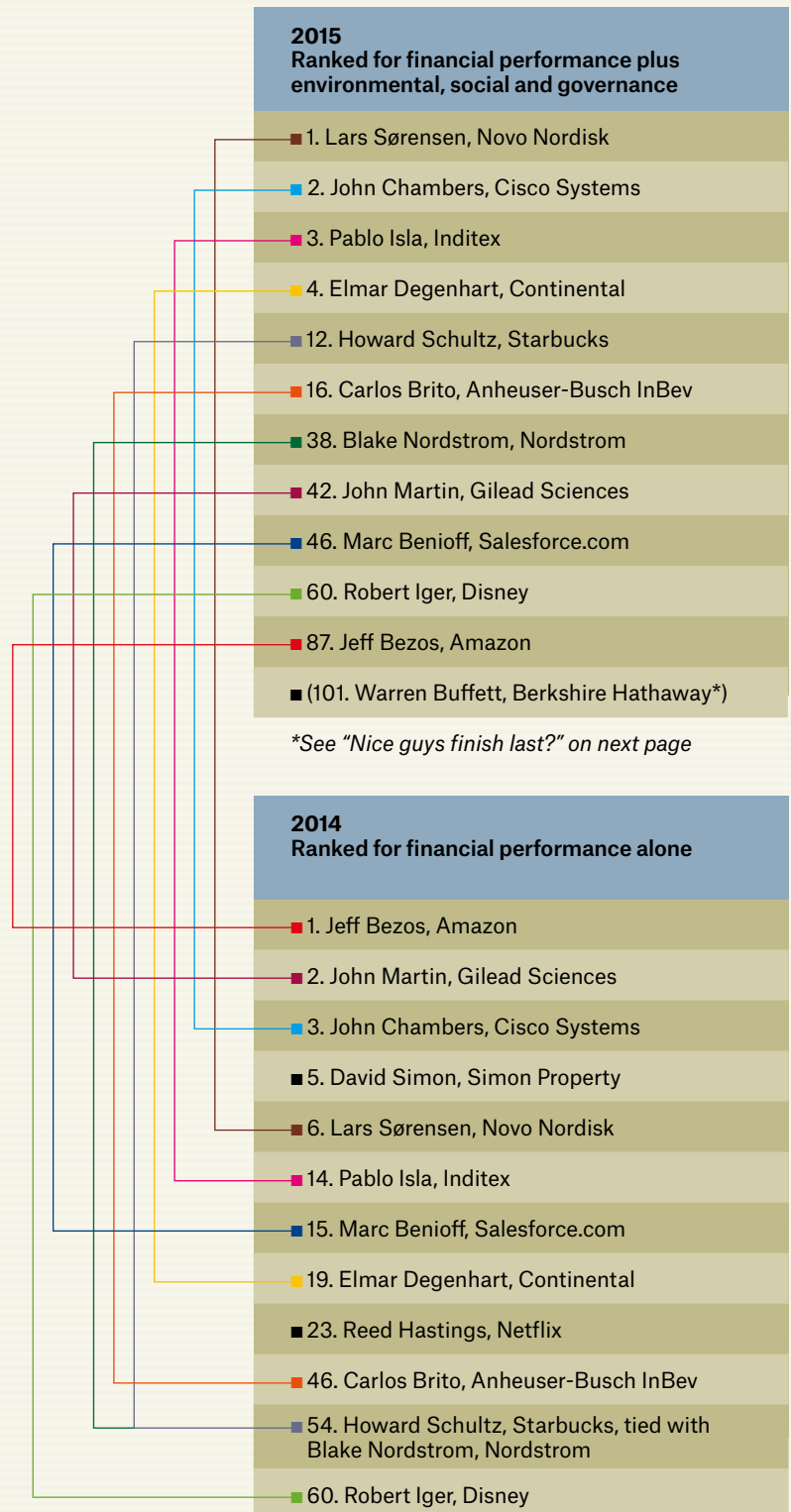
It is a fair question, but if you look at the full list on our website, which discloses CEOs' rankings in both arenas, you will see that Lars Sørensen, CEO of Danish pharmaceutical giant Novo Nordisk – our new No. 1 – came in sixth on financial metrics and 15th on ESG terms. Both are fairly high rankings and that is not typical. That is how he ended up at the top of this year's list. On the whole, though, I don't think that doing well on ESG punishes people or acts as a counterbalance for doing well financially.

A few comparisons between 2014 and 2015 provide some additional evidence that the ranking system change isn't a form of sabotage. John Chambers, CEO of Cisco, held nearly the same rank in both years, moving from No. 3 to No. 2. Robert Iger, CEO of Disney, held his rank at No. 60 on the list in both years. Other best-performing CEOs from 2014 benefited from the inclusion of ESG in the ranking calculation in 2015. Carlos Brito at Anheuser-Busch InBev, for instance, rose from No. 46 in 2014 to No. 16 in 2015.

Warren Buffett's case, as we explained in the article "Where's Warren Buffett?" in *HBR*, is a bit more complicated as he wasn't eligible for the list in 2014 according to the way the ranking was calculated. He was included in 2015, but came in at 101 – just missing the cutoff. That was due largely to the shift in the metrics. Buffett's very low ESG placement was enough to pull him down dramatically.

CHANGING PLACES

In 2015, *Harvard Business Review* changed the way it ranked its 100 top CEOs. For the first time, it factored in environmental, social and governance (ESG) performance, in addition to financial performance. ESG was given a 20 percent weighting which had a big impact on the rankings



One lesson learned from the changed rankings is that American and European companies may not be directly comparable. In Europe, Sørensen benefits from the fact that Scandinavian corporate governance requires companies to meet certain ESG yardsticks. That's fairly common in Europe, but such standards in the US are more discretionary.

Other aspects of the leadership position at Novo Nordisk seem a bit out of place in the US. Sørensen's salary, while higher than that of his employees, is one of the lowest of the top-rated CEOs on our list, for instance. In an interview after the rankings were published, Sørensen told *HBR* that his relatively low compensation is a reflection of "the company's desire for internal cohesion."

Sørensen believes cooperation within the company is easier to achieve when CEO compensation is closely aligned with other employees.

"I have a Scandinavian leadership style, which is consensus-oriented," he says in the interview. "That principle is enshrined in our management procedures. I'm obliged to reach consensus with my colleagues on all decisions, and if we can't, any objection needs to be reported to the board."

According to Sustainalytics, Novo Nordisk's ESG ranking benefited from some key leadership

"How could we keep putting out a leadership list that relies solely on financial metrics? We needed to walk our own walk"

decisions: offering insulin at a steep discount to consumers in developing countries; transparent and limited political lobbying practices; and a responsible policy on animal testing.

Measuring ESG obviously isn't as simple or as reliable as share price, but it is certainly more profound and needs to count. My view is that we as a society are going to be thinking more about ESG as the world comes to grips with curbing emissions and combating climate change.

We also live in an age of proliferating sensors and the "Internet of Things" that will help us measure environmental and sustainability impact in new ways. Our new methodology gives us confidence that we're doing a better job of dealing with the many facets of what makes a good leader.

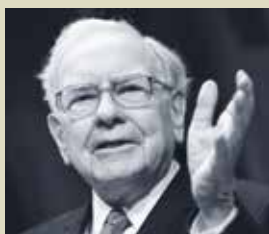
To read the full report go to: www.hbr.org

ADI IGNATIUS

Editor-in-Chief of Harvard Business Review since January 2009, Adi Ignatius previously was Deputy Managing Editor for *TIME* magazine. He worked for many years at *The Wall Street Journal*, serving as the newspaper's Bureau Chief in Beijing.

Adi Ignatius spoke with **SARAH LUBMAN**, a Partner in Brunswick's New York office.

NICE GUYS FINISH LAST? THE SPECIAL CASE OF WARREN BUFFETT



The Berkshire Hathaway leader is one of the world's most successful CEOs, a man *Forbes* called a "corporate deity." He also is a leading philanthropist. So why didn't Warren Buffett make *HBR*'s list?

In *Harvard Business Review*'s 2014 list of 100 Top CEOs, Warren Buffett was nowhere to be seen. By *HBR*'s own estimation, the Oracle of Omaha has delivered "astronomical" returns for investors during his 45 years at Berkshire Hathaway. The 2014 *HBR* ranking was based entirely on financial performance. So why was he excluded?

The reason is that industry-adjusted returns are unavailable for any company prior to 1995. That means *HBR* had to choose: include CEOs based on career performance since 1995, or remove CEOs whose careers began before that year. In 2014, the editors chose exclusion; Buffett was left off.

In 2015, *HBR* decided to calculate the financial returns of these CEOs "as if they began on January 1, 1995." This still penalizes Buffett, as it ignores the value he created during his previous decades at Berkshire Hathaway. Even so, based on financial performance alone, Buffett would

have ranked in the top 25, out of the 907 CEOs considered. However, Buffett's ESG ranking was 798 out of 907 CEOs, putting him just below last place in the final 2015 tally. *HBR* says Berkshire had poor social and governance reporting, low incorporation of ESG issues into investments, and weak sustainability initiatives.

That red ink on the Buffett social responsibility ledger seems ironic, as he famously pledged in 2006 to donate 99 percent of his Berkshire Hathaway stock holdings to charity. In 2010, he started the "Giving Pledge" with Bill and Melinda Gates, asking billionaires to give away more than half of their wealth, while alive or in a will. As of 2015, 137 billionaires had joined the pledge.

According to *Forbes*, Buffett's lifetime donations so far top \$25.5 billion. For those keeping score, that still leaves him with a net worth estimated at around \$60 billion.

— **SARAH LUBMAN**



GOODBYE, OLD BOYS' CLUB

The key to filling board seats with the right people is to look beyond the usual suspects, says **JUSTUS O'BRIEN** of search firm Russell Reynolds

IN THE EARLY DAYS of our Board & CEO Practice, companies typically filled board vacancies by making a list of available, retired or active CEOs from the upper echelons of the business world. This “old boys’ club” approach, focusing on a small pool of talent, doesn’t really exist anymore and hasn’t for a while.

In addition to three or four CEOs, you now see boards where directors have expertise in accounting, cybersecurity or communications, as needed. And in today’s global market, international experience is particularly valuable. To find these specialized skills, you need a much more rigorous approach than simply dusting off a Rolodex or thumbing through a stack of résumés with familiar names.

Our process begins with a close analysis of a board’s strategy, dynamics and culture. This gives us a clear picture of what skills and personalities the board requires, and allows us to create a thoughtful succession road map. We find that clients themselves don’t always know exactly what they need until we have done that analysis together.

For example, one might have a large presence in a certain country and say that they want a director with experience from there. But our analysis could reveal that instead, they need someone with the skills to navigate the regulatory challenges facing their industry.

Clarity is essential throughout the entire process. Two clients may use the same word yet mean very different things. Everyone wants a “digital” person on the board, for instance: but what does that



mean, exactly? Consumer interaction, back-end systems and data security are all digital, but they are different skill sets.

Similarly, the topic of diversity has become more nuanced. Most companies expect us to produce a diverse pool of candidates, but each one has to be able to make an important contribution to the board. That comes first. The few companies who still have a “check the box” mentality on diversity continue to miss the point – and the opportunity.

Well ahead of a potential vacancy, the best boards are busy “soft recruiting” – identifying potential candidates and introducing them to other directors, often at social gatherings. By constantly expanding their network of personal relationships, these boards are able to plan ahead and choose from a robust list, rather than scramble to fill an empty seat.

Making contact is important; staying in contact might be even more so. It is a very competitive market. A CIO, a Google executive, a Fed vice-chairman – they

might not be available now, but they could be in a year or two. The only way to know for certain is by maintaining a dialogue.

As demand increases, we’re always on the lookout for new places to find candidates. For example, universities, large foundations and nonprofits are big, global institutions with hefty budgets and lots of employees. The people who run them are often very impressive, with great experience, from public policy to communications. All this translates well to the needs of a corporate board.

And how do we make the case for a new face? You’ve heard of six degrees of separation. We find that even for an obscure candidate, someone on the board will know someone who knows them. It’s just a case of reducing the perceived risk.

Building this familiarity helps boards be more confident in their decisions. That’s one of the reasons the old boys’ club lasted as long as it did: people gravitate to those they know and feel comfortable with. It’s human nature.

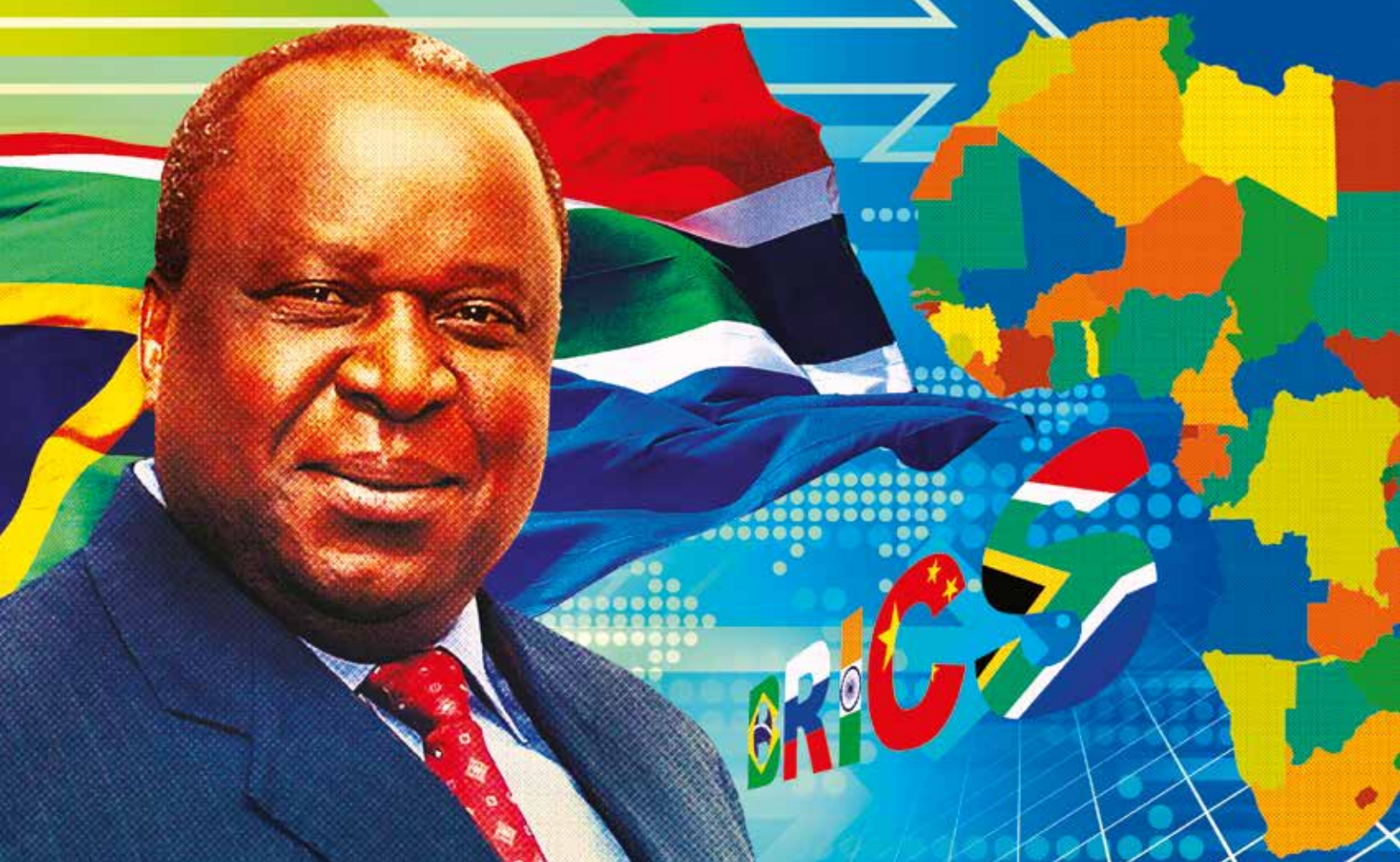
JUSTUS O'BRIEN

Justus O'Brien co-leads Russell Reynolds' Board & CEO Practice, advising global clients ranging from Fortune 500 corporate boards to startups.

