

ENRRIQUE “RICK” HERNANDEZ JR. SERVES AS CHAIRMAN OF McDonald’s and Chief Executive Officer of a security firm that employs 35,000 people around the globe. But what he especially loves to mention is a role that harks back to the nineties, when he served as President of the Los Angeles Police Commission, a civilian board established to oversee reform following the police beating of Rodney King in 1991.

“Of all the things I’ve done, I’m most proud of leading that commission,” says Mr. Hernandez. “Not just because I’m proud of the job we did, but because it was the achievement of which my dad was most proud: His own son had been put in that position and was responsible for something as significant as that.”

At that time, Enrique Hernandez Sr. was a retired LAPD officer and founder of a fast-growing company called Inter-Con Security Systems. “Even after my father had founded a very successful company, if somebody asked him what he did, he’d say, ‘I’m retired from the Los Angeles Police Department,’” recalls Mr. Hernandez.

Enrique Hernandez Sr. died 16 years ago, but honoring his memory remains paramount to Mr. Hernandez, and doing so requires something other than distinctive titles or record profits. It requires character. “I’m the eldest son,” Mr. Hernandez says. “I’d be sitting at his knee, so to speak, and he’d tell me, ‘Look, integrity, honesty, it’s the absolute foundation for everything. No one has use for a corrupt policeman. And the corruption starts with the first lie. You can’t restore integrity once you violated it.’”

Mr. Hernandez pauses. “I’ve always tried to live up to that.”

Mr. Hernandez believes that acting with integrity means not only avoiding lies but also sharing possibly unpopular truths. In the interview that follows with *Brunswick Review* Editor Kevin Helliker, he demonstrates a willingness to do so.

A Director of McDonald’s since 1996 and its non-executive Chairman since 2016, Mr. Hernandez served for many years on the board of Nordstrom and still holds a seat on the board of Chevron and the University of Notre Dame board of trustees. He also long ago succeeded his father as CEO of Inter-Con, a privately owned provider of high-end security and facility support services to government, utilities and industrial customers. Mr. Hernandez earned a bachelor’s degree in government and economics from Harvard University and a law degree from Harvard Law School.

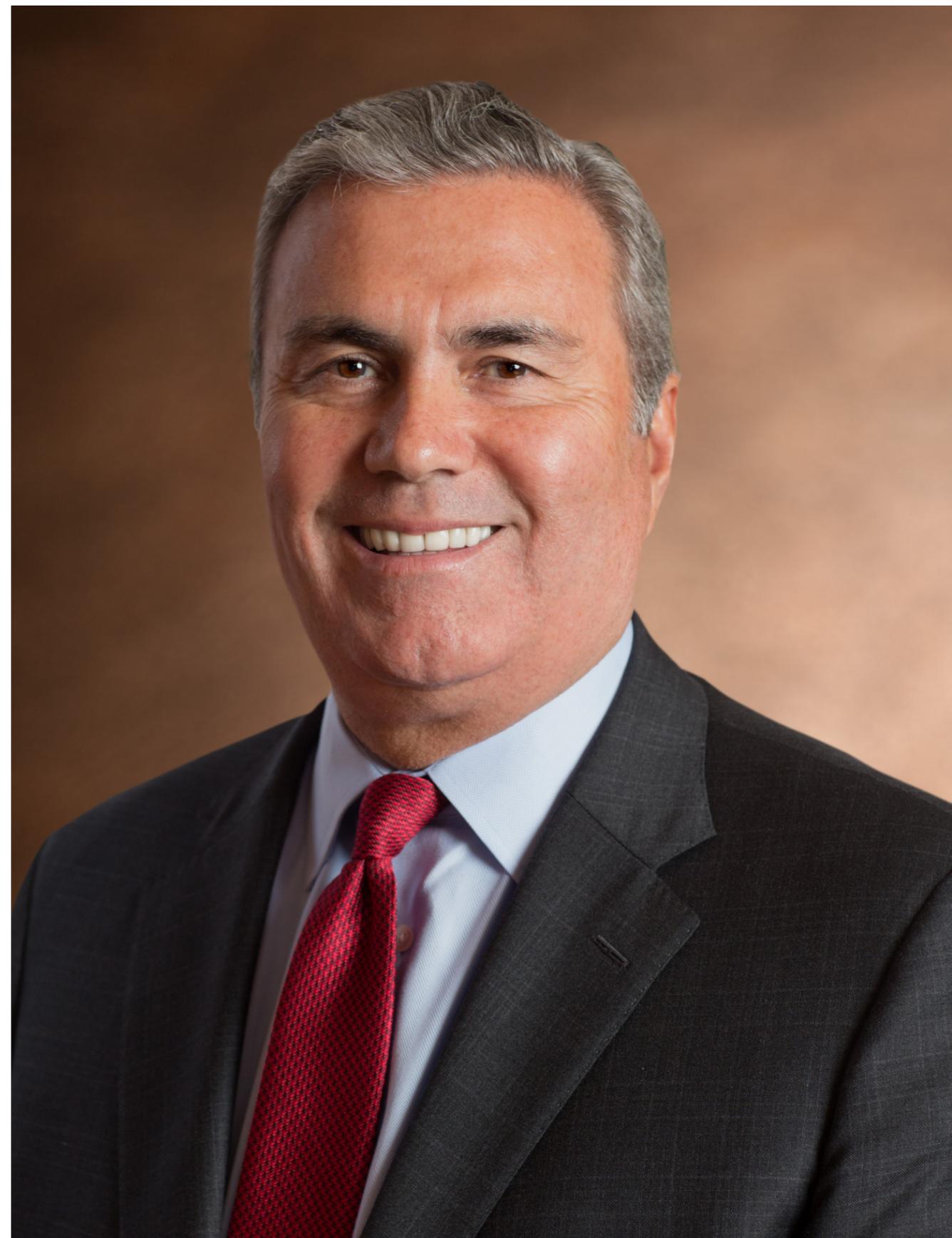
How has the responsibility of boards changed and evolved over the last 25 years?

