The Power of Difference

Directors are positioned to ensure that the organizations they serve promote diversity and inclusion at all levels of the company—and gain a dynamic competitive advantage as a result.

A supplement to *NACD Directorship,* November/December 2016

#hellowork

Culture – some assembly required.

Building a workplace people are excited about requires finding people you can get excited about. That's why ADP offers insight-driven recruiting and talent management services to help your company create a work culture that is one of a kind.

Visit adp.com/hellowork and see how we can provide a more human resource for your busines

ADP®

A more human resource.℠

HR Solutions | Payroll | Good Job

Table of Contents

EDITOR IN CHIEF **Judy Warner**
ART DIRECTOR **Patricia W. Smith**
ASSOCIATE EDITOR **Jesse Rhodes**
ASSISTANT EDITOR **Katie Grills**
GRAPHIC DESIGNER **Alex Nguyen**
PUBLISHER **Christopher Y. Clark**

National Association of Corporate Directors
2001 Pennsylvania Avenue NW, Suite 500, Washington, DC 20006
Phone: 202-775-0509
NACDonline.org

EDITOR'S NOTE

Distinctive Qualities

Stakeholders today expect corporations—and their boards—to be made up of individuals who reflect the customer base. The development of more inclusive teams has become a business imperative and a call to arms to board leaders to embrace strategic objectives and reporting mechanisms that support diversity efforts.

Taken together, the articles in this slim volume provide an invaluable road map for directors for an important area of oversight.

Effective boards proactively assess their performance and identify knowledge gaps. According to the forthcoming *2016–2017 NACD Public Company Governance Survey*, director respondents identified such analyses as the most effective mechanism for ensuring diverse board composition. When interviewing prospective board members, KPMG's Susan Angele and Susan Stautberg recommend screening questions that reveal critical traits such as willingness to learn about new trends, the ability to approach change head-on, and even emotional intelligence.

Executive recruiters Robert Hallagan and Michael C. Hyter of Korn Ferry write of the importance of the board receiving an annual report on the state of composition in order to create and maintain diverse pipelines of managerial talent throughout the organization. Moreover, Contributor Subha V. Barry provides compelling evidence for the importance of having a chief diversity officer who works closely with the board to improve its practices. Deloitte Chief Inclusion Officer Deborah DeHaas shares her experience in building diverse workplaces and boards by drawing on the wisdom of other directors.

In addition, data analytics and artificial intelligence can be effectively used to identify highly qualified candidates, and more of them. Michelle Tartalio, an expert in this area, writes that today's most forward-looking boards use both, with the ultimate result of streamlining their processes. Rose McKinney-James, a director of MGM Resorts International, takes a different approach to focusing on processes. A sustainability expert, she looks at how bringing diverse perspectives into the boardroom resulted in highly successful company intitiatives that made MGM a leader in environmentally friendly business practices—further proof that creating a culture of inclusion can make a powerful difference. *—Judy Warner*

Current Diversity Trends

By Jesse Rhodes and Ted Sikora

In a global economy where companies need to cater to a diverse consumer base, there is a strong business case for having a similarly wide array of backgrounds represented at all levels of an organization. Perspectives that challenge the status quo can drive innovation and sharpen a company's competitive edge. Despite the palpable value-add of diversity and inclusion practices, there have been some troubling trends this past year.

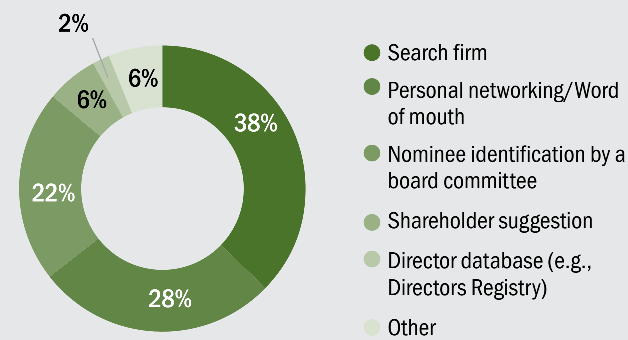
In its latest analysis of S&P 500 companies, Catalyst finds that only 19.9 percent of board seats are occupied by women. Looking at individual boards, only 14.2 percent are at or nearing gender parity. This is hindered by two director recruitment trends. First, representation is stymied in part because women are more likely than men to serve on multiple boards. Although the number of women directors in the S&P 500 has increased over time—from 727 in 2011 to 913 in 2015, according to Equilar—24.4 percent serve on multiple boards. Comparatively, only 19 percent of male directors serve on multiple boards. Second, there is the historical tendency for boards to nominate directors who are current or former C-suite executives. Currently, only 4.6 percent of S&P 500 companies have a woman CEO.

