

WCD Board Strategy Briefing: Issue 3

What Directors Need to Know About the Next
Marketplaces and Business Models



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When a tech giant like Google enters the home-delivery business, boards recognize that their agility and ability to innovate are critical to their company's very survival.

Recognizing the need to adapt quickly to market disruption, "Agility and Innovation" was the theme of the **2015 Women Corporate Directors Global Institute**. The spring event brought together 250 directors, board chairs, CEOs and other governance experts to KPMG LLP and JPMorgan Chase headquarters in New York.

Directors shared their experiences in helping companies adjust to the technology, globalization and societal shifts that are disrupting business models in every industry. **Estelle Metayer**, director of France's Ubisoft Entertainment SA and Canada's BRP (Bombardier Recreational Products) Inc., moderated a panel about specific ways companies have used their agility to not only endure but take advantage of disruption and expand into new markets.

The "complexity matrix" is how Metayer described the new challenges directors face as they seek to navigate new technologies, new customer needs, new regulations and new distribution channels—simultaneously. Addressing this complexity matrix, the panel – "**Anticipating Needs: What Directors Need to Know about the Next Marketplaces and Business Models**" – featured these corporate leaders:

- **Nancy Calderon** (United States): a global lead partner for KPMG LLP; director, Global Delivery Center, Ltd., KPMG India; director, the WCD Foundation; co-author of *Women on Board*
- **Yoko Ishikura** (Japan): professor emeritus, Hitotsubashi University; non-executive director of Nissin Foods Holdings, Lifenet Insurance Co. and Sojitz Corporation; WCD member
- Former U.S. Congresswoman **Lynn Schenk** (United States): director, Sempra Energy, Biogen; board commissioner, California High Speed Rail Authority; member, Board of Trustees of the Scripps Research Institute; WCD member
- **Alison Winter** (United States): director, Nordstrom, Inc.; lead director of Blain's Farm and Fleet; co-founder, WCD

In this **WCD Board Strategy Briefing**, sponsored by KPMG LLP, we highlight the key takeaways from the discussion. As companies everywhere grapple with constant and accelerating change, directors can bring back to their boards specific insights to help organizations through transformations large and small.



Pivoting Required: Adjusting Business Models and Throwing Out Old Assumptions

One of the toughest adjustments for boards is accepting the fact that, today, everything is a moving target. Older companies are having to dramatically adapt business models that were profitable for decades and create new initiatives to ensure they don't lose a foothold in their industry. But newer companies, are also facing hard realities around consumer behavior, consumers' relationship with technology, and the often discordant relationship between regulations and technology.

As a director at Lifenet Insurance, Yoko Ishikura discussed how her firm has faced multiple challenges operating in an industry being disrupted by technology—though perhaps not as quickly as the company expected. “Life insurance used to be bought by consumers through the place of work, so the model had been that there were all those sales representatives—hundreds and hundreds of them—who would just talk to the company employees and make sure that they would buy the life insurance when they joined the company.”

Lifenet started up seven years ago and began to offer a new, online option for customers—designed to leverage the heavy migration of younger people especially to internet purchases. “But we found that there is still some reluctance among consumers to make a decision like this over the internet. Another challenge the sector has faced in moving online is that younger customers tend to use their smart phones for everything, while many of the insurance forms were designed for computer viewing and filling out. Then there is the challenge of the regulatory regime, which is largely outdated and does not understand the technology.”

So Lifenet has had to adapt to adjust to these speed bumps—working with smart phone carriers, for example, to broaden its user base. This agility has been essential to keeping up with the pace of disruptive change, complicated by the cultural and regulatory forces at work in this market.

Companies with much longer histories probably need much more of a jump-start to overturn the standard way of doing things, said Alison Winter, director, Nordstrom. “Well-established companies with many decades, or even centuries, of brand equity behind them are reimagining themselves for a new breed of consumer,” she said.

Online sales are disrupting the retail market, of course, but even bricks-and-mortar stores are undergoing a complete transformation. “Responsiveness is critical to every aspect of retail—and the speed just keeps getting faster and faster. The increasing pace of fashion trend changes requires a production cycle ten times faster than in decades past, requiring companies to identify the clogs in their supply chains and see where efficiencies can be extracted.”

Real estate is another area retailers have sought to leverage amid the dramatic ups and downs of the market, said Winter. “While the recession had a huge effect on sales, of course, it has presented compelling real estate opportunities for companies to jump on the lower prices and make investments for the future.”