RUSSELL REYNOLDS

Founded in 1969, Russell Reynolds works with organizations around the globe in succession planning and recruitment of board directors, CEOs and other executive positions.

Justus O'Brien spoke with **NICOLE REBOE**, a Partner in Brunswick's New York office who leads international senior-level recruitment.



AFRICA'S LION AT LARGE

Former Reserve Bank Governor
TITO MBOWENI tells Brunswick's
MARINA BIDOLI how corporate
responsibility is reshaping boards
and the global economy

ON GOLDMAN SACHS' campus in the affluent Sandton section of Johannesburg, Tito Mboweni arrives for the interview dressed in a colorful silk shirt, a style worn by the late Nelson Mandela and known as a "Madiba" shirt after the affectionate nickname and clan name of the iconic anti-apartheid leader. Mboweni worked alongside Mandela for decades during his rise to power. When Mandela became the first black President of South Africa in 1994, Mboweni served in his cabinet as Labour Minister and from 1999 to 2009 as South African Reserve Bank Governor.

Today, Mboweni is best known as an independent businessman and adviser. But his government experience in particular has given him a powerful voice in international business and financial affairs and made him an unofficial emissary for his country. He appears to relish his freedom to influence opinions and policies, particularly in Africa.

"I do not have any mandate to do this but I have an important role to play," he says. "My role is a thinking role. My reports are to those who care to listen."

Mboweni regularly meets with investors in Africa, Europe and the US who are interested to hear his observations beyond South Africa itself, he says. “We also talk about Kenya, Ghana, Nigeria and other markets. I get a sense of how they view the region and how this impacts their investment decisions. This is a useful feedback loop. I convey this back to corporates and governments as I meet them around Africa.”

On social media, he reaches an even wider audience. With 5,000 Facebook friends (the maximum allowed) and around 140,000 followers on Twitter, he has used digital platforms to spur action on everything ranging from South Africa’s national debt to the repair of local roads in his native Tzaneen, in the province of Limpopo. His remarks frequently go viral.

“I complained and complained about the condition of a certain road,” he says. “Potholes everywhere. They were giving me a long story, not giving me a straight answer. So I went to Twitter and posted, ‘This road is a crime against humanity.’ Now the road is being fixed. They responded because of pressure they got from the public as a result of that tweet. It was no longer just me complaining.”

Mboweni is not afraid of rattling corporate and national political leaders, including those in the African National Congress. The former South African Reserve Bank Governor is chair of three boards and a director on several others.

He is also an International Adviser for Goldman Sachs. In every role, he emphasizes the same overarching theme: financial and corporate discipline must be grounded in economic and social reality.

His opinions are sharply worded and his tone usually blunt. In late 2015, he warned that South Africa and state-owned enterprises were at risk from a possible downgrade of the country’s debt and blamed the leadership, according to South African media outlet *Eyewitness News*.

“If some of these institutions were private sector companies, lots of people would be fired by now because it’s basic dereliction of duty, maladministration, bad corporate governance; we can’t have that kind of thing,” he said.

He doesn’t limit his criticisms to public officials or even his countrymen. In June of the same year, a dispute erupted on Twitter between Mboweni and Jonathan Moyo, Education Minister for neighboring Zimbabwe. The two men engaged in a heated exchange while trading jabs over politics and economic policies. The battle made headlines for weeks before they publicly called a truce.

BANK FOR THE BRICS

Formerly Chairman of AngloGold Ashanti, one of the world’s largest gold producers, Mboweni currently invests in a variety of enterprises and serves as Chairman at packaging group Nampak, Accelerate Property Fund, and oil and gas explorer SacOil. He’s also a non-executive director at health insurer Discovery and cement supplier PPC.

In 2014, he took on a role likely to make him even more visible internationally when he was named a non-executive director on the board of the New Development Bank (NDB) – or “BRICS bank” – created by leaders of the five top emerging economies, Brazil, Russia, India, China and South Africa, as a financing alternative to the World Bank.

“The boards of these companies need to see themselves as responsible corporate citizens”

TITO MBOWENI

From 1999-2009, Tito Mboweni was Governor of the South African Reserve Bank. He is Chairman of the pan-African packaging group Nampak, oil and gas company SacOil, and Accelerate Property Fund. He is also an International Adviser at Goldman Sachs and serves as a non-executive director on the board of the BRICS-financed New Development Bank.

In a 2015 editorial in South African newspaper *Business Day*, Mboweni described the International Monetary Fund and the World Bank as bullies that force “all forms of conditionalities and policy dictatorship” on BRICS countries. The New Development Bank, he writes, “seeks to develop the ‘next practice’ because the ‘good practice’ of old has not been sufficient.” The BRICS bank’s approach to development financing will be one that “shows some respect” for emerging market countries.

The headquarters of the NDB officially opened in Shanghai in 2015 and the institution hopes to start lending in 2016. The launch is particularly timely for South Africa, as Mboweni and others have publicly warned of the threat of economic recession and a possible downgrade of the country’s debt. That would make it even harder to get funding for new businesses and projects. South African utility Eskom has already said it would approach the NDB for much-needed infrastructure development.

PRESSURES OF ACTIVISM

The establishment of the BRICS bank is part of a growing awareness that financial and corporate practice are inextricably linked to social conditions, Mboweni says. That trend is pushing

boards toward transparency in emerging markets just as it is with their counterparts in the US and Europe. “Most companies today are transnational,” Mboweni says. “The boards of these companies need to see themselves as responsible corporate citizens.”

That means they need to comply with local laws, adopt best-practice principles of governance, and align the needs of shareholders with the needs of the environment, workers, customers and partners.

“Responsible companies have to address all of that and it is up to the board, no matter where they are, to hold the executives accountable,” he says.

In emerging markets, as in the US, institutional funds act as shareholder activists and sharpen the focus on accountability where governance is concerned, he points out. “In Cape Town, they follow the same approach as in Boston. The expectations are everywhere the same.”

Social activism is also creating pressure. Mboweni remembers when Goldman Sachs was surprised by a group of nuns and religious investors that showed up at the annual general meeting to protest the way the Wall Street bank compensated its executives. Environmental activists continue to challenge boards and make headlines worldwide, forming “a global platform” to scrutinize corporate behavior and influence votes at annual general meetings, Mboweni says.

This global pressure on standards of corporate governance and the makeup of the boardroom means that companies have necessarily become



The BRICS bank's approach to development financing will be one that “shows some respect” for emerging market countries

more responsive to a broader selection of stakeholders, not just major shareholders, he says.

“We are a long way from the days when boards of directors were representatives of a family who were the owners, just looking after the interests of the family,” he says. “Those days are gone. In fact, for publicly listed companies, it is frowned upon when the board of directors is only made up of the representatives of the biggest shareholders.”

Boards and executives often point to the difficulty in balancing profits and social responsibility, but Mboweni has little patience for that argument.

“It is very clear: no corporate can survive in a sea of poverty,” he says. “Who will buy your goods? If you make beer, you want people to have income so they can buy your beer. Otherwise the economic wheel will not be able to turn at all.”

Mboweni remains in demand as a board member and enjoys the influence those roles bring. He complains only about having to juggle compensated and non-compensated positions.

“You need a balance and the balance is never there,” he says, with characteristic humor. “You’ll get 10 invitations and six will be for non-compensated positions. It’s pro bono for them, but you spend a lot of your own money. It can drive you to insolvency. And then, if you’re insolvent, nobody wants you around anyway.”

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MARINA BIDOLI is an award-winning former journalist and Head of Communications at oil and gas company Sasol. She is a Brunswick Partner in Johannesburg.

BUILDING THE BRICS

The acronym, BRIC, was coined in 2001 to highlight similarities between the fast-growing economies of four disparate countries: Brazil, Russia, India and China. Since 2006, the heads of state of those countries have met each year to explore paths to further cooperation. As a bloc, they seek the reform of Western-controlled institutions such as the UN, the World Bank and the International Monetary Fund, whose policies are often viewed as unfair to developing nations. South Africa became a member in 2010, adding the “S” to BRICS.

The original BRIC countries have long been expected to join the US as the leading economic powers of the world by 2050. Slower growth among the BRICS has shaken that view, however. *The Wall Street Journal* declared “BRICS’ New World Order Is Now on Hold” and cited an international finance official who termed estimates of BRICS future growth “overblown.”

BRICS officials, however, say the coalition is about more than economics. Russian Deputy Foreign Minister Sergey Ryabkov, quoted by Russian news agency TASS, says the BRICS disturb the West’s comfortable paradigm of global dominance. “I want to say that critical remarks themselves are the best sign of the BRICS’ importance and the significance of this structure for international relations. If this had not been the case, BRICS would have been simply ignored,” he says.

In 2014, the BRICS leaders established the New Development Bank for financing of infrastructure and sustainability projects in BRICS and other emerging markets nations, as a direct challenge to the US-led World Bank. The NDB marks the first joint institution created by the BRICS countries and is an important symbol of their cultivation of solidarity and economic partnership.

WOMEN IN THE BOARDROOM

Boardrooms around the world lack diversity and a growing consensus believes more women should have a seat at the table. In the following pages, we look at how this imbalance is being addressed





FOR WOMEN, THE WORK IS NOT YET DONE

The 30% Club has dramatically increased the representation of women in boardrooms, says Brunswick's **DANIA SAIDAM**, but its successes are not enough

After the 2008 financial crisis, the business world was forced to take a hard look at corporate governance and reassess conduct it had previously taken for granted. One area in particular – the under-representation of women at senior levels – became glaringly apparent. With each passing year, the pressure on boards to increase the number of women directors has grown. Today, gender diversity is widely seen as a starting place for diversity of thought on the board and for senior management.

The 30% Club is an organization spearheading the movement for gender balance. Founded in the UK in 2010 with a committee of seven board chairmen of FTSE 100 companies, this group set a target of 30 percent women in FTSE 100 board seats, a number suggested by research as a threshold for adequate representation.

Through the concerted efforts and commitment of senior business leaders, the 30% Club has successfully made its goal a core business issue in the UK. At the same time, the group's influence has expanded far beyond the UK. Clubs have been launched in the US, Hong Kong, Ireland and Southern Africa. In 2015 alone, new branches appeared in Canada, Australia, Malaysia, Italy and Middle East countries of the Gulf Cooperation Council. Membership includes some of the top business leaders in each country. Among the chairmen and CEOs in the US branch are Berkshire Hathaway's Warren Buffett, Facebook COO Sheryl Sandberg, and Xerox Chair and CEO Ursula Burns.

In the UK, the group's earliest efforts were buoyed by a 2011 government review led by Mervyn Davies on women in the boardroom. The Davies Review called for 25 percent representation by 2015. A follow-up report last year showed the proportion of female FTSE 100 directors had risen from 12.5 to 26.1 percent. All-male boards no longer exist among the FTSE 100. In 2011 there were 21.

"We have been very fortunate in the UK to have had fantastic support from government," says Brenda Trenowden, the 30% Club's Global Chair. "Our founding chairmen have been real and active advocates for the cause, recruiting their peers, and we have had a great deal of support from the media."

Fiona Woolf, former Lord Mayor of the City of London, emphasized in a recent article in *The Guardian* how much work remained to be done. "This is no time to rest on our laurels and think the job is done. The figures of 26 percent ... are still far too low when you consider 47 percent of the workforce and 53 percent of our graduates are female. The figure of 9.6 percent in relation to executive positions shows how much room there is for improvement."

Similarly, Trenowden views the campaign's success as only a first step. "In order to have sustainable change, we need to build a strong pipeline of women to take on executive leadership roles," she says.

Trenowden outlines new 30% Club training initiatives "from schoolroom to boardroom" to help prepare more women for leadership positions. These include a scholarships initiative with Oxford's Saïd Business School and seven others, and programs to inspire young women, such as a partnership with UK charity, Speakers for Schools. The group also aims to encourage more disclosure regarding the development of female executives beneath board level.

Gender diversity on boards is good news not just for women and businesses, but for society as a whole. As the 30% Club's efforts gain momentum on an increasingly global scale, they are helping to deliver change that resonates far beyond the boardroom.

DANIA SAIDAM is a member of the 30% Club Technology Group Steering Committee and a Director in Brunswick's London office.

ILLUSTRATIONS: MIKEY BURTON

USHERS OF DIVERSITY

Nominating committees can determine the pace and success of gender equality at a company, says Brunswick's **GINNY WILMERDING**

The bedrock of any board is the appointment, rotation and retirement of competent directors – tasks handled by the nominating (or nomination) committee. Pressures for diversity are felt most keenly here, as the committee continually looks for the right mix of skills to cope with business challenges and build value.

I serve on the Steering Group for the 30% Club Hong Kong, founded in 2013 in the footsteps of the original UK launch in 2010. Although board diversity encompasses more than gender alone, our mandate is specific: to bring more women on to Hong Kong corporate boards.

One of my fellow Steering Group members is David Eldon, who was formerly Chairman of HSBC Asia Pacific, and currently chairs the nominating committee of Noble Group, an Asian commodity, mining and shipping company.



"Boards in Hong Kong are coming to grips with gender, partly because of the 30% Club raising awareness of the issues"

David Eldon,
30% Club, Hong Kong

“Boards in Hong Kong are coming to grips with gender, partly because of the 30% Club raising awareness of the issues,” Eldon says. He cites a 2015 report by Deloitte as evidence that more needs to be done. “We are still only at 11 percent women on boards, compared to 26.1 percent in the UK.”

Pru Bennett, another Steering Group member, leads BlackRock’s Corporate Governance and Responsible Investment Team in Asia. Bennett is disappointed with the level of disclosure on diversity – including gender diversity – among Hong Kong companies. She encourages those who take the effort seriously to open up.

“It’s an opportunity to highlight for investors and stakeholders the positive action your company is taking to build a diverse, competent and fully functioning board,” she says.

Eldon and Bennett both stress the nominating committee’s critical importance in determining the makeup of the board and, more broadly, the company’s success. The best nominating committees have a clearly defined charter that specifies their core responsibilities. Diversity policies, succession planning, identification of competent candidates, performance evaluation and development, assessment of director independence, and oversight of the company’s corporate governance practices all fall within their mandate.

“Nominating committees should be made up of independent directors who are interested to serve and volunteer themselves for the role,” Eldon says. “The committee’s most fundamental mandate is to ensure that the board as a whole has bought into the need for diversity as a way to manage risk and deliver value.”

The very idea of diversity can frighten some conservative boards in Asia, where large companies are often dominated by controlling shareholders (both family and government) and committees tend to defer to strong chairmen. But Bennett feels a braver approach carries significant rewards.

“Recruiting and developing both family and independent directors who go well beyond basic needs is the secret to building a high-performing and effective board,” Bennett says.

Eldon agrees that good leadership requires a variety of opinions. “An enlightened chairman will welcome this sort of advice and guidance,” he says.

Nominating committees need to think long term about how to ensure there is a pool of

The very idea of diversity can frighten some conservative boards in Asia



competent and diverse candidates. It is essential to identify talented employees, particularly women, and give them opportunities to develop.

“The nominating committee needs to speak up if a company hasn’t got the right people in the pipeline for the future executive director positions,” Eldon says. “They can advocate for a program whereby standout female candidates and employees are encouraged to learn about the industry or sit on outside boards to build up relevant experience.”

Bennett knows that non-executive directors in Asia are often recruited through trusted relationships rather than executive search firms. This can undermine efforts to diversify board representation and reduce directors’ independence.

While she agrees that “competence is more important than independence,” Bennett says controlling shareholders must not sacrifice independence and diversity for loyalty. Directors must be allowed to show their independence through their actions. “BlackRock’s starting point is that there are no independents until proven otherwise,” she says.

Most boards have needs beyond gender and must enlist all of their resources to fill all those gaps.