When I started, the expectations for the board members were to really focus on the business. It was more internally focused. And your preparation and participation was more intermittent, episodic. Boards would meet four, maybe six, times a year. Nowadays, it’s an expanded role and a much quicker, continuous environment. Being a director means understanding what customers and stakeholders are saying in real-time, and being proactive rather than reactive.

Companies have to view themselves as global citizens, as national citizens—they’re responsible to a much broader constituency than

CHAIRMAN of the Board

Enrique Hernandez Jr.
McDonald’s



only the shareholders. So, in addition to focusing on the business and understanding the regulatory framework you're operating within, it's delivering on those wider responsibilities.

Has that expanded role and accelerated pace altered a board's priorities?

At the highest level, I think the priorities are the same. To operate and be a strong business 25 years ago meant being a good corporate citizen. It's just articulated in a different way today.

But I would say the priorities or the attributes you would look for in a new board member have changed. When I started, there was a tendency to try and populate boards with CEOs or people who had business experience that resonated with the board. Now, CEOs on public companies can sit on only one board and you have to make sure that, given the demands on every company, that each board member can bring something unique while also participating fully and prioritizing the board responsibility.

As the chairman and CEO of a family-owned security firm, how has your experience leading a private company guided your approach to sitting on boards of public companies?

One of the things that distinguished me as I joined boards was that I had a law degree, not an MBA. In a law firm, we made decisions by sitting around a table and honestly talking about a subject. It was collaborative, collegial. That was part of my background.

And there was also an entrepreneurial spirit. It's what inspired my father to start a security company, Inter-Con, after he left the LAPD. That was a value he instilled in me. I came into Inter-Con after years of practicing law, and then my younger brother came into it. Together we invested in Spanish-language television. And so we were the forefathers, if you will, of Telemundo. And my brother became CEO of that company, which was public.

I was able to compare and contrast his experience with mine. Frankly, I remember remarking to the people in Inter-Con how fortunate we were to be a private company and able to advance our business without seeking public capital markets support.

When I eventually joined public boards, I think I brought that family business background and entrepreneurial experience. I tried to ask, "Why can't we do that?" and think creatively about solutions and opportunities.

And I've tried to foster the collaborative spirit I mentioned from my time as a lawyer. What I still say within the boardroom today is that we need to have each person participate fully to realize the collective wisdom of the board.

I end each meeting, and have done so for many years, requiring each member of the board to speak to what's transpired. What caught their attention? What concerns arose because of something they learned in the meeting? What advice, or expectation, do they have?

That's not the common model, but I think it's the responsibility of each board member to be able to do that. I've heard of situations, and experienced them at different points in my career, where board members will sit quietly, then the CEO leaves and directors

discuss some aspect of business, or talk about what the CEO didn't do, or what the CEO should be doing.

I've been chair many times in my career and I think it's often expected that the chair carries that water to the CEO. But I see it as a matter of courage really to do your responsibility: If you have something to say, you'd better say it to the CEO directly.

That's how we do it at McDonald's. It works well for us. It builds a confidence in the relationship and a confidence in the quality of the communication between the CEO and the members of the board.

You mentioned the importance of values in a family business, have you been able to bring that to your role on public company boards?

I certainly hope so. I've tried every day. It goes back to my father, who was a remarkable, remarkable person. He left home at 17, joined the US Army, served in Korea for four years, then joined the police department in Los Angeles.

He was very proud of that. And he never stopped talking to me about the importance of acting with integrity.

What has been your most rewarding leadership experience?

I'll go back to my father. He joined the LAPD in 1953 I think it was. Back then it was a pretty proud organization of 5,000 policemen responsible for a huge geographic area—a professional police department in an era where the term "professional police" really hadn't evolved. He retired 20 years later in 1973, when I was going into college. Fast forward again to 1992, and the Rodney King incident happens, where King was brutalized by police officers.