Global Talent Grab: What the New Workforce Demands

Entering new geographic markets, or building on a small base a company already has to establish a stronger presence, requires directors to have their “antennae up” and attuned to the needs of local talent. Companies cannot just think regionally, but must learn the important differentiators among the distinct countries in a region and how the local cultures operate.

For example, as a political and economic body in Southeast Asia, ASEAN encompasses more than 600 million people across 10 countries—with dramatic ethnic, religious and economic diversity. With a jump in real GDP of around five percent for several years (*IMF Regional Economic Outlook*), ASEAN is approaching the growth in explosive markets such as China, but with a completely different economic model and distinctive economic needs. Countries such as Indonesia that have very young populations place great demand on educational resources. And this educational base must be developed further to provide the employee talent needed as Southeast Asia strives by the end of 2015 to establish the ASEAN Economic Community (AEC) to rival China, the European Union and other regional economic behemoths.

While education and wide-ranging differences among member nations present challenges for unifying and strengthening the ASEAN market, there are numerous hurdles in other countries as companies seek to build local talent bases.

As a neighbor to the ASEAN nations, India is forging a greater relationship with those trade partners and has provided an increasingly attractive talent pool for American and European companies in many industries. Yet what this talent requires of employers has changed.

Whereas Western companies once saw India as a source of less-expensive labor, that view has evolved. As KPMG’s Nancy Calderon noted: “We have these brilliant people here—how are we going to retain them?” Yoko Ishikura of Japan’s Nissin Foods related that her board had a big discussion around this issue: “How do we make sure that we have good people rather than just good strategy?”

As more Indian women have stayed in the workforce over the past decade, for instance, there has been a shift in what this part of the talent base demands. Calderon, a director at KPMG India’s Global Delivery Center, explained: “We had always heard that once a woman gets married, she would go live with the husband’s family, and then leave the workforce. Now, the women are staying and negotiating a work-life balance while being managers and are asking the company how we are going to help them meet these obligations.”





New Markets: Taking a Measured Approach

As economic recovery has prompted expansion after a few years of contraction in the aftermath of the global financial crisis, companies have taken steps to enter new markets. A clear trend is a more careful consideration of markets closer to home vs. the more rapid expansion practices before the crisis.

Alison Winter discussed. “You don’t just decide you’re going to go to another country—you really have to think it through.”

When considering other markets, there are many factors to take into account to lay the groundwork for success, said Winter. “You may have a strong brand – one that is already known to a degree in the potential new market – and this certainly helps the cause of setting up shop somewhere new. But it’s important to get into learning mode about your target market: How do customers shop? What influences them? What kind of customer service do they expect in the sector? By investing the time to identify what matters most to the consumers, you can avoid many problems caused by going in too quickly.

“It’s about being opportunistic, of course,” said Winter, “but also about not jumping into the pool before you know if there’s any water there.”

Lynn Schenk, a director at global biotechnology company Biogen, which develops drugs to treat serious illnesses, echoed that understanding the local culture and patients’ needs was of prime importance when considering markets.

“Knowing the patients, for example – how do they relate to doctors?” she said. “In the U.S., there is a growing partnership between patients and physicians, but this is not true in many other countries. There is also the question of who pays for healthcare and treatment, which varies dramatically country by country, and yet another variable is the regulatory climate.

“Obviously, management needs to be aware of all of these factors, but board members need to be knowledgeable as well. They need to know what is going on so that they can ask the probing questions, ask the second- and third-tier questions—the ‘peeling the onion’ questions. As a board member, you do have to know the business, on a much deeper level, than in years past.”





Redefining Collaboration: Leveraging Internal and External Relationships

One of the traditional points of tension in any corporation has been the relationship between the board and management, but that is changing. The complexity of the modern global economy has required companies to start thinking more collaboratively than ever before—with internal stakeholders, with clients and, yes, even with competitors.

Lynn Schenk, who also serves as a director for Sempra, related her experience when the energy company was undergoing a major strategic shift around natural gas. Earlier in the early 2000s, when natural gas was on the decline in the United States and prices were rising, Sempra built a liquefied natural gas (LNG) plant in Louisiana to import LNG, re-gasify it and then sell it into the North American market. But once fracking began to drive a major boom in energy production in the United States, “All of a sudden, we were awash with natural gas, and the United States became the number-one gas producer in the world.”

This development necessitated a change in direction. Sempra set up a collaboration of management, employees in the field and the board, and applied for a permit to change the plant so the company could then export rather than import, LNG. The complicated task of dealing with the permitting issue fell to the board-management committees, which successfully changed the strategic course. Sempra is one of the few companies that has received a federal permit to export LNG.