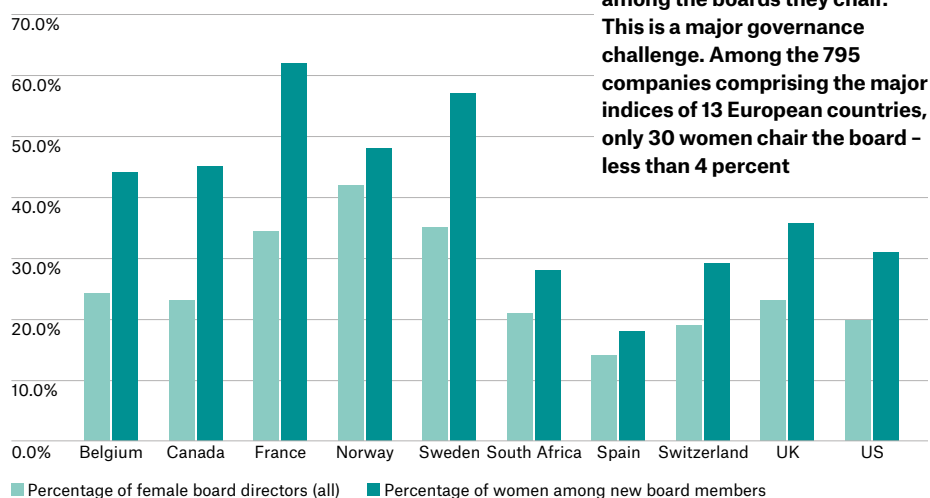
“A lot of boards are short on young people, tech-savvy directors and women,” Eldon says. “We need to bring in and then mentor newer directors to help them cope confidently with the role.”

GINNY WILMERDING is a Partner in Brunswick’s Hong Kong office and serves on the 30% Club Hong Kong Steering Group. She advises clients on corporate governance, reputation and shareholder value in Asia.

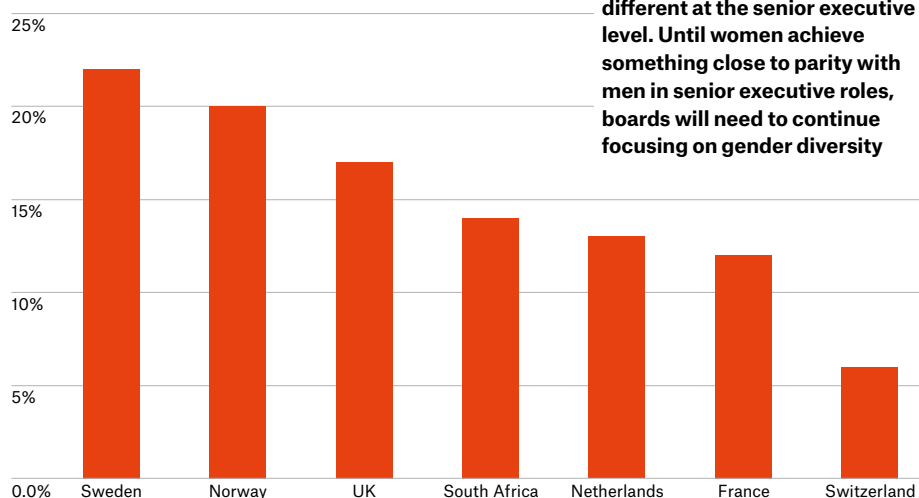
A LOOK AT THE NUMBERS

Research by executive search firm **SPENCER STUART** finds that women are gaining seats on the board, but are still under-represented at senior executive levels

WOMEN ON BOARDS



WOMEN ON EXECUTIVE COMMITTEES



CHARTS: SPENCER STUART

In a growing number of countries, women now account for more than a quarter of non-executive directors. Growing scrutiny, legislation, recommendations in governance codes, or targets set by governments have contributed to this progress.

In every country Spencer Stuart surveys, the percentage of women among new recruits to the boardroom is higher than the percentage already established as board directors. However, without significant acceleration, gender parity in the boardroom is still a very long way off.

Demand for female directors may be growing, but the lack of women on executive committees and in senior leadership positions globally limits the supply of qualified candidates for boards to choose from. Among S&P 500 boards, only 16 percent of nominating committees were chaired by a female director, 13 percent of audit committees, and 10 percent of compensation committees.

A number of barriers that prevent women from advancing to senior positions – and thereby, the boardroom – revolve around lack of mentoring and poor work-life balance.

In particular, women can have difficulty reintegrating after maternity leave, or face inflexible working arrangements as they raise children. Unconscious male bias, together with the perception that women are reluctant to put themselves forward for promotion, also remain significant barriers.

Quotas have had a positive impact on board diversity in some markets, but far more sophisticated initiatives will be needed to achieve genuine, lasting improvements in the number of women equipped to take on senior executive and board roles.

SPENCER STUART

Spencer Stuart is a leading executive search consulting firm.

See also, "Global Board Trends," Page 8



QUALITY VERSUS QUOTAS

Legislation across Europe has added women to boards, but is no panacea, say Brunswick's **ANNALISA BARBAGALLO** and **MIKAEL ISAKSSON**

Legally binding quotas to raise the number of women on corporate boards have changed the makeup of boardrooms dramatically in several European countries.

But not everyone is convinced that such simple mandatory thresholds are wise. Many feel that the imposition of quotas sets back the cause of corporate gender equality. Some even wonder if the debate around mandatory quotas on boards is a red herring, as women are still vastly under-represented in the C-suite.

Since Norway instituted a 40 percent legally binding quota for female directors of listed companies in 2008, the rest of Europe has been experimenting with different approaches. Gender quotas are now in place in Germany, France, Italy, Spain, Finland, Belgium and the Netherlands, with different sanctions for non-compliance. In contrast, the UK and Sweden have opted for voluntary targets for quotas, backed by the threat of legislation if not enough companies take action.

In the UK, FTSE 100 companies have more than doubled the number of women on boards, exceeding the 25 percent target urged by the government in 2011. The 30% Club, launched in the UK in 2010 with the goal of achieving 30 percent women on FTSE 100 boards, prefers the voluntary approach. Melanie Richards, a Partner and Vice-Chairman at KPMG, and a member of the UK 30% Club's Steering Committee, goes so far as to credit the club's success to its opposition to mandatory quotas.

"The business culture is moving in the right direction," Richards says. "But lasting success requires businesses to feel invested in the process."

Behind Norway, the best-performing countries in terms of a gender balance on boards are Finland and France, where female board members number around 30 percent. Both of these countries also have government-mandated quotas.

Studies support the positive effects of a gender-diverse board, showing that companies with more women on their boards perform significantly better than their male-dominated counterparts.

However, opponents have warned that achieving gender diversity through quotas can actually decrease performance by causing conflict and undermining trust. Some argue that quotas can actually work against diversity by forcing companies to choose from the same limited pool of

"Quotas don't achieve real progress. The pipeline of women in executive positions is the most important target"

Melanie Richards,
Vice-Chairman, KPMG

eligible women, sometimes known as the “golden skirts.” At one point, Norwegian businesswoman and lawyer Mimi Berdal sat on 90 different boards.

More importantly, quotas alone fail to address the absence of women in senior management positions. In Europe, men still hold 89 percent of executive committee jobs while only 3.6 percent of Europe’s largest listed companies have female CEOs, according to a 2015 European Commission (EC) report.

“Quotas don’t achieve real progress,” Richards says. “The pipeline of women in executive positions is the most important target. That’s a struggle, even for companies that approach the problem voluntarily.”

Heather McGregor, Managing Director of search firm Taylor Bennett and a founding member of the 30% Club’s Steering Committee, says flatly that quotas don’t work, but “merely give the appearance of doing so.” Breaking the glass ceiling will require more than a simple arithmetic calculation, she says.

“People leading companies need to actively seek out female candidates,” McGregor says. “Just looking for them will ensure that they find them.”

Rather than imposing quotas, laws can make it easier for women and men to reconcile family and professional goals. While the EC failed to increase mandated maternity leave from 14 to 18 weeks, it is considering other ways to improve work-life balance for both men and women. The goal is to reduce obstacles for women and increase their presence in executive positions.

Ultimately, such efforts could help expand the pool of skilled women in top management posts, naturally leading to a greater presence of women in the boardroom as well.

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TECH CAN TACKLE DIVERSITY HEAD-ON

The talent is already there, and Silicon Valley has the tools to put more women on boards, says entrepreneur **SUKHINDER SINGH CASSIDY**

It will take US corporate boards another 40 years to reach gender balance, according to the US Government Accountability Office. Even if every open board seat were filled by a woman, it would be 2024 before boards approached a 50:50 split, it estimates. Even more discouraging, an estimated 75 percent of privately funded technology companies have no women on their boards of directors, according to an audit in July 2015 by theBoardlist, a talent marketplace I founded.

The tech industry has an opportunity to close this gap. According to a recent report from financial analysis firm MSCI, companies with at least three women on the board (or a female CEO and one female board member) have achieved a 36 percent better return on equity since 2010



than companies without “strong female leadership.” On the other hand, companies without women on their boards have experienced 24 percent more governance-related “controversies” than the average.

We know companies with diverse leadership teams tend to be more innovative, better problem solvers and better decision makers. We also know that female consumers tend to be less brand loyal than males, are bigger drivers of consumer purchasing, and demand more from brands and the companies behind them. As a result, one might expect companies to leverage top female talent in the boardroom to help drive performance and build lifelong relationships with their customers.

Many assume that low female representation on tech company boards is due to a lack of qualified female candidates, or a “weak pipeline.” However, this is not a supply problem. Instead, this disconnect has been the result of the low demand and low priority assigned to building diverse boards to drive greater performance.

The tech industry, and Silicon Valley in particular, has been in the spotlight for the lack of women on tech company boards. As pressure grows to address the gender imbalance, CEOs and founders frequently describe the problem as unintentional, and invoke a catch-all reasoning that points to a scarcity of women with educations in science, technology, engineering and math (STEM). Yet tech is an industry that prides itself on innovation and disruption and has many notable leaders – male and female – who do not have STEM degrees. Taking that into consideration, it seems more likely that our leadership is not making it a priority to source and recruit female talent at the board level.

There is plenty of evidence that women leaders with the experience and expertise to serve on boards exist. Through my research, I know that women in my industry, technology, are starting

companies, raising capital, investing and creating value for customers, employees and investors. Many of these same women are interested in bringing their valuable experiences and perspectives to private or public companies as independent directors.

In the summer of 2015, I launched theBoardlist, a private business network aimed at tackling gender diversity head-on – starting with boardrooms, starting with the tech industry. In eight short months, we have identified more than 1,000 highly qualified women leaders who have been personally nominated and endorsed for board service by over 200 male and female peers, CEOs and investors.

We believe a highly trusted and private marketplace plays a critical role in accelerating board demand while solving the perceived “pipeline” problem. Technology can allow us to accelerate the discovery and connection of great board candidates in a safe and trusted environment, at scale.

As an industry, we can start driving demand for diverse board candidates now. As business leaders, employers, role models and mentors, we can make introductions, create connections and facilitate relationships that open doors. As board members, we can acknowledge the value of board diversification and ensure we source highly qualified diverse candidates for open seats, all the while encouraging other boards to follow suit.

Data around the business benefits of diverse boards, including the value of women directors, is extensive and undeniable. Slow progress in the boardroom only means slower progress for companies seeking a competitive advantage.

Today, there is simply no reasonable excuse for a lack of diversity, including a lack of women, in our boardrooms. Let’s accelerate the focus on building diverse boards by making use of technology to help connect qualified and diverse leaders with opportunities to contribute at the highest levels of our companies.

Each one of us has a role to play. Let’s get started.



“Today, there is simply no reasonable excuse for a lack of diversity, including a lack of women, in our boardrooms”

SUKHINDER SINGH CASSIDY is Founder and Chairman of Joyus, an online, video-based shopping network, and theBoardlist, a curated talent marketplace to help place qualified women leaders on the boards of tech companies. She was CEO and Chair of social commerce site Polyvore before founding Joyus in 2011. Until 2009, she was a senior executive at Google.

Sukhinder Singh Cassidy spoke with **KATIE IOANILLI**, a Partner in Brunswick’s London office.

TILTING THE GENDER SCALES

The United Arab Emirates has taken a strong lead in Middle East efforts to put women in leadership roles, say Brunswick's **HEATHER SALMOND** and **JEEHAN BALFAQIAH**



Gender balance in the corporate boardroom is not a goal commonly associated with the Middle East, a region whose reputation is usually determined by the policies of a small group of countries. While women play a critical role in Middle Eastern society, they are not widely recognized as full partners with men.

But a recent push for reforms by the United Arab Emirates and the founding of a Gulf region branch of the 30% Club – the global initiative aimed at advancing female participation on boards – highlight how seriously leaders are taking the issue of gender equality in both business and politics. In 2015, Sheikh Mohammed bin Rashid Al Maktoum, Vice-President of the United Arab Emirates and Ruler of Dubai, founded the UAE Gender Balance Council, a government body dedicated to achieving the goal of women's equality.

"Emirati women have proved their competence in all fields and we are proud of every achievement they made, and thus, we are committed to support them until they achieve the highest degrees of excellence," Sheikh Mohammed said at the UAE Gender Balance Council's first meeting last year.

The UAE is a young nation, only 44 years old, and its leaders see gender equality as a signature of its innovative approach to social reforms.

Emirati women have always been the backbone of family life and social structure, a role that derives from traditional Islamic and Bedouin culture. As society has evolved, so has the role of women, with education and leadership training opening up new opportunities – including on corporate boards.

Businessman and entrepreneur Badr Jafar, the CEO of UAE conglomerate Crescent Enterprises, has been a leading voice on gender equality. He insists that gender imbalance in the boardroom cannot be corrected without addressing it at the executive level first.

"The good news is that the UAE continues to have more women than men enrolled in higher education, making it more likely they will enter the workplace," he says. "We need to focus our efforts to ensure that a maturing corporate culture bumps outdated attitudes."

Jafar, along with a number of other leaders, both men and women, last year launched the Gulf Cooperation Council Chapter of the 30% Club. He sees increasing female representation in the boardroom not as a women's issue but as a business issue. "The evidence is overwhelming that both businesses and economies need more female leaders to strengthen decision making and create more lasting value," he says.

That objective faces a number of hurdles, both corporate and in society, including the limitations that Middle Eastern women place on themselves, says Rana Ghandour Salhab, a Talent and Communications Partner at Deloitte, focused on the Middle East. "Arab women need to believe that it is possible for them to have careers and build families," she says. However, she points to the 30% Club's efforts to build equality worldwide as evidence that such challenges are not isolated to the Middle East.

"Obstacles to advancement for women transcend culture and tradition," she says.

HEATHER SALMOND and **JEEHAN BALFAQIAH** are Partners in Brunswick's Dubai office and members of the Steering Committee of the GCC Chapter of the 30% Club.

ONE SEAT OFFERS A VIEW OF INDIA'S FUTURE

Regulatory efforts have made a controversial start to reforming the gender balance on boards, says Brunswick's **AZHAR KHAN**

Everyone agrees: India needs more women like Renu Sud Karnad, a banker who sits on the boards of several Indian companies. Yet she is a rarity, reflecting India's modest efforts to place more women on boardroom seats.

India's Companies Act, enacted in 2013, requires at least one woman on the board of all listed companies, a move inspired by the ambitious quotas put in place by some European countries. But while a strict regulatory requirement in Norway, for instance, has achieved 40 percent representation by women, the much weaker "one woman" rule in India is facing resistance.

Only 12.1 percent of board seats at the Bombay Stock Exchange's top 200 companies are occupied by women, according to a 2015 UK government report by former trade minister Mervyn Davies. In 2015, the Securities and Exchange Board of India fined 530 companies for missing multiple deadlines to meet the quota. For listed companies, the fine is 142,000 rupees (\$2,240) plus 5,000 rupees (\$78) a day. Such penalties may not be enough. Among companies that have complied, many have simply appointed a female relative of an existing manager or shareholder as a proxy.

Anjali Bansal, a Partner and Managing Director at global investment firm TPG Growth and an independent director on the India board of UK pharmaceuticals group GlaxoSmithKline, argues that even this is an important start because "at least it gives women a seat at the table."

Asking companies to prove the fitness of candidates will merely slow down the process further. "The more conditions you impose, the less likely it is that you will find suitably qualified women," she says.