A year later, 1993, Los Angeles had a new mayor, Richard Riordan. And Mayor Riordan asked me to serve as president of the Los Angeles Police Commission, the civilian body organized to oversee and help reform the police department.

My dad passed away about 15 years ago. Of all the things I've done, I'm most proud of leading that commission. Not just because I'm proud of the job we did, but because it was the achievement of which my dad was most proud: His own son had been put in that position and was responsible for something as significant as that.

Boards are often faced with circumstances for which there is no playbook. How do you determine what's in the best interest of the company and its stakeholders when the path forward may not be clear?

We faced a situation like that at McDonald's not too long ago, in the aftermath of a CEO behaving in a way that had clearly violated McDonald's values. We terminated the CEO. But then, months after the termination, I received a complaint about additional conduct. We conducted a further investigation and found that the former CEO had behaved in ways wholly inconsistent with our values that he concealed from us when we terminated him. And so, we brought litigation against him to get the company's money back.

THERE'S AN EXPECTATION [TODAY] THAT COMPANIES PERFORM A DIFFERENT AND GREATER ROLE IN SOCIETY.

If you look at how other companies have historically handled situations like that, it has been essentially to move on once a separation agreement is in place. There was no extensive track record of companies pursuing legal action against an executive who had been already separated from the company, to get back pay that they believed was improperly paid.

It was kind of uncharted territory. In our case, we asked ourselves, "What's the right thing to do?" And in answering that, you look at your values, your responsibilities to your colleagues, to shareholders, and to society.

I'm proud of that decision that we made; I think we made it for the right reasons, trying to do the right thing.

And we've been transparent about it. Within McDonald's, I think that whether you're the newest or among the more tenured people, you have a right to understand the organization's values and how they're being applied. For an organization to be at its best, people need to know that they're getting the true story, that they're respected enough to be informed properly.

You're chair of McDonald's and a director at Chevron. How did these respective boards react and adjust to COVID-19?

For all their differences, both businesses are global enterprises. Both saw their markets incredibly affected. Both focused on employee health and safety as they found ways to continue operating. So I participated in, and was able to witness, the true mettle of these companies.

It's one thing to help manage a company and maybe make a basis point difference here or there. Without being overly dramatic, this was a decisive moment for the future of these businesses. And I can say both were extremely well managed during the crisis and continue to be. It brought out the best and it made me very proud to be part of both. I don't know that every director can say that about how their companies responded. But I can.

Diversity on boards has been an ongoing challenge. Only 2.7 percent of board members at Fortune 1000 companies were Hispanic in 2019. The lack of diversity on boards has come under the spotlight again in recent months. Why do you think it's an ongoing challenge?

I think the challenge is around opportunity. We need to give more people the opportunity to be considered for board positions, and we need to encourage candidates to demonstrate their full contribution across the board's agenda, not just in one area. Only then will we have truly diverse boards.

To give you a sense of how I approached it and was thinking about it earlier in my career: I believe that you have to devote some part of your life to charitable activities. So I joined the board of

the Children's Hospital Los Angeles. And on the hospital's board was the nominating committee chair of Great Western Financial, a large savings and loan business in California.

I was a young guy. And at one point he came over after a board meeting for the hospital and said, "Would you ever consider going on the board of Great Western Financial?"

That many years ago, breaking into a company listed on the New York Stock Exchange was big. And what happened after that, at least in my case, was that once you're "in the big leagues," then you have opportunities to meet other people—it's an opportunity though, it's not guaranteed. Your work, your ideas, your performance, whether you're collaborative and well prepared—all those things are noticed. But that opportunity is what is critical to getting a foot in the door.

I later went onto the Nordstrom board, the McDonald's board, I've been on the Tribune board over time. And it started by doing volunteer work. My brother has had similar experiences on the boards he's served on.

Today, one of the ideas that Nasdaq has put forward is having specific targets for diversity in boardrooms. That resonates with me. But I also believe that I've seen something else in boardrooms over the years: board tables aren't created level. You have to earn your voice. And if you can't contribute on a variety of subjects or participate in a collegial sort of way, you tend not to earn that voice.

You know the old commercial, "When E.F. Hutton talks, people listen"? Generally, there are some E.F. Huttons around a board table. There's also the opposite, people who tend to have a weaker voice because they talk about only one thing—one-trick ponies. Every business has some specialty component, and if you pick a director for a specialty—a regulator, for example—you risk them becoming so focused on one thing that they don't speak until that subject comes up, or they try and work that subject into something that's not necessarily connected closely with that.

What issues have risen up the board agenda? And which issues will rise or continue rising over the next decade?

Two come to mind. One is climate. Working climate issues into a strategy, and making everybody within a company a partner in the effort, is so important.

There's also an expectation that companies perform a different and greater role in society. How McDonald's views the world and our business is much more expansive than just making sure that the French fries are hot for the consumer—that's a caricature of the old model. Today, we're still going to make sure the French fries are hot, but we're going to also make sure we do it in a way that we're participating as a citizen of the world, and contributing toward the many, many communities where we work. ♦