This kind of hands-on work of the board with management is sometimes necessary. “Some would say this was sticking our fingers in,” Schenk said, “but, in this case, it was the right thing to do.”

Schenk’s other board, Biogen, has a similar relationship with executives. “We have a risk committee, which is a collaboration of board and management that works very closely together. The whole landscape is changing, including the role of a board member in these kinds of strategic discussions.”

Collaborating outside one’s company—even with traditional competitors—is another way companies are staying nimble and able to evolve with the latest technologies. Nordstrom director Alison Winter remarked on the new partnerships that are forming between long-standing brands and newer entrants into various industries: “As directors, we have to look at competition differently. What are the strategic partnerships, or even more informal collaborations, that can drive value and allow companies to move quickly into new channels or reach new customers?”

Industries from recruiting to automotive to tech have seen arrangements that leverage the complementary strengths of each partner: LinkedIn with traditional recruiters; Toyota and BMW; Apple and Samsung. “Partnering allows companies to add capabilities quickly, rather than having to build it themselves,” said Winter. “We will see more and more of these emerge as companies and boards become more open to the possibilities partnerships offer for growth across many different measures.”

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Additional sessions and speakers at the 2015 WomenCorporateDirectors Global Institute included:

Family Business Governance Institute

Enduring Across Generations: How Boards Can Drive Value in Family-owned Businesses

Theo Schwabacher (United States) (moderator) senior institutional consultant and certified wealth strategist, Morgan Stanley; WCD Advisory Board member and chapter chair

Elaine Eisenman (United States), dean, Babson Executive and Enterprise Education, Babson College; director, DSW, Inc.; WCD Advisory Board member and chapter chair

Cate Goethals (United States), author of "The Better Boards Project: Exploring the Impact of Women on Boards"; adjunct professor of leadership development, University of Washington Foster School of Business

Barbara Roberts (United States), president and chief executive officer, Roberts & Co.; adjunct professor, Lang Entrepreneur Center-Columbia Business School; chair, Tiger21; former chair of the Federal Reserve Bank of New York's Small Business and Agricultural Advisory Committee; WCD member

Erin Wolf (United States), executive director, Women's Leadership Center Coles College of Business at Kennesaw State's Coles College of Business

A Conversation With **Marilyn Carlson Nelson**

(United States), former chairman and chief executive officer, Carlson; board member, Carlson, the United Nations Global Compact, The Committee Encouraging Corporate Philanthropy and the National Endowment for Democracy; former director of Exxon Mobil Corporation

Interviewed by **Susan S. Stautberg** (United States), chairman and chief executive officer, The WCD Foundation; co-author of *Women on Board*

Where the job of the family council ends and the job of the advisory board or board member begins

Susan Kish (United States) (moderator), director and co-founder of the Energy Venture Forum; director, The Foundation Center, InsideClimate News and the SwissNex Science Consulate

Leyla Alaton (Turkey), board member, Alarko Group of Companies; deputy chief executive officer, Alvimedica Medical Technologies Group; WCD chapter chair

Claudia Bosch (Guatemala), owner of Casa Palopo and member of Multinversiones (owners of Pollo Campero); WCD chapter chair

Mercedes Eleta (Panama), president, founder, owner, Stratego Communications; member, Smithsonian Tropical Research Institute Advisory Board; WCD chapter chair

Darcy Howe (United States), senior vice president-investments, Merrill Lynch Private Banking and Investment Group; director, Heatron, Inc.; board of advisors, Bama Companies, Inc.; WCD chapter chair

Focus on governance + lessons learned: "If I'd only known..." –Tales from the trenches:

Susan Remmer Ryzewic (United States)(moderator), president, chief executive officer, and director, EHR Investments, Inc., The Remmer Family Foundation, Cabot Wellington, LLC, William Smith Enterprises, Inc. and University of North Florida Foundation; WCD, chapter chair, Family Business Council co-chair, Advisory Board member

Nancy Green (United States), chief design officer, The Medicines Company; founding partner, Donovan Green; director, Hallmark and Ecohealth Alliance; WCD Advisory Board member

Sally Guthrie (United States), chairman, J.T. Walker Industries, director of J.T. Walker Industries; WCD member

Julia Klein (United States), chairwoman and chief executive officer of C. H. Briggs Company; WCD member

Brigitte Simard (Canada), director and member, Executive Committee of The Canadian Club; consultant, Spencer Stuart; WCD member

Marcy Syms (United States), director, Rite Aid Corporation; former chief executive officer and chairman of the board, Syms Corporation; WCD member