Bansal is one of a small number of women who are well-established business leaders in India. An engineer turned McKinsey consultant, she set up the India offices of executive search firm Spencer Stuart prior to her current role at TPG.

RENU SUD KARNAD spearheads lending operations at HDFC, one of India's largest mortgage houses, and is a member of the board. Once opposed to the notion of quotas, she now insists the law should be strengthened, acknowledging that "some sort of reservation is necessary to focus on the issue – perhaps for a generation."

N. Balasubramanian, a governance expert and professor at the Indian Institute of Management in Ahmedabad, sees the "one-woman" requirement as a step in the right direction, but agrees that much more needs to be done before any positive change in board culture can be expected.



"Studies have shown that three women directors – or a third of the group – count for much more in terms of effectiveness than just one or two," he says.

In 2014, in an attempt to deepen the pool of boardroom talent, Bansal founded a program to mentor women for independent directorship positions. The program aims to give participants a greater level of familiarity with crucial boardroom matters, says Bansal. At least 30 women who have completed the program, all experienced professionals and none from the family of a lead shareholder, have since become independent directors.

The scarcity of women in the workplace is worsened by expectations that women will not return to work after having children. A recent study by Catalyst, a nonprofit promoting the inclusion of women in the workplace, found that nearly half of Indian women drop out of mid- or senior-level careers to raise a family, compared to 29 percent across Asia.

Karnad, who sits on audit committees of electronics company Bosch and automation group ABB, is among those professional Indian women who was able to return to her career after starting a family. She cites the important supporting roles played by her employer, HDFC, and her own family in her professional success.

Balasubramanian says that despite resistance, businesses ultimately will be unable to resist the financial rewards that have been shown to accompany more women on boards. Research by accountancy firm Grant Thornton estimates Indian companies could improve their returns by \$14 billion annually by including at least one woman. That advantage isn't widely understood.

"If that improves, then I can see boards voluntarily seeking out more women for their boards," he says. "Otherwise, it is just a case of them ticking a checklist."

AZHAR KHAN is a Director in Brunswick's Mumbai office.

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ANSWERING TO A HIGHER AUTHORITY

Islamic finance has grown into a \$1 trillion practice with its own compliance sector. Brunswick's **HASSAN FATTAH and **TASHA YOUNG** examine how Shariah has taken a seat at the board table**

YASSER DAHLAWI'S EPIPHANY came in the early 2000s. After more than a decade spent working in the growing area of Islamic finance, he had begun to realize that efficient controls were lacking to ensure compliance with Islamic codes, or Shariah.

"We kept seeing gaps between what was being proposed to the Shariah boards at these institutions and the implementation of the product," Dahlawi says. "There was no audit, no quality check. But people were calling it Shariah compliant, and that was a major problem."

What this rapidly growing industry needed, he realized, was a new level of professionalism – external advisory specialists who understood all the concerns in such transactions. In 2004, he helped found the Shariyah Review Bureau, a business he now runs as CEO. It is part of a growing industry of Shariah advisers that help structure financing transactions and certify that financial products conform to Islamic law. These advisers are increasingly important to company boards as more businesses embrace the Muslim world as a source of capital and inspiration.

At its core, Shariah (sometimes Shariyah or Sharia) finance eschews usury, or *riba* – the collection of interest. Based on the Quran, the sayings of the Prophet Muhammad and religious case law, the code requires that money be used only to represent the value of a commodity or product, not something of value in itself. Investment returns should serve a common good and encourage partnership between lender and borrower, with the risks and rewards shared by both sides.

Shariah compliance requires some interpretation to adapt to the modern age. Profits from pork, gambling, alcohol and tobacco are clearly forbidden, but so are financial derivatives. And gray areas exist, such as whether a company can lend itself money as an accounting method, with no asset attached.

Historically, companies would retain three to six scholars and experts as an independent Shariah review board that would make recommendations to the corporate board regarding compliance. However that practice created wide variation among rulings between companies. To encourage greater reliability and consistency, many companies in recent years have chosen to outsource the process of Shariah review.

The Shariyah Review Bureau is an organization that offers this service. SRB's scholars use their experience as authorities and their expertise in finance to find precedents for a financial process, product or institution. If they find a non-compliant feature, they will offer alternatives. Cases involve everything from the simple (how a bank account can be set up) to the complex (the leasing structures of private equity deals). When they are stumped, the researchers appeal to the wider network of Islamic scholarship.

The Shariah compliance sector carries an exciting air of innovation. SRB's own office is reminiscent of both a dotcom and a library or financial research facility, with a ping-pong table, mini golfing range, multiple screens on each desk and a large supply of pantry perks. Sheikh Muhammad Ahmad, one of SRB's scholars, wears an Apple Watch, but represents an ancient tradition of Islamic scholarship and authority. He is also a Shariah finance expert, having structured more than 400 transactions over 11 years.

SRB is not alone in the space. Others include Amanie Advisors, based in Kuala Lumpur, and Dar al Sharia, a subsidiary of Dubai Islamic Bank, one of the first Islamic banks – both offer Shariah services around the world. Headquartered in San Francisco, IdealRatings offers Shariah compliance checks tailored more toward Western markets.

INTEREST IN SHARIAH compliance services has spread globally. US agriculture technology company Fresh Box Farms, based in Massachusetts, specializes in hydroponic farming of produce in specially designed units. The company approached SRB to help it reach out to Islamic investors.

"The main activity of the company is Shariah compliant – producing vegetables," says Mansoor Munir Ahmed, SRB's Assistant General Manager. "But the minute you tap into the financial world, new questions are raised from a Shariah perspective."

In Fresh Box Farms' case, SRB found Shariah compliant funds could buy stock in the company, in return for a proportional piece of the profits.

In another example, Italian law firm NCTM wanted to build a Shariah-compliant bond that small- and medium-sized enterprises, or SMEs, could offer to investors. In addition to helping SMEs gain access to Islamic finance,

BANKING IN GOOD FAITH

Shariah, or Islamic religious law, offers a guide to moral business conduct. Profits from pork, alcohol and gambling, for instance, are forbidden. Investors also cannot be guaranteed returns on investment and must share in losses as well as gains.

The Quran has several verses that scholars believe condemn *riba*, generally understood as the charging of interest. Other religious authorities echo that interpretation, and it sits as the bedrock of most Shariah-compliant financial products. Many forms of loans, bonds and other transactions need to be redesigned before they can be considered acceptable for religiously minded investors.

To allow for profits while not charging interest, money must represent the value of a specific commodity. Several Shariah concepts that build on this idea (see right) have spread internationally throughout Islamic countries and are increasingly popular in Europe and the US.

Sukuk Also called "Islamic bonds," these are one of the most popular forms of Islamic finance. Where normal bonds represent debt and pay an investor interest, sukuk represent the value of an underlying asset. An investor buys a piece of a company, for instance, and is entitled to a share of the profits associated with that asset. The payment is a substitute for the interest that a bond investor would collect in a non-Shariah transaction. The issuance of sukuk can raise money for infrastructure projects or business expansions.



Shariah-compliant risk tends to be lower, due to the asset-backed nature of the debt

NCTM hoped to provide an alternative investment and tax-advantaged returns for clients in Europe.

SRB thought a single-bond structure for NCTM might not meet the range of needs required and it suggested a suite of products instead: one arranges profit sharing; another permits the purchase of equipment in a "leaseback" arrangement; and a third allows financing for companies seeking to acquire another business.

Occasionally, it's just not possible to create a bridge between the moral strictures of Shariah and modern financial practices. "Clients come to us for various options and scenarios," says Sheikh Muhammad Ahmad. "But sometimes, no matter how you tune it, you simply can't make it compliant. So my job becomes finding an alternative product."

The first Islamic banks appeared as a niche offer in the 1970s. In the early 2000s, a new generation of bankers and investors sought to widen the appeal of Islamic finance by applying modern banking concepts and systems.

Murabaha This is a type of deferred sale in which an intermediary, such as a bank, buys property and sells it to a customer on terms that include a payment schedule and a disclosed mark-up. This is the basis of the most popular form of corporate financing in Islamic banking.

Ijara Similar to murabaha, this is a lease-to-own agreement that functions in place of a loan. The bank, for example, buys an asset, such as a car or a house, and leases the right to use it to the customer for a specific period, with a profit added. The term and the total amount are agreed up front. The main difference from murabaha is that the bank retains ownership until the end of the term; only then is ownership transferred to the customer.

Mudaraba This type of arrangement is an agreement between a financier, who provides capital, and an entrepreneur, who provides work. While commonly described as a “profit and loss sharing” arrangement, losses in mudaraba are actually borne by the financier, while profits are shared between the two parties. The financier has no control over management of the project.

Musharaka Used in place of an interest-bearing loan, musharaka gives all parties joint ownership, including shared equity for mortgages. In an Islamic mortgage the bank and investor share equally in any loss of equity, as well as the profit.

Takaful An Islamic form of cooperative insurance, takaful policyholders share both profits and losses from the fund. In non-Shariah insurance, companies pool money from policyholders and invest it, and policyholders do not earn money from the investments. Takaful, on the other hand, is based on the idea of a cooperative, in which every member of the contributing community is directly affected by the profits or losses of the fund.

By the end of 2015, Shariah-compliant assets had reached close to \$1 trillion, growing nearly 16 percent between 2014 and 2015, according to Ernst & Young. In the core markets of Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates and Turkey, assets will approach \$1.8 trillion by 2019.

Terms such as *sukuk*, *mudaraba* and *ijara* (see above) are becoming common for everyone from homeowners to venture capitalists.

SHARIAH-COMPLIANT RISK tends to be lower, due to the asset-backed nature of the debt. This is one aspect that makes it compelling for all kinds of investors and, as international standards for compliance materialize, more clients are entering the space, Dahlawi says.

A global trend toward ethical investment has also helped energize the field of Islamic finance. Since 2014, governments from the UK to Hong Kong have issued Shariah-compliant bonds, along with Goldman Sachs and GE, in response to growing demand. The first issue of Islamic bonds by the UK in 2014 was more than 11 times oversubscribed, with



A global trend toward ethical investment has also helped energize the field of Islamic finance

\$3.9 billion in orders, according to *The Wall Street Journal*.

Equities are a critical area for compliance screeners. Every quarter, analysts at SRB pore over the filings of 140 or so companies on the Saudi Stock Exchange to spot how shifting business practices may have affected Shariah compliance. According to Shariah codes, an equity fund found to have non-compliant holdings must divest and donate gains from those shares to charity.

SRB also helps some companies increase the effectiveness of their in-house Shariah boards, which must combine the functions of a ratings agency, financial auditor and legal adviser, all from the foundation of religious scholarship.

“The boards need professionals and they need people with technical skills to advise them,” Dahlawi says, “because ultimately, you have to live up to the tenets of Shariah.”

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HASSAN FATTAH is a Partner in Brunswick’s Abu Dhabi office and **TASHA YOUNG** is an Associate in Dubai. Additional reporting by **DOMINIC WHITING**, a Director in Abu Dhabi.



NO RISK, NO REWARD

As the pace of change increases, says
Control Risks CEO **RICHARD FENNING**,
so does the need to manage our fear

THE WORLD is a more complicated place than it has ever been, and risk has taken on an evangelical mania, dominating boardroom discussions.

Across any range of indicators, risk seems to be rising. In the geopolitical landscape, the long reach of a new breed of terrorist unsettles us. The Middle East is seemingly consumed by intractable bitter conflict. Afghanistan and Libya are spiraling into a self-destructive vortex.

Europe and the eurozone are fractured by a rise in nationalism and stresses from the seismic movements of refugees. Across the Channel, the future of the United Kingdom is under scrutiny.

A brittle global economy adds to the uncertainties. Emerging markets are under pressure and the Chinese economic model – the miracle of modern times – appears to be creaking.

At the same time, threats to the security of corporate data are growing and dramatic changes have pushed the energy sector into upheaval.

Even where these threats seem containable, there is a gnawing awareness that public perceptions of a particular risk could suddenly snowball and transform your business landscape in the process.

I spend a lot of my time with directors and executives, sorting out the realities associated

with these challenges. Two questions come up repeatedly. First, how do we manage in a world of unparalleled uncertainty and geopolitical risk? Second, how do we know which risks could really hurt us and where best to put our time?

Too often, board members approach risk as something we can eliminate entirely as long as we have the right processes in place. The truth is, risk is a constant and necessary companion. Day to day, it can be mastered and restrained, but a thriving business will always feel its presence.

The logic of hindsight tells us the present is confusing and the past was ordered. For every generation, the future is full of peril and the potential for disaster can seem overwhelming.

But risk also creates possibility. In 1975, the world seemed a dangerous place: the Middle East was in turmoil, the Cold War showed few signs of thawing and a global oil crisis was looming. Most of today's attractive markets were either insignificant or off limits. The first digital tools were emerging that would eventually revolutionize almost every sector and unravel entire industries.

Four decades later, the world is wealthier, healthier and in many ways safer than it was back then. Different risks have emerged, but they too will give way to a reshaped future with its own set of opportunities.

On the other hand, the pace of change is increasing faster today than ever. That is a defining feature of our age and impossible to ignore.



Disruptive forces challenge both business and politics. They appear rapidly, upset the status quo and wrong-foot the established order. You can think of this increased speed of change as a mass insurgency, rushing through companies, government institutions and indeed, our everyday lives.

In the same way young companies such as Uber and Airbnb are shaking up stodgy business sectors, so new political organizations are makeshift and audacious, seeking out unconventional funding and roughly jostling the established order. They are present in Middle East conflicts, US politics, the European migration crisis, Russian policy toward the West and in India's political landscape.

Such risk is a fact of life, but it affects everyone, not just your company. That means the challenge is to adapt more quickly, to be better at handling risk than your competitors. Disruption and instability force good companies to think faster, to change more radically, and to better understand the societies and customers they serve.

Take cybersecurity as an example. Threats to corporate data are now a critical business concern for nearly every company; hackers, whether malevolent teenagers or malicious states, are the leading disrupters of our age.

No simple, single fix can protect your particular company against the fallout from a cyberattack. Instead the risk must be managed. Technology can help, but we must also shift how we think about digital security and have nimble leadership when the near-inevitable breach occurs.

"Risk is a constant and necessary companion. Day to day, it can be mastered and restrained, but a thriving business will always feel its presence"

A proper strategy involves not one decision, but an ongoing commitment to a dynamic network of decisions, each of which must be prioritized. This applies to cybersecurity but also to risk in general. Identifying the risks that matter most to your business and how to address them can be time-consuming and intense. But done rigorously and regularly, it is also the best thing you can do.

Certainly ignoring the problems is not an option. Not all risks will materialize into crises, but some will. A tense political conflict that turns violent can threaten your overseas operations and employees. Somewhere, right now, a company is discovering a hacker at large in its corporate network.

When emergencies such as these happen to your business, it will be little comfort to know that companies throughout history have faced their own set of risks. What will be a comfort is the knowledge that you have anticipated such a scenario and are prepared to deal with it.

RICHARD FENNING

Joining Control Risks in 1993, Richard Fenning has served in Japan, the US and London. He was appointed CEO in 2005.

CONTROL RISKS

Control Risks is a global risk consultancy engaged in helping organizations assess, plan and manage their operations in some of the most complex and volatile regions of the world.

Richard Fenning spoke with **RICHARD MEREDITH**, a Partner, and **AIDEEN LEE**, a Director, in Brunswick's London office.

BE PREPARED

Do not confuse risk with fear

Risks that sound the most dramatic are not necessarily the most damaging. Remember, fear is a visceral, emotional instinct; determining risk is a factual, cerebral process. Better to be rational than to succumb to anxiety.

Listen in stereo

Advice is shaped by where it comes from. People close to the action may have extraordinary insights but lack the objectivity of those further away. For example, Russia-related sanctions seem very different in Moscow than in London or New York. Listen to both sides.

Age and experience matter – usually

Leaders with a few gray hairs are invaluable in a crisis. But they could be at a cultural disadvantage when a young hacker is found in your key database. Allow younger people to brief the board and listen to what they say.

Crises can arise where you least expect them

It is easy to focus on geopolitical hotspots. But if you talk candidly to senior European banking executives, for instance, they will tell you that the political risk they fear most comes from the US, given the zeal with which regulators there have targeted international financial institutions.

Bad things happen to good companies

You can't anticipate all obstacles. Despite all your efforts, things can go badly wrong. An acceptance of that reality can help you be more emotionally prepared – and more effective when the crisis comes.

Companies in China are racing to shape strategy around social needs, say Brunswick's

LU JIANZHONG
and **TONG ZHAO**

In the face of an economic slowdown and increased pressure on profits, it would be easy to assume China's business leaders are putting environmental sustainability and social responsibility initiatives on the back burner. Far from it.

For China's local companies, state-owned enterprises and multinational corporations (MNCs), such efforts are accelerating. Many companies are moving from ad hoc social responsibility programs to more integrated approaches, keeping up with regulations and rapidly changing public expectations.

Since 2008, the vocabulary of social responsibility and sustainability has taken

root in the popular consciousness. The public response to the Sichuan earthquake and the volunteer spirit created by the Beijing Olympics gave civic engagement and philanthropy momentum. Social media has broadened the conversation, leading to more scrutiny of the contract between business and society.

However, recent events have intensified doubts about whether government and business are doing enough. In December 2015, Beijing issued the first red alert for air pollution, resulting in school closures and restrictions on traffic and outdoor work. This led many to wonder if the country's attempts to balance economic growth and environmental concerns go far enough, and if companies are doing their part to solve quality-of-life issues.

In fact, the "new normal" – the theme of Xi Jinping's policies during his first three years in office – emphasizes that the economic pressures facing the country require a deepening focus on sustainable development. Guo Peiyuan, General Manager of SynTao, a Chinese sustainability consultant and research group, says the government's current Five-Year Plan "puts a strong focus on innovation and the green economy. As such, MNCs need to embrace the 'new normal' by adjusting their China strategies. At their core, these strategies should aim to become more involved in Chinese society using environmental and

social responsibility strategies as pillars for business, establishing trustworthy relationships with Chinese stakeholders."

Increasingly, both Chinese companies and foreign businesses operating in China are being held to higher standards. Recent laws, such as the Environmental Protection Law, have brought corporate responsibility to the regulatory forefront.

Market-based mechanisms are also strengthening. For example, the Hong Kong Stock Exchange has increased expectations for environmental, social and governance reporting from "recommended" to "comply or explain." This move is widely seen as a step toward a compulsory reporting requirement. As a result, sustainability is moving higher on the agenda in boardrooms and companies are looking for ways to link corporate social responsibility (CSR) strategies to business objectives.

Historically, MNCs have led the way on the implementation of integrated approaches to sustainability in China. Now, as the economic boom stabilizes and profits fall, there is added pressure on them to show how they are "giving back."

In MNC boardrooms, the question is not, "Should we show our commitment?" but rather, "How well are we showing that our commitment aligns with government priorities and social needs?" This conversation is growing, but there is still room to improve. While more MNCs



AND CORPORATE CITIZENSHIP: THE VIEW

are publishing China-focused corporate citizenship reports, less than 8 percent are translated into Chinese.

In Chinese companies, CSR programs still tend to be seen as an add-on, rather than central to value creation. But that is changing quickly. According to the *China WTO Tribune*, the number of CSR reports published in China rose from one to 898 in just 10 years (2001 to 2011).

“Good reputation and a strong brand are just as important as solid financial performance,” says Zheng Dongshan, Senior Vice-President of China General Nuclear Power. “After the Fukushima accident in Japan, the public’s suspicion and resistance toward nuclear power plants was unparalleled. It was vital to improve the openness, fairness and frequency of our disclosure mechanism.”

In response, Zheng’s company was among the first in China to establish a nuclear and radiation disclosure platform, to ensure the public received accurate and timely information. That also reduced the risk that inaccurate public information could harm the company’s reputation.

A barrage of networks and forums, sponsored by advisory organizations such as Golden Bee and Collective Responsibility, have emerged to further increase awareness of environmental and CSR issues. Chambers of Commerce – important platforms for both multinational and Chinese companies

China is on the path to a more sustainable future as social responsibility becomes a pillar for the economy and the country as a whole

to share information and best practices – have also put corporate responsibility high on their agenda, in response to members’ needs.

In all this increased awareness, the key components of an integrated business program are beginning to emerge, linking core values, operations and a management system that addresses social needs.

Leaders in this space in China include companies such as Intel, General Electric, PricewaterhouseCoopers, KPMG, HSBC, China Mobile and Chinese appliance maker, Gree Electric. Many MNCs are now beginning to localize their CSR programs to align with China-specific issues and needs.

UK tea marketer Twinings is a good example. Young workers moving to cities created a labor shortage among China’s rural tea farmers. Meanwhile, the remaining older farmers overused fertilizers and pesticides, resulting in environmental problems, soil degradation and reductions in quality.

To address this, Twinings focused on poverty alleviation efforts all along its supply chain. A key step has been training and education to highlight the relationship between nature, tea production, economic benefits and a more harmonious society. The move encourages more young people to become farmers and helps reduce the use of fertilizers and pesticides. And as the tea quality improves, profits rise.

China is on the path to a more sustainable future as social responsibility becomes a pillar for the economy and the country as a whole. The government’s 13th Five Year Plan outlines strategic priorities, including Made in China 2025, entrepreneurialism and the continued anti-corruption campaign. These are designed as a sophisticated and home-grown path toward sustainable growth.

Boards that can help China on that road, by demonstrating a real understanding of responsibility concerns and working with the government to implement localized programs, stand to succeed in the “new normal.”


Brunswick Partner **LU JIANZHONG** heads the Shanghai office and leads the Business & Society practice in Asia. He advises on sustainable business strategy and corporate social responsibility. **TONG ZHAO** is a Partner in Hong Kong and advises on corporate reputation, capital markets, M&A and crisis communications.

ILLUSTRATION: SASHA PROOD



FROM THE CHINESE BOARDROOM





FOUNDATION OF EQUALITY



**Ford Foundation President
DARREN WALKER
is throwing down
the gauntlet to business
to join organizations
like his and tackle
the really big issues**

**Interview by Brunswick's
DAVID SUTPHEN and
MARIA FIGUEROA KÜPÇÜ**

HEALING THE WORLD'S ILLS requires a broad commitment to diversity and a pledge to bring the entire resources of individuals and corporations to bear on specific problems. That is the message Darren Walker would like to send to both the corporate world and the philanthropic community.

Now in his third year as President of the Ford Foundation, one of the world's leading private charitable organizations, Walker is credited with refocusing the organization on a commitment to combat social inequality. In that battle, intolerance is the principal enemy.

"Combating narratives of intolerance requires powerful counternarratives that embrace – and truly celebrate – diversity and inclusion," he wrote in a 2015 op-ed on CNN's website. He notes that discrimination against women and minority communities of all types is symptomatic of a larger problem. "We cannot focus solely on the economic piece of the puzzle, or look at racial or educational inequality in isolation. Doing so treats symptoms while ignoring the disease."

Walker knows how big the challenges are. He was instrumental in organizing 10 foundations that together raised nearly \$370 million to help the city of Detroit emerge from bankruptcy, an allegiance referred to as the "Grand Bargain." To succeed in such challenges, philanthropy needs the full support of the business community.

Walker personally has been a beneficiary of Ford Foundation support: he was among the first young children enrolled in the US national early education program, Head Start; he received public grants to go to college; and he worked as COO at a Harlem nonprofit. All of those opportunities were sponsored by the foundation.

The Ford Foundation's mission is to tackle inequality. It explains its work on issues that include (from top left) **civic engagement and government**, "Inequality inhibits people's voices and makes government less effective"; **creativity and free expression**, "Cultural change often precedes transformations in other spheres, heralding new social, political and economic thinking"; and **internet freedom**, "The digital world is not neutral, and its benefits are not equally shared"

FORD FOUNDATION: THE FIRST 80 YEARS



Edsel Ford (left), son of Ford Motor Company founder Henry (right), establishes the Ford Foundation in 1936 with an initial donation of \$25,000. The funds are to be used "all for the public welfare." After their deaths in the mid-1940s, large bequests from both Fords transform the foundation into the world's largest philanthropic organization at that time.

He also spent nearly a decade on Wall Street, working as a lawyer and bond salesman, and has a keenly developed understanding and respect for corporate leadership.

Today, the foundation runs a \$12 billion endowment; its grant-giving budget in 2015 was around \$500 million to support its work globally.

We spoke to Walker in the foundation's New York City offices, where he discussed ways boards and corporate executive suites can be more effective partners to philanthropy and to society.

What do you think is the biggest misconception that corporates have about philanthropic players such as the Ford Foundation?

They often don't believe we are having a big impact or making a big difference in the world. Partly that's because we do a poor job of telling our story.

Philanthropy has suffered from the misconception that if you do good, charitable mission work, everything else will be just fine. But we've got to do a better job of communicating the importance of the work we do and how relevant it is for solving big issues like climate change or inequality or gender violence or many of the ills that face our world. Philanthropy is critical to solving those problems.

People who work in the private sector are inclined to think philanthropy and nonprofits are "soft" jobs. Well, I worked at a big global law firm, Cleary Gottlieb Steen & Hamilton, and at UBS, and I have never worked harder than in this sector. People pick this career path because stock options aren't as much of a priority. For them, what's really important is making a difference in the world.

What would you like to see on the corporate board agenda?

The demands on a CEO today, particularly at a publicly traded company, are enormous and almost

overwhelming, depending on the industry. The skill set includes both high cognitive intelligence and high emotional intelligence. A CEO needs an ability to speak in the boardroom and on the shop floor, to travel in really diverse circles and to be comfortable in all kinds of diversity. That is a huge remit and not something that CEOs had to do in the past.

For boards, having to focus on profitability and stock price as the sole metric of success places them in a very difficult situation. A company today should be focused on shareholders, but also customers and employees and the communities where they do business. And it's really hard to serve all four of those stakeholders. Just focusing on stock price distorts things and makes boards behave in ways that they probably would not, if left to their own devices.

Let's say a group of Fortune 500 CEOs asked you, "From your perspective, what should we focus on?"

Corporations today can play a critical role in solving big problems in society, and definitely one of the things they should focus on is how to leverage their resources and assets to solve them.

A company doesn't have the same perspective as a nonprofit mission or organization. A CEO wakes up every day and says, "How do I make the best widget, at the best price, treat my employees well and return value to shareholders?" That's as it should be. But the CEO also needs to think about, "How do I make the widget in a way that does the least harm to the earth, and that returns a value that's not just financial?" And that's really hard.

So much of what is termed "corporate social responsibility" is really superficial and low impact. Really robust CSR programs can be transformational, but we need more of them. A lot of CEOs would like to spend more time building better CSR programs, but they just don't



1954 EQUALITY IN SOUTH AFRICA

The foundation establishes fellowships for scholars, funding research that documents and exposes the devastating impact of South Africa's apartheid policies



1969 SESAME STREET

The Children's Television Workshop receives grants from the foundation to educate preschoolers, including a new series called "Sesame Street"

get prioritized enough, or the board just doesn't necessarily appreciate the value they create. So I would like more attention paid to, "How do we have more effective, high-impact CSR programs?"

Can you give an example?

I have found that the best CSR programs are the ones where the company truly wants to utilize all of its assets, not just a sliver of one department and one person's time.

For example, we partnered with Citibank in a conditional cash transfer program, where support is linked to the recipient's actions. We used this anti-poverty program to help promote financial literacy among people who really need it, to help them build their household income and economic security. I think we need more programs like that.

So you want companies to bring all their assets, not just write a check?

Right. Bring your marketing, bring your R&D, bring your HR, bring your IT. Bring your whole self as a company, all of the assets that you have to deploy to help solve a big problem.

We need the corporate sector to help solve problems today. There is no way that government and philanthropy can do the work that has to be done without the corporate sector.

What makes a good board?

Today, for a board to be effective and have impact, different perspectives have to be present. It's not just about race and gender – those are critical, but it's also about the diversity of lived experiences, of backgrounds and geography. It's political and representational perspectives.

When putting a board together, you have to think almost as a curator. You want to make sure you populate that table with people who will do their best work individually and who, as a

"It can't be just, 'We've got 10 directors and we have to have a black seat and a seat for a woman.' That's not good governance. That's tokenism. You need to move beyond that"

group, will add up to something really great and dynamic. That means making sure each board member feels they are adding value, that they are having an impact and that their time is well spent. These are high-value individuals. They are not interested in being on boards where they are simply "potted plants" or tokens. You need to know them individually and to make sure that they are motivated and inspired, that they feel that they are both learning and giving.

Some companies may be on the threshold, recognizing the need for that kind of thinking about diversity but not sure where to begin.

What do you say to them?

Well, it's a positive sign to admit you don't know something and then to acknowledge that you need help. That's the first step. You've got to find the people who can bring you the best intelligence, information, networks and resources to fill any gap you might have. And then go beyond that. I think a lot of CEOs articulate a desire for diversity and inclusion, but they don't internalize it into their practice. They don't place it within the incentive structure of the organization.

Have there been examples in your life where you've had to help build that bridge?

It has happened that I'm the only African American or the only openly gay person on a board and we're thinking about how do we diversify and everyone turns to me and says, "So, how do we do this?" That can feel like a burden, but my experience has been, boy, I pull out my contact list and get to work, just helping them fill those gaps.

But what I'm really interested in is how to help CEOs move from seeing this merely as compliance, to seeing it as something that adds value to you as a CEO and to the governance of your enterprise. It can't be just, "We've got 10 directors and we have



1976

PIONEERING MICROFINANCE

The Grameen Bank launches with support from the foundation, giving landless people, mostly women, access to credit. Grameen later wins the Nobel Peace Prize in 2006

1979

MONITORING HUMAN RIGHTS

The foundation supports several international human rights groups, one of which later becomes Human Rights Watch

2006

COMBATING THE STIGMA OF AIDS

The foundation launches a \$50 million global initiative to address discrimination that often accompanies an HIV/AIDS diagnosis



2014

"GRAND BARGAIN"

The foundation helps orchestrate a \$366 million program to assist the bankrupt city of Detroit, and makes the largest individual contribution



"Philanthropy has suffered from the misconception that if you do good, charitable mission work, everything else will be just fine"

to have a black seat and a seat for a woman." That's not good governance. That's tokenism. You need to move beyond that, to really internalize it and to provide space for the kind of discourse you want at the board table and also informally, among the board members.

So part of that is promoting healthy conversations between board meetings?

Yes, absolutely. The quality of fellowship among the directors is one of the things I think a lot about with the Ford trustees. Boards are often presented with difficult decisions. A board where people know and trust each other, and aren't just quasi-strangers who meet once a quarter, is likely to be a more effective board. When they're comfortable with one another, I will have their candid, honest engagement. And that's what I need.

We visit places around the world where the foundation is active, and I always encourage trustees to bring their spouses. Because it allows them to bring their whole selves. You get to really see the full picture of someone when they're with their family. And that brings you closer. It gives you a deeper sense of the person and what drives and motivates them. It builds fellowship and trust.

What's your biggest fear about the philanthropic space right now?

I mentioned earlier that I wanted corporations and board members to bring their "whole selves" to help tackle big issues and make a difference.

When I turn that same challenge back to us – are we bringing our whole selves? – I'm not sure. I'm afraid we maybe underplay our assets for social impact. We have to look at how we use our investment assets, our endowment, for

environmental, social and governance outcomes. We want to have more social impact through our investments.

Foundations sit on billions of dollars of assets in our investment portfolios. But most of us never ask the question of how we might get the most out of that balance sheet. So, I worry that we leave a lot on the table that could be deployed to exponentially grow our impact.



DARREN WALKER

Darren Walker is President of the Ford Foundation. For more than two decades he has been a leader in the nonprofit and philanthropic sector, working on social justice issues, including education, human rights, urban development and free expression. Before joining Ford, he was Vice-President at the Rockefeller Foundation, and had a decade-long career in international law and finance at Cleary Gottlieb Steen & Hamilton and UBS. He also led the creation of affordable housing as COO of Harlem's Abyssinian Development Corporation.