Global Institute

A Conversation With: Margaret Orakwusi (Nigeria), founder and chief executive officer of the Morbod Group; principal partner of Margaret Onyema & Co. and Uptown Solicitors; chairman of NIMAREX; WCD chapter chair

Dr. Herta Von Stiegel (East Africa), founder and executive chair, Ariya Capital Group Limited; director, Supervisory Board of LeasePlan Corporation; independent chair, CHAPS Clearing Company Ltd; former managing director, AIG Financial Products; WCD chapter chair

Interviewed by **Henrietta H. Fore** (United States), director, Exxon Mobil Corporation, General Mills and Theravance Biopharma.; global co-chair, Asia Society; WCD global co-chair

New Trade Routes – Emerging Markets to Supply Chains, and Threats Facing Companies Amid This Global Risk

Undraa Agvaanluvsan (Mongolia) (moderator), executive director, Strategy Academy; director, Mongolian Oil Shale Company and SANA Technologies LLC; WCD chapter chair

Andrea Abt (Germany), non-executive director, Brammer, plc, member of Audit, Remuneration and Nomination Committee

Maria Livanos Cattau (Switzerland), director and trustee, International Crisis Group, Institute of International Education; former secretary general of the International Chamber of Commerce; WCD member

Andrea Menezes (Brazil), chief executive officer, Standard Bank Brazil; WCD chapter chair

Michael Singh (United States), Lane-Swig senior fellow and managing director at The Washington Institute, former senior director for Middle East affairs at the National Security Council

A Conversation With: Maggie Wilderotter (United States), Frontier Communications Corporation: currently executive chairman; formerly chairman and chief executive officer and president, chief executive officer and member of the board; member of the board of directors of Xerox Corporation, Procter & Gamble Company and Juno Therapeutics, Inc.; WCD member

Panel 2: What Directors Need to Know About Cybercrime & IP

Pamela Passman (United States) (moderator), president and chief executive officer, Center for Responsible Enterprise and Trade (CREATE); former corporate vice president and deputy general counsel, global corporate and regulatory affairs, Microsoft Corporation; advisor, board and audit committee of IO; Strategic Advisory Council, Ethisphere; WCD member

Adriana Karaboutis (United States), executive vice president, technology and business solutions, Biogen; independent director, Advance Auto Parts

Linda Mills (United States), former corporate vice president of operations with Northrop Grumman Corp; director, Navient, Smithsonian National Air and Space Museum; WCD member

Gabrielle Greene-Sulzberger (United States), general partner of Rustic Canyon/Fontis Partners; director of Whole Foods and Stage Stores; former chief financial officer of the Villanueva Companies and Gluecode Software; WCD member

Su-Yen Wong (Singapore), chairman, Nera Telecommunications; chief executive officer, Human Capital Leadership Institute; director, MediaCorp, NTUC First Campus; WCD member

Strategy – from Reimagining to Disruption

Carmen Rosa Graham (Peru) (moderator), member of the board of Backus, Ferreycorp, Interbank, Entel Peru and Camposol; WCD chapter chair

Gia Colosi (United States), global head of HR operations, Airbnb

Lynne Doughtie (United States), chairman and chief executive officer, KPMG LLP

Clara Gaymard (France), chief executive officer and president of GE France; president, Women's Forum for the Economy and Society, director, Veolia

Bea Perez (United States), chief sustainability officer at The Coca-Cola Company; director, Primerica, International Council on Women's Business Leadership and The Coca-Cola Scholars Foundation; WCD member

Kalpna Raina (India and United States), managing partner, 252 Solutions, LLC; firector, John Wiley and Sons, Information Services Group and Yellow Media Group; advisory board member, Asia regional vice chair, WCD

Family Business Governance

Christie Hefner (United States) (moderator), chairman of Hatch Beauty; director, Center for American Progress, Luminary Digital; former chairwoman and chief executive officer of Playboy Enterprises and executive chairman of Canyon Ranch Enterprises; WCD member

Fatima Al Jaber (United Arab Emirates), board member and head of projects committee, Al Jaber Group, Al Bashayer Investment Company PJSC; chairperson, UAE Businesswomen's Council; WCD chapter chair

Cristina Finocchi Mahne (Italy), professor of economics of banking and industrial groups, University of Rome La Sapienza; outside director, Natuzzi SpA; non-executive and independent director, Trevi Group; director, Banco di Desio e della Brianza S.p.A.; WCD chapter chair

Christi Offutt (United States), chair, Offutt Family Enterprises; chief executive officer, RDO Equipment Co.; director, Bell State Bank & Trust; WCD member