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BUILT BY FORD: THE MODERN MBA

The first Master in Business Administration program was offered by Harvard Business School in 1908.

After World War II, when the GI Bill allowed thousands of returning veterans to get a college education, the MBA degree became a popular choice in the US and began appearing as an option at schools in Canada, Asia and Europe.

Noting that rising popularity, an influential Ford Foundation report from 1959, "Higher Education for Business," helped

make the MBA the equal of other graduate programs. Their recommendations included a stronger emphasis on the social responsibilities of American enterprise, an effort that was picked up by other philanthropic and educational institutions.

Today, the foundation continues that work by supporting organizations such as The Aspen Institute's Business and Society Program, which trains executives and educators in sustainability and values-based leadership.

BRUNSWICK REVIEW

SECOND SECTION



P.72

Art works
for the city

P.80

Musical tropes:
George Crumb
takes note



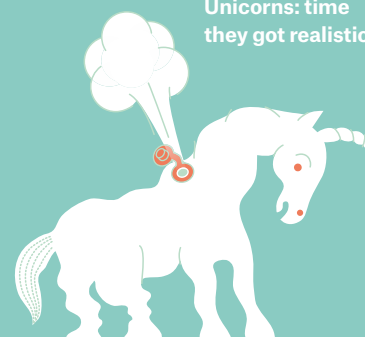
P.70

Fixing
pharma's
reputation



P.79

Unicorns: time
they got realistic



P.82

A bespoke view
of business dress





BATTLE FOR A HEALTHY REPUTATION

Public distrust of the drug industry requires
a new approach to communications,
say Brunswick's **CHARIS GRESSER** and **GABRIELLE SILVER**

In January, more than 80 companies across pharmaceuticals, biotech and diagnostics came together in an unprecedented declaration to tackle antimicrobial resistance. It was, one journalist said, an example of pharma doing some good at a time when a lot of people are throwing “bad, bad words” at the industry.

That observation throws into sharp relief the critical gap between how the industry sees itself and how it is perceived by others; between the solutions that biopharma creates and the problems others say it causes; between innovation, and a reputation that seems to have run aground.

We are on the verge of an extraordinary era in pharma, thanks in part to the huge

advances in genomics and molecular medicine. The US Food and Drug Administration approved 45 new drugs last year, the highest annual figure in more than a decade.

Many of the newer medicines have chemical structures and ways of working in the body that are so novel that they provide fresh lines of attack against cancers and diseases ranging from diabetes to auto-immune conditions. The world also now has an effective cure for hepatitis C – a potentially life-threatening disease for millions of people.

Sir John Bell, Regius Professor of Medicine at Oxford University, says, “We’ve witnessed dramatic improvements

in our understanding of diseases and how we treat them: when I was training, all we could give for multiple sclerosis was steroids. Now there are five new drugs.”

More innovation is expected to follow, as discoveries spill out of established pharma labs, biotech startups, research foundations and academia. Everyone is hungry to push the scientific frontiers, whether in gene editing, the re-engineering of immune cells or understanding the impact that variations in DNA sequence can produce.

But along with the renewed buzz, there are also brickbats raining down on the industry. In the US, a complex, emotionally charged debate about drug prices rocketed up the political agenda last

year. The fuse was lit by a row over Turing Pharmaceuticals' price hike, from \$13.50 to \$750 a pill for one of its drugs, sparking a controversy that spilled over to drug pricing in general.

A tweet from Hillary Clinton underscored the potency of the issue: "Price gouging like this in the specialty drug market is outrageous. Tomorrow I'll lay out a plan to take it on." Following her post, \$15 billion was wiped off the market value of US biotech stocks in just one day.

In another sign that the actions of one company can become a headache for all, a poll conducted by medical news publication *STAT* and Harvard T.H. Chan School of Public Health shortly after the Turing episode found that "about three-fourths (76 percent) of the public believes that brand-name prescription drug prices are unreasonably high today."

Industry commentator Matthew Herper, in a column for *Forbes*, said the reputation problem was "born of two decades of missteps as one of the most-respected industries in the country fell to be viewed along with tobacco and oil companies ... The big challenge for pharmaceutical companies is how to widen the discussion."

Self-inflicted wounds aside, this is an industry that is always likely to find itself in the crosshairs of public opinion. It is a simple fact that pharma produces drugs that sick people need. It is hard to think of a more fraught topic: this industry often stands at the door between life and death.

But even in such a highly charged context, there are many examples of pharma responding to public health emergencies, for instance, through efforts coordinated in record time to work on an Ebola vaccine. Another example is the industry's licensing agreements for HIV drugs with the United Nations-backed Medicines Patent Pool for use by generic manufacturers in low-income countries.

On a number of issues from access to medicines to transparency, the industry has moved toward society's expectations for responsible corporate behavior. The

message here should be simple: successful pharma uses its science and scale to solve the world's most difficult health problems. The challenge is how to present that so it's seen as the rule and not the exception – normal practice rather than just an isolated example.

Debate over pharma's reputation will continue and no single action by the industry will resolve it. However two trends are worth highlighting because they together create the possibility of better communication between pharma and its stakeholders.

The first is collaboration with an ever-widening group of organizations. Increasingly, pharma is joining forces with charities, research groups and even competitors to crack seemingly intractable problems. These present opportunities for pharma to explain the wider benefit of its drugs, not just to individual patients but also to the broader health economy – by relieving pressure on cash-strapped hospitals, improving employee productivity or contributing to scientific understanding.

To make that story compelling and credible, the industry needs evidence. This is where the second trend may be invaluable: the explosive growth of new types of widely shared data.

That data might be individual health stories. PatientsLikeMe, for example, is a

patient network with more than 400,000 members who can use the platform to track and share their experiences, and contribute data for research.

The result is a wealth of patient-reported data that could provide new insights into the nature of diseases, the patient experience and the effects of drugs beyond the lab or trials. Interest in this data has fueled collaborations between PatientsLikeMe and academics, industry, regulators and nonprofits that span a wide range of research areas.

Likewise, pharma and its customers are looking at ways to harness the power of large data sets and patient registries to understand how effective drugs are once they have been approved and are being used to treat patients.

None of this is easy and all of it requires coordination between pharma and its counterparts in health systems. They need to agree on the type of data that is relevant, and how it is to be collected, analyzed and interpreted.

Telling that data story is not straightforward, but when it is done well, it can enable pharma to be relevant to an ever-wider range of audiences that are only going to get more interested in what pharma has to say.

Data by itself can't bridge the gap between pharma's reputation and exciting innovation. But used effectively, it can help different stakeholders communicate with each other more clearly, and help clarify what are often complex messages.

These two threads – collaboration and the power of new types of data – can be braided into a more effective communications strategy. Using that, the industry can more consistently show how it supports the public's health across the board, not just one treatment or one disease at a time.

CHARIS GRESSER is a Partner in Brunswick's London office. Previously, she was a scientific writer for Public Health England.

GABRIELLE SILVER is a Partner in London. She is a qualified doctor and previously worked with GE Healthcare.



It is hard to think of a more
fraught topic: this industry
often stands at the
door between life and death



CULTURE CLUB

For a cultural center to work it's not just the buildings that matter, says ADRIAN ELLIS, it's everything in between that really counts

Cultural districts – quarters with a high density of art galleries, museums, theaters and concert halls – have become the anchors of a formidable swathe of urban development projects around the world from Rio to Montreal, Helsinki to Melbourne, Hong Kong to Abu Dhabi. Many more are in the pipeline.

These “top down” exercises often get bad press in the mistaken belief that the great cities they seek to emulate such as Paris, Amsterdam, Berlin, New York and London were organic, slo-mo, naturally occurring phenomena that cannot and should not be manufactured. How *nouveau riche* to try...

This is, of course, to misunderstand – often with a daft, sniffy hauteur – how those cities took their shape and character, which was through forceful top-down planning. Haussmann, Nash and Schinkel were planners and architects of ruthless self-confidence and with an almost totalitarian mandate, expunging the past and the present with barely a thought. In contrast, cultural districts are now usually planned, even in the least consultative of political cultures, with agonized attention (rhetorical or real) to community input and vigorous genuflections to history.

But for all the deliberations, the cultural district boom still seems to have two blind spots. First, this is happening as high culture sometimes struggles for audiences as well as financial support from the box office, philanthropy and public sector. Audiences for high arts are under threat, the reasons well understood, and the business model for arts organizations challenged as a result. Whatever the sizzle, when the steak is not as appetizing as it has been, is building steak houses the best strategic bet for urban regeneration? Not unless serious effort is given to working out how the buildings’ occupants can develop audiences and programs in a way that

is relevant and meaningful for the communities for whom these projects are the centerpiece.

The second challenge is that the big difference between successful and less successful cultural districts lies in whether thought has been given to the animation of the surrounding public spaces and provision for outdoor performances, smaller-scale galleries, live music in cafés and bars, craft studios and maker spaces, informal gathering spaces and educational facilities. The small stuff that feels like background is as important in making a compelling destination as the more grandiose cultural temples in the foreground. The “software” and the infill are as important for success as the iconic and photogenic hardware that grabs the headlines. And it takes careful planning and supportive economics – well beyond the architects’ paygrade – to attract artists and makers, collocating production and consumption, and to ensure that street-level animation is viable.

Cities are striving to become less interchangeable, less commodified, more distinctive. Expressive and iconic architecture and bespoke must-see spectacles are handy weapons in that battle. The arts community has stepped up to the challenge with enthusiasm and



The Bode Museum in Berlin (far left) was closed for eight years while it was renovated at a cost of more than \$200 million. The Bode is one of five museums located on the fittingly named Museum Island, a UNESCO World Heritage Site, in the heart of the city

West Kowloon's cultural district is under construction, with the first major venue set to open in 2018. Meanwhile, "bamboo theaters," (left) traditional temporary structures which stage Cantonese opera performances, have made appearances on the site, attracting crowds and interest in the district

intelligence, and sometimes more than a little expediency. There is barely a forum you can think of – urban regeneration, health, tourism, economic development, inward investment – in which the arts community is not an active, articulate and canny participant.

The committed capital expenditure in the pipeline for investment in cultural infrastructure over the next 10 to 20 years is staggering. Planners should not fixate on buildings themselves, but make sure they are designed for truly compelling programs and that between the buildings are vibrant, attractive public spaces for the communities they aspire to serve.



ADRIAN ELLIS

Adrian Ellis is the Director of the Global Cultural Districts Network and founder of AEA Consulting, an international practice that specializes in arts management. From 2007 to 2012 he was Executive Director of Jazz at Lincoln Center in New York.

TALE OF TWO CITIES

Berlin is an example of a classical European cultural hub, while West Kowloon in Hong Kong is a modern story of artistic commitment and urban planning. Here, we speak to cultural ambassadors from both

Following are excerpts of interviews that were conducted separately.

What is unique about your cultural center?

MICHAEL EISSENHAUER, Director General of the Staatliche Museen zu Berlin: Berlin itself. It has a history of ruptures, going back to the 19th century. After the Wall fell, not only did Berlin have to bring the city together, it also had to reinvent itself and catch up. And quickly. As a result of all that change, Berlin has more options than other major cities – it's more flexible. This openness is one of the essential differences for me.

The diversity of our National Museums – more than 5 million objects in 19 buildings – presents a communications challenge, compared to the single brand of the Louvre or Met. "The National Museums in Berlin" means something different to each person.

DUNCAN PESCOD, CEO of the West Kowloon Cultural District Authority:

What is unique is the fact that we are building the district from scratch on a magnificent site in the heart of Hong Kong. This is an opportunity not only to realize the government's ambition to build world-class facilities for the people of Hong Kong, but also to shape the future of arts and culture in the region. The close relations we are building with China and the West mean we really can bridge East and West – there's a dynamic relationship between Asian traditions and Western culture.

How do state-led approaches coexist with more entrepreneurial initiatives?

ME: In Berlin, there is real cooperation – they cross-fertilize. Many locations means we can put on many different events. We host contemporary artists, theatrical performances, musical performances –

these external initiatives come into many of the museums and enormously enrich the cultural spectrum. For example, we had eight Kraftwerk concerts in the Neue Nationalgalerie in 2015.

DP: The West Kowloon Cultural District Authority has the full support of the government, while being required to operate in a prudent commercial manner. This allows for the best of both worlds. On the one hand, we listen to the broad arts community in Hong Kong who are not only part of our future audience group, but are also potential collaborators. Meanwhile, Hong Kong's commercial art scene has had great success.

Is culture an important component in a wider political and economic strategy?

ME: The culture of Berlin has roots in the whole community. During the 20th century, the Nazis, the dictatorship of East Germany and the Wall all threatened to destroy that, but enough vigor remained for the organic unity to re-emerge. This is why Berlin is able to reinvent itself. Cultural districts can thrive only if they are set up with sustainable funding, if they have functions beyond a single area, and

if they do not define themselves solely in terms of tourism. They must look beyond money-making, otherwise they don't work.

DP: Absolutely. Artists have an important role in society and art is a necessary ingredient to make cities liveable – good places to live, work and play. Art at its best holds a mirror up to society and challenges norms. This was clearly evident in art that emerged out of the Occupy Central movement in Hong Kong.

How can your city project itself as both a cultural attraction and a site for creativity and experiment?

ME: The two aspects complement each other. Contemporary culture reflects our heritage, informing our views on museum treasures and, in turn, gaining substance through its relationship with the past. I think there is a lot of potential for a reinvention of Berlin in this duality.

DP: Hong Kong is well known for the importance we place on the freedom to express, to publish and to debate. As a symbol, the extraordinary architecture of the West Kowloon district is already emerging. Our programming will feature the best of local, regional and

international artists and offer new environments for experimentation.

What was the thinking behind your master plan?

ME: Ours took shape after the fall of the Berlin Wall. After 30 to 40 years of separate development, museums in the east and west of the country were to be brought together again. While Museum Island is a UNESCO World Heritage Site, it also has to build for the future, optimizing access to the buildings and modernizing safety and efficiency. Bridges connecting the buildings were all destroyed during World War II and recreating them was impractical. Instead, underground walkways are being built, the "Archaeological Promenade."

DP: We are building far more than cultural facilities. Starting from scratch, on land newly reclaimed from the sea, we are building a town within the city, with cultural, artistic, educational, retail, dining, hotel, residential, office and other spaces together with the infrastructure to support that community. We hope to promote an understanding of Hong Kong's identity and traditions and create a place where people can come together.



The Neues Museum in Berlin is home to the iconic bust of Nefertiti, thought to have been made more than 3,300 years ago. The original was excavated in Egypt by a German archaeologist in 1912. The museum has several copies (left) including an idealized version from 1921 which features the eye that is missing from the original. The bust has recently been in the news since two artists claimed to have secretly scanned it and made the files available for anyone to download and make a copy with a 3-D printer. Modern scanning technology has led to many arts institutions facing similar dilemmas

What are the main cultural projects currently under way in your city?

ME: We have almost 20 independent building projects running at the moment. It is an incredible period of change. The most prominent project is the Humboldt Forum, the reconstruction of the former Berlin City Palace where our non-European collections will be housed under one roof and highlight the connections between Europe and the rest of the world.

On Museum Island, British architect David Chipperfield is designing a new entrance building that will link all the Museum Island buildings with one another. The Pergamon Museum project is just as big – almost half a billion euros will go to its restoration. The Neue Nationalgalerie at the Kulturforum will be refurbished over the next few years and extended – everyone is watching what we are doing to it. We are also building a central repository, a city in itself, for historic objects. Plus innumerable smaller projects. A long answer, but...

DP: This cultural development in West Kowloon is one of the largest in the world, with many venues and performance spaces. The Xiqu Centre will

be the first major venue to open, in 2018. Xiqu is a performing art that has existed in China for more than 2,000 years and integrates literature, music, arts, dance, martial arts and juggling. The best-known genres include Kunqu, Cantonese opera and Beijing opera.

M+ is Hong Kong's new museum for 20th and 21st century art, design, architecture and the moving image, with work from Asia and beyond. The Lyric Theatre will act as a platform for Hong Kong's leading performing arts organizations and a venue for programs from Hong Kong and worldwide. One of the most important spaces will be the park, a public space and green lung at the heart of the city. There will be a black box theater for 450 people and outdoor performance space for up to 10,000.

Longer term, we will have more theater and music venues, gallery spaces and education facilities.

Interviews conducted by Maria Marques and David Lasserson of **BRUNSWICK ARTS**, an international communications consultancy dedicated to promoting and managing the reputation and interests of arts, cultural and charitable organizations around the world. www.brunswickarts.com



MICHAEL EISSENHAUER

Michael Eissenhauer is the Director General of the Staatliche Museen zu Berlin, the largest network of museums in Germany, comprising 15 collections and four institutes. Previously, he was Director of the Museumslandschaft Hessen Kassel, where he oversaw the museum's restructuring and renovation.



DUNCAN PESCOD

Duncan Pescod is CEO of the West Kowloon Cultural District Authority. He previously served for more than 32 years across various bureaus and departments in the Hong Kong government, including transport, housing, tourism, urban services and trade.



Detail from artist Zhang Huan's "Family Tree" series (left). This, together with work from many other Chinese and Hong Kong artists, will be housed in West Kowloon when construction on the M+ Museum is finished. The name reflects the concept of "museum and more"

The site upon which the West Kowloon Cultural District is being built (right) was under water 30 years ago. The government began to reclaim land from Victoria Harbour in the 1990s; new ground for a groundbreaking cultural center



GOOD SAMARITAN

When Banco Espírito Santo was split up and its toxic assets jettisoned, **EDUARDO STOCK DA CUNHA** was parachuted in to rescue the “good” bank. Then things got complicated...

Interview by Brunswick’s **ALEXANDRA ABREU LOUREIRO**

When Eduardo Stock da Cunha came to the aid of a teetering institution in his native Portugal, he didn’t bank on that good deed turning into an intense long-term commitment.

In September of 2014, at the invitation of Portugal’s central bank, Stock da Cunha took temporary leave from his position at Lloyds Banking Group to be interim Chairman and CEO of the fledgling Novo Banco, formed out of the collapse of one of Portugal’s largest lenders, the family-led Banco Espírito Santo, or BES.

In July the same year, under a cloud of suspicious accounting practices, the bank had reported a 2014 first-half loss of \$4.8 billion. BES, a linchpin of the nation’s economy, seemed about to go belly up.

The central bank stepped in and organized a bailout to salvage the retail operation – the so-called “good bank.” The family leadership was forced out and a separate entity, the Resolution

Fund, became the sole shareholder. The “bad bank,” containing the company’s most toxic assets, was left to existing shareholders and junior bondholders.

If BES had been allowed to fail and go into liquidation, it could have had a “devastating systemic effect” on the whole banking sector, José Berberan Ramalho, a Deputy Governor of the Bank of Portugal, told a parliamentary hearing late in 2014.

BES’S FIRST MANAGEMENT team post-bailout resigned after only two months, citing a shifting mandate. Stock da Cunha was tapped to lead the good bank, named Novo Banco, until it could be sold.

A year later, the expected sale fell through and the search for a buyer ground to a halt. Stock da Cunha was left in a kind of limbo, steering the huge retail bank toward an uncertain goal, unsure if, or for how long, his term would be extended.

In the meantime, a socialist-leaning government came to power in Portugal and another domestic bank collapsed, throwing more shadows on to Novo Banco’s future.

As interim CEO, Stock da Cunha needs to provide stability and grow the business’s value despite these stormy conditions, fighting each day to deliver for both customers and regulators.

“It’s a 26-hour-a-day job, I can tell you,” he says. Here, he discusses leading a bank under siege, the pressure of serving many stakeholders, and the personal sense of duty that drives him.

Why did you take the job at Novo Banco? You must have known you were stepping into a hornets’ nest.

I’m attracted to challenges and this is the kind that happens once in a lifetime. And it was a mission, something I could do for my country.

Basically, I was asked to rescue a bank that was tremendously important

MILESTONES ON THE ROAD TO RUIN – AND RECOVERY



Banco Espírito Santo is founded in **1920** and has roots in the mid-19th century businesses of patriarch José Maria de Espírito Santo Silva

THE WALL STREET JOURNAL

DECEMBER 2013

A *Wall Street Journal* article questions “financial gymnastics” within the family-led Espírito Santo group of companies

MAY 2014

An independent audit finds serious problems at Espírito Santo International, a BES sister unit. Finances of the whole group are thrown into doubt

JUNE Family members, including the CEO of BES, Ricardo Espírito Santo Salgado (right), give up leadership roles

JULY Shares continue to fall. BES reports record loss of €3.6 billion (\$4.8 billion) for the first half of 2014. Respected economist Vitor Bento named CEO and Chairman

to the Portuguese financial system and still on the brink of collapse. It is one of the most prominent banks for retail and commercial customers in Portugal.

Before moving to Lloyds in London in 2014, I spent 20 years at Santander Group, the final five as COO and member of the board at Sovereign Bank, Santander's retail unit in the northeast of the US, based in Boston. I took on that role when the bank was also in a very difficult situation. We had to radically change the bank by cutting costs and headcount by more than 30 percent.

What attracted you to Lloyds?

Lloyds is an amazing institution – a retail bank in one of the largest financial markets in the world, with more than 20 percent market share in personal current accounts and almost 20 percent share in small companies and business banking. When the opportunity arose at Lloyds, I jumped at it.

What is your role now, at Novo Banco?

My job is to manage the bank and to preserve or to increase the value of the franchise. Given the failed sale and other public challenges, it is not easy. But we are sure that the bank is on the right track and will continue to regain value.

When I took the job, I had a discussion with the folks at the Resolution Fund – the sole shareholder of the bank. We agreed that I was in charge, but that they would handle the sale

of the bank. It seemed best to separate those roles.

Your position was supposed to last only a few months. Are you still determined to see it through?

The sale did not succeed initially, and we all have had to accept that. As long as I can, I will continue to have this active role in helping the bank continue on the right track. To the very last minute, my focus will be on creating value for this bank.

Novo Banco is now undergoing a restructuring and a recapitalization plan. What will the new bank look like?

The way I think it should have looked a long time ago. This bank can only survive – and it *will* survive – if we keep our competitive advantages or make them stronger. That means we need to take care of families' savings and lend money when they need it; we need to help Portuguese companies build exports and reach the appropriate international markets.

We are a Portuguese bank, based in Portugal, mainly working for Portuguese companies and households. That is where our competitive strength lies, not in other markets, where local competition may have the advantage. Our strength is in community banking, US-style.

But you have had some foreign bidders for the company?

Ownership should and must be independent. This is a local bank, in



EDUARDO STOCK DA CUNHA

Eduardo Stock da Cunha is interim CEO and Chairman of Novo Banco in Lisbon, Portugal. He is on leave from his position as a Director at Lloyds Banking Group in London. Previously he was with financial group Santander in Portugal and its US unit, Sovereign Bank.

NOVO BANCO

Novo Banco was created in 2014 as part of the Portuguese government-led effort to resolve the collapse of former Banco Espírito Santo. Novo Banco is the country's third-largest bank by net assets and has almost 2 million clients. Its domestic network has some 580 retail branches and around 6,000 employees. The group serves households, Portuguese exporting companies and the emigrant community.



AUGUST

Bank of Portugal discloses that more losses at BES were hidden in deals with Swiss group Eurofin Holdings. A \$6.6 billion bailout is unveiled and "good bank" Novo Banco is born



SEPTEMBER

Vitor Bento and his team resign. Eduardo Stock da Cunha is named interim CEO and Chairman of Novo Banco by Bank of Portugal

MAY 2015

Bank of Portugal starts proceedings against former BES executives, including Salgado, suspected of "malicious acts" and "ruinous management"

this space and with these types of customers. As long as the new owners understand that and support our mission, it doesn't matter as long as they comply with the criteria defined by the authorities.

You have said before that the CEO and chairman roles should be separate, but you hold both at Novo Banco. Does this bother you?

This is a "bridge bank" arrangement, designed to end with the sale of the business, so I'm not that concerned. A bridge bank is temporary by law, even though it would be preferable to separate the CEO and chairman roles.

The government's handling of the collapse of BES set a precedent in the European banking system. Are there lessons to be learned?

It's too soon to tell. It would be wise to wait until the situation with Novo Banco is resolved and then calmly, after a lot of discussion, change whatever needs to be changed.

Probably one area that needs to be analyzed very carefully is whether there is any conflict of interest between the central bank, acting as a regulator and supervisor, and the Resolution Fund, acting as the lead shareholder, especially if you have people working at both the Bank of Portugal and at the Resolution Fund.

But again, I think it is very early to judge how things were handled. I would wait for this to be resolved and then look at it again.

The recent Portuguese elections have opened a new wave of criticism about the bank bailout. Could that impact Novo Banco's future?

Simply put, we don't know. We Portuguese tend to punish ourselves by being very self-critical and slow to acknowledge our achievements.

BES was one of the largest institutions in the system, representing between 16 and 20 percent of retail and commercial banking in Portugal. It collapsed. Imploded. Yet the banking system continued to work normally. I wonder what would have happened in other countries in a similar situation? In this case, because of the authorities, the employees, the customers, nothing calamitous happened; no branches were closed. So we should really celebrate that.

It's true, some events combined to make 2015 more difficult. The bank had more problems than initially thought. The Chinese stock market crisis

"To the very last minute, my focus will be on creating value for this bank"

may have influenced the bidders, two of whom were Chinese.

What are some of the other hurdles?

The European Central Bank stress test was an important one, determining how much additional capital was required for the bank. Bidders knew the stress test results would be disclosed in November 2015, so it seemed best to wait for those results before continuing with the auction of the bank. The restructuring plan demanded by EU authorities is another factor. But those uncertainties have been clarified now.

How will you measure success at Novo Banco?

The first measure of success is that the bank survives and the second is that it remains a valuable franchise. I really think we've achieved both of those. That's not my victory, but a victory for Portugal and its financial system, for the bank's employees and its customers.

Third is profitability, which is taking longer than expected. Success here depends on how we implement the restructuring and the capital plan.

Over the long term, we need all three: survival of the bank, protection of the franchise to ensure its value, and implementing the restructuring and capital plan to make the business profitable.

You are at Novo Banco on professional leave from Lloyds. Will it feel dull going back?

No. The important things you bring to work – seriousness about what you're doing, acting responsibly with your colleagues, your shareholders, your customers – those things are common to everything you do.

It has been said that investment banking is about a few people. It's like a military strike force: the level of organization is relatively small, but there is a lot of creativity and ingenuity.

By contrast, retail banking requires an army, with all the corresponding institutional standards, rules and discipline. Yes, you also need creativity, but you need to apply it in a rigorous way that rewards all your customers and, by consequence, your employees and shareholders.

That is just as true at Lloyds' banking operations as it is at Novo Banco.

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ALEXANDRA ABREU LOUREIRO is a Senior Adviser for Brunswick in the Portuguese-speaking world. She previously served as spokesperson and media adviser to the Portuguese government on defense and foreign affairs.

BELIEVE IN UNICORNS, NOT THE HYPE

The lure of a \$1 billion-plus valuation can entice startups to overpromise – with disastrous consequences, say Brunswick's **AMANDA DUCKWORTH** and **ERIC SAVITZ**

IN SILICON VALLEY, corporate communications has become an inadvertent accomplice in the maniacal push to create unicorns. Not the single-horned mythical beasts, but the northern California variety: venture capital-financed startups with private market valuations of over \$1 billion. According to *The Economist*, there are more than 140 such companies.

A backlash has emerged, dominated by the widespread conviction that many of them are wildly overvalued. Some have overstated their products' potential. Others have understated the risks they face, underestimated the competition, or underprepared for regulatory oversight. All of these mistakes carry consequences.

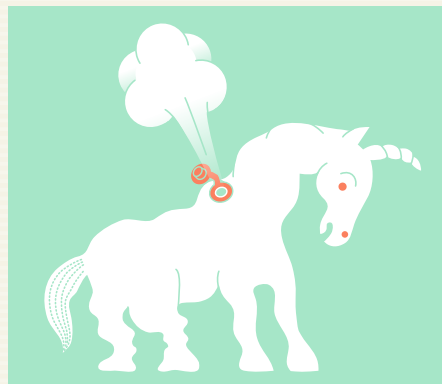
Those unicorns able to complete IPOs have done so at levels well below their pre-listing valuation. And there are indications that in their lust for a 10-digit valuation, startups are accepting investment terms favorable to venture capitalists at the expense of employees and early investors.

Many startups have gone down this road with the right goals in mind, including the recruitment of critical talent and driving growth to build market share and create formidable barriers to entry. New companies have to be decisive and show confidence in their products and future, or no one will be interested. But when you overpromise and underdeliver, the result can be lost jobs, damaged careers, financial pain and failed businesses.

The recent controversy around Theranos, a healthcare technology company, shows just how much is at risk. Early in 2015, investors were drooling at the prospect of an IPO by the California startup. Venture

capital poured in and estimates valued the company at \$9 billion, largely on the promise of a revolutionary blood test that only needed tiny amounts of blood. In October however, *The Wall Street Journal* published an article saying the company's proprietary testing techniques were usable in far fewer cases than its publicity implied. US Food and Drug Administration approval for some of the company's practices was denied, further damaging its reputation and jeopardizing critical partnerships with Walgreens and Safeway. In December, *Fortune's* Alan Murray wrote, "If Theranos is ever going to make it out of the Unicorn forest, it needs to hold itself to a different standard."

Spectacular setbacks often involve questionable communications practices: hyperbolic press releases; a carelessness with the facts; the desire to create rock stars out of young CEOs; scorched earth take-downs of competitors; and disregard or even disdain for regulators. While it makes sense to inspire key audiences about innovation, too easily hope translates into hype. Here's how to stop that from happening:



Stick to reality Trouble often begins with exaggerated narratives that have only a loose affiliation with the facts. Stay optimistic, but keep stories anchored in reality. Present a balanced picture of opportunity and risk, accompanied by real-world examples of product or service impact. If you face regulators, anticipate their concerns and pre-empt them. They can bring you to your knees if snubbed.

Play fair Winning doesn't mean everyone else has to lose. Smear campaigns can damage a young company's long-term reputation and make the battle for hearts and minds much harder to win. Communications can be determined and effective without stooping to mudslinging.

Less is more The CEO doesn't need to be everywhere. Show up at events with a specific purpose, not just to hobnob with the glitterati – or technorati. Companies should show off a deep bench of executives and avoid positioning the CEO as an irreplaceable superhero.

Relationships matter No one needs to read piles of press releases – and no one will. Instead, connect with key reporters and analysts, answer tough questions and build trust. Not every article will be favorable, but you will get better coverage in the long run.

Aspiring unicorns should resist the fantasy world of hype and come down to earth. Management wins when it underpromises and overdelivers, and investors reward companies that exceed expectations.

AMANDA DUCKWORTH is a Partner and Head of Brunswick's San Francisco office where **ERIC SAVITZ** is also a Partner.

"I don't have any artistic skills outside of musical calligraphy. I just think the music should look the way it sounds"

and, over the centuries, has been constantly reinvented. Pitch, loudness, rhythm and articulation symbols are relatively simple, yet communicate complex musical ideas. Crumb's graphic scores add an emblematic dimension.

Professor Emeritus at the University of Pennsylvania, Crumb says that while most composers now use computers to notate music, "I prefer to do it the slow, old-fashioned way. You have to be like a monk in a cell. You forget time exists."

Similarly, the sound of Crumb's music seems to exist outside of time, drawing in passages from historic scores. He finds inspiration in subjects that allude to memory and to experiences of time on vast scales. "People have said that

they hear something in my music that is prehistoric," he says, "evocative of nature and of old-world things that don't exist any more."

Crumb is known as much for his experimental sounds as his graphic scores. Footnotes explain the sometimes dizzying array of effects, such as singing into a cardboard tube, walking slowly offstage while performing, or playing glasses tuned with water. These create a sense of ritual and theater.

His audience includes many admirers in and out of classical music circles. The late David Bowie wrote in 2003 that Crumb's string quartet "Black Angels," written in response to the Vietnam War, "scared the bejabbers out of me" when he first heard it in the mid-'70s. "It's still hard for me to hear this piece without a sense of foreboding," Bowie said. "Truly, at times, it sounds like the devil's own work."

Crumb's scores, drawn on oversized sheets, can take weeks to complete. The resulting work speaks volumes. "Spiral Galaxy" (shown left) remains one of his favorites. "I'm most proud of that



GEORGE CRUMB

Born in 1929, George Crumb is a Grammy and Pulitzer Prize-winning composer. A native of West Virginia, he retired from the University of Pennsylvania in 1997 after more than 30 years of teaching.

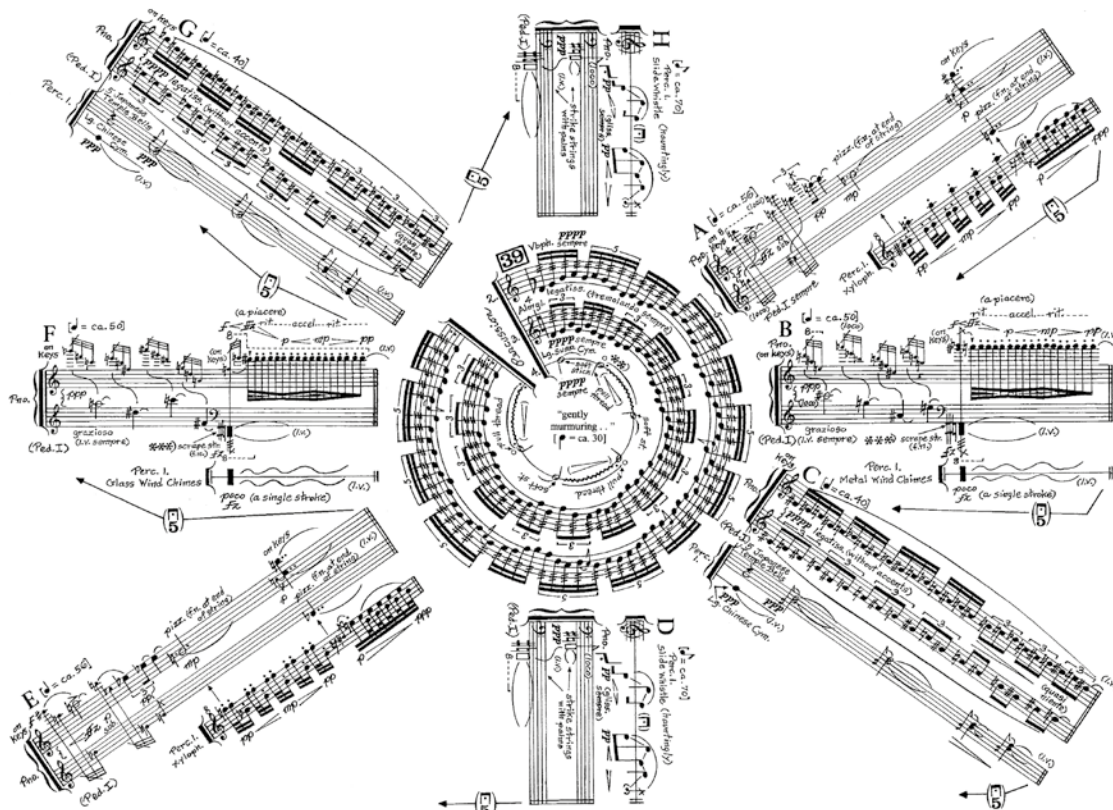
piece, of all my graphic notation. It was so much work."

There is more to come. He is working on a "large-scale piano piece," and while he won't share the details, it is bound to push beyond the limits of both sound and page.

CARLTON WILKINSON is Deputy Editor of the Brunswick Review, based in New York.

Crumb's scores are not just instructions to the performer. He says, "the music should look the way it sounds." The musical elements fragment, alternate and repeat in the swirl of "Spiral Galaxy," (left), from his book of piano solos, "Makrokosmos I" (1972)

In an instrumental interlude from "The River of Life: American Songbook I" (2003, right), percussionists play the center circle music as a loop, while other instruments play each "ray," separated by pauses



CUTTING ACROSS THE SEXES

KATHRYN SARGENT, the first female Head Cutter on Savile Row, interprets the language of business dress for Brunswick's **PATRICK HANDLEY**

"I was always drawn to men in suits"

"There's a lot a suit can do for a person. A bespoke suit should be an extension of your personality"

"When you see somebody who looks confident, comfortable in their clothing, that reflects in the way they behave as well"

"I don't think people realize just how much what they wear communicates about them. Especially if they're in the public eye"



KATHRYN SARGENT

Kathryn Sargent's career in bespoke tailoring began with an apprenticeship at Gieves & Hawkes on Savile Row in London. For centuries, men have been the craftsmen making suits – for their male clients – and not many women have felt cut out to be tailors. But within 13 years, Sargent was promoted to be Gieves' Head Cutter, the first woman to hold that position in the country. In 2012 she left Savile Row to open her own *atelier* (above) in Brook Street, and now makes suits for both men and women just a short walk from the famous street where she learned her trade.

PATRICK HANDLEY is a Partner in Brunswick's London office and co-heads the firm's Energy and Resources practice. Kathryn Sargent is his tailor. Her confidential notes on him read, "Prot. S/blades, VBL"; tailor-speak for "protruding shoulder blades, very bow-legged."

"Bespoke is not one suit fits all, it's not one method fits all. It's problem solving. Bespoke is a blank canvas. You're not working with anything that pre-exists – it's handmade completely from scratch. So you can do anything. It really is limitless"

"I'm very proud to have trained on Savile Row. But the businesses there have changed over the years. Many are now more global luxury brands than traditional tailors, whereas I'm just interested in the craft behind the trade. I am a tailoring geek"



SAVILE ROW

in central London was built in the 1730s, on land that had belonged to the 3rd Earl of Burlington.

It was named in honor of the Earl's wife, Lady Dorothy Savile. Tailors arrived on Savile Row in the early 19th century and theirs has remained the street's defining trade ever since.

Savile Row is world renowned for its bespoke tailoring. Bespoke garments are made on the premises from scratch and by hand. It takes approximately 50 hours to make one suit. Despite their name, "made-to-measure" suits are produced in a factory, and then altered in-store to fit the customer.

Savile Row's clientele has included many powerful and famous figures, from Lord Nelson to Ian Fleming, J.P. Morgan to Elton John and John F. Kennedy to Gregory Peck. The Beatles gave their final live performance on the rooftop of 3 Savile Row, above the offices of Apple, their record label. In their famous *Abbey Road* album cover, three of the four Beatles crossing the road are wearing Savile Row suits.

BRITISH BILL-DODGE

Winston Churchill is pictured below inspecting English coastal defenses during World War II. The July 1940 morale-boosting trip to Hartlepool in north-east England came less than two months after his famous, "We shall fight on the beaches" speech. He is posing with a Thompson submachine gun and wearing a Savile Row suit made by Henry Poole & Co.

The company recently discovered that Churchill had once refused to pay a bill of £197, equivalent to £12,000 (\$17,000) today. They have not held a grudge; the "Winston Churchill grey chalk stripe" is still sold today.



Right:
Winston Churchill
in a Savile Row suit

*“There is a formula,
for cutting a trouser,
the waist-measure,
seat-measure, outside leg,
inside leg. You make a grid
with a pencil and
set square – it’s fractions,
and you work on a scale.*

*The scale of a trouser
is half the seat, the scale
of a jacket is half the chest,
and you draft the pattern
proportionately.*

*Then you take into
consideration
the client’s shape:
bow-legged, knob-kneed,
high right hip,
sloping shoulders...”*

“I used to find really amazing tailored pieces in secondhand shops when I was a student. I would take them apart to see how they were made, then put them back together again. My tutors thought that was a bit mad. But how do you design something if you don’t know how it’s made?”



“I started as a trimmer at Gieves & Hawkes, the person who puts in all the buttons, linings and canvases when the cutter has cut the job.

When the suit comes to you, you put in all of that, bundle it up and give it to the tailors. And you keep stock – it’s stock control”



“There are rules for men: two-button, three-button, double-breasted, four-button cuff. You do this, you do that. You’ve got your trousers, you’ve got your buttons, there you are. You’ve got a framework. Men have been wearing suits for hundreds of years and it has evolved. And suits for women have evolved from menswear”

“Traditionally, you were brought in by your father – he told you what tailor to go to. Now everybody searches the internet before they meet you. My youngest client is 18 and I have many in their 20s”

“Some men come in and say, ‘I want to look like the king of the world. Give me a suit that makes me look powerful. What’s the boldest check you’ve got?’”

“A client said, ‘I don’t want to look like I’m too much in command. I want to be approachable.’ I said, ‘Don’t do stripes – and you need to be more open, less buttoned-up. Think about having your suit a bit looser rather than overly fitted, so you look more relaxed. And try pleating your trouser – that way the cloth’s going to flow when you move. That will work’”



Bespoke career

“Even though I didn’t really want to do womenswear, I started making things for myself. And I got a lot of pleasure from wearing garments that were handmade. Clients would ask me, ‘Where did you get your suit?’ And then, ‘There’s a woman I work with who’s always trying to find something’ or, ‘Can I send my girlfriend?’ And I said, ‘Absolutely.’ It started like that”



“A client tells me she gets respect from male colleagues when she wears a bespoke suit. ‘Is that gray herringbone? Where is your tailor? Oh, London! Savile Row!’ It gets you automatic acceptance. She calls it her armor. She feels comfortable because it fits her and it’s very sharp and it’s going to last her”

“Gieves & Hawkes has a masculine history, but I trained there. I have that experience of tradition. I wanted to put my stamp on that and for my *atelier* to be a very open and welcoming place”

“How much does all this cost? My prices start at £4,220 (\$6,000) for a two-piece bespoke suit, and £2,970 (\$4,250) for a sports coat or blazer”



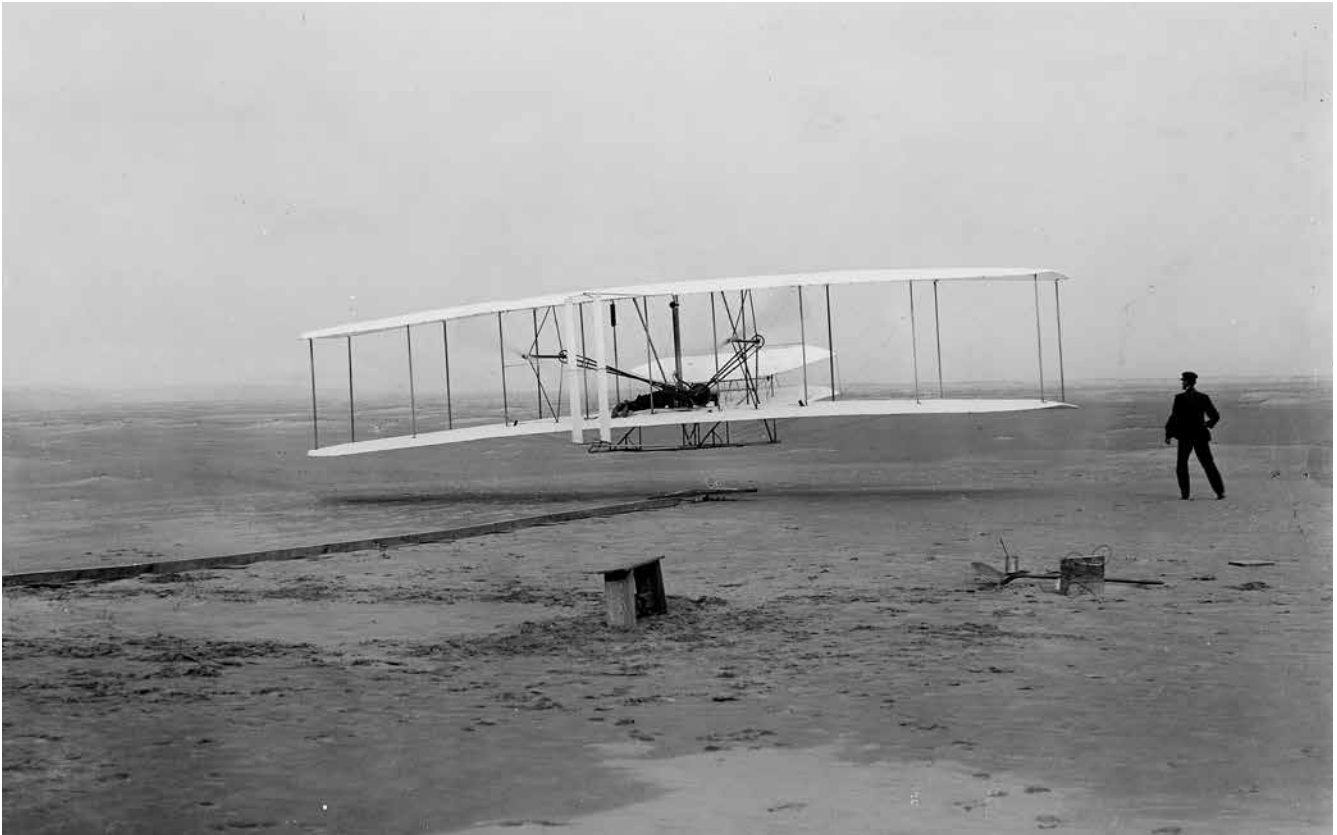
WHAT’S IN A NAME?

“When people talk about going to see their tailor, they’re not. They’re actually going to see their cutter. I am a cutter. I measure the client, advise them on style, cut the pattern and cut the material. Then I send it to the trimmer and *then* it goes to my tailor. The tailor actually does the sewing. When the garments are basted together, I do the fittings and alterations. I’ll rip down the suit completely flat, remark it, and then it will go back to the tailor. When you walk down Savile Row, and look down into the basements, the people you see there are tailors. The cutter is client-facing. But when people ask me what I do, I say, ‘I’m a tailor.’ Because if I say a cutter they don’t understand”

Left: “Derek,” Kathryn Sargent’s mascot

CRITICAL MOMENT

SNAPSHOT OF A COMMUNICATIONS TURNING POINT



DECEMBER 17 1903

ON A BRISK, WINDY MORNING, with his brother Wilbur running alongside, Orville Wright took off in a homemade aircraft and flew for 12 seconds. Later that day, Wilbur himself remained airborne for nearly a minute. Men had flown before, but never in a plane that powered itself and could be controlled mid-air.

For such a transformational moment, it was all remarkably casual. The Wrights had decided who would fly first with the flip of a coin. Only five men were there to see it. One of them, who had never even seen a camera before, took the photo.

Orville sent a telegram to their father, announcing their success and adding, almost as an afterthought, “inform Press.” The editor of the *Dayton Daily Journal*, with whom the news was first shared, responded: “Fifty-seven seconds, hey?

If it had been 57 minutes, then it might have been a news item.” The Wrights discovered what many have since learned: delivering a great scoop doesn’t always lead to a great story – or any story, for that matter.

Other papers showed similar indifference, or in some cases, outright skepticism. *Scientific American* would publish an article titled “The Wright Aeroplane and Its Fabled Performances.”

For more than four years after their first flight, the Wrights remained largely unknown. This was partly by choice. Both Orville and Wilbur enjoyed working on the aircraft more than promoting it. It was not until 1908, after agreeing to a series of public demonstrations, that their achievements were finally acknowledged and celebrated worldwide.

That the Wrights could go unrecognized for so many years forces

Wilbur Wright watches as his brother Orville becomes the first person to fly a self-powered aircraft in this photograph, taken on the beach at Kitty Hawk, North Carolina

us to consider what matters more: an achievement, or whether it is noticed?

The temptation is to conclude that the newspapers simply missed a gift-wrapped story. More than a century later, the press’s negligence remains cringeworthy. But the Wrights certainly could have helped themselves by making a little more effort to engage with journalists.

There is no doubting the Wrights’ genius – Orville once built a printing press using a tombstone and buggy parts. But they failed to understand that even the most blatantly important stories are incapable of telling themselves.

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