Spencer Stuart paints a similarly bleak numerical portrait of the state of ethnic representation in the S&P 500. In 2015, 8.6 percent of directors were African American, down from 9.6 percent in 2010. There were, however, slight increases in other demographic groups: representation of Hispanic or Latino directors rose from 4.2 percent to 4.8 percent, while 1.8 percent of directors were of Asian descent.

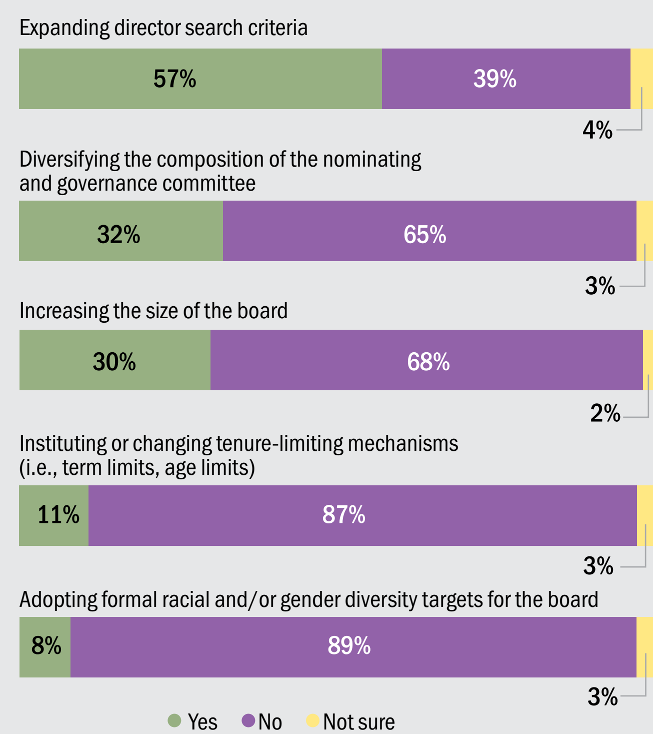
According to the latest data collected by NACD in its annual survey of some 1,000 directors, there are a few promising director recruitment trends. This year, the use of search firms surpassed personal networking as the primary means of sourcing potential candidates. In addition, many boards are actively taking steps to increase diversity. The majority of respondents (57 percent) indicated that they expanded director search criteria.

When it comes to encouraging director turnover, age limits remain the most prevalent mechanism used to manage director tenure; however, nearly a quarter of respondents (24 percent) said that their boards use performance evaluations, while 21 percent said that they replace directors based on a skills-gap analysis of the board. In addition, performing a skills-gap analysis ranked as the most effective mechanism for ensuring the best board composition for the company.

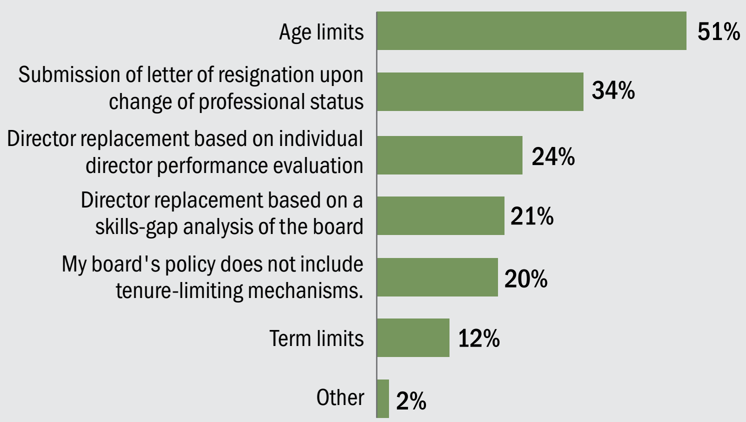
Which of the following director candidate sources identified the individual your board most recently nominated for board service? Please select one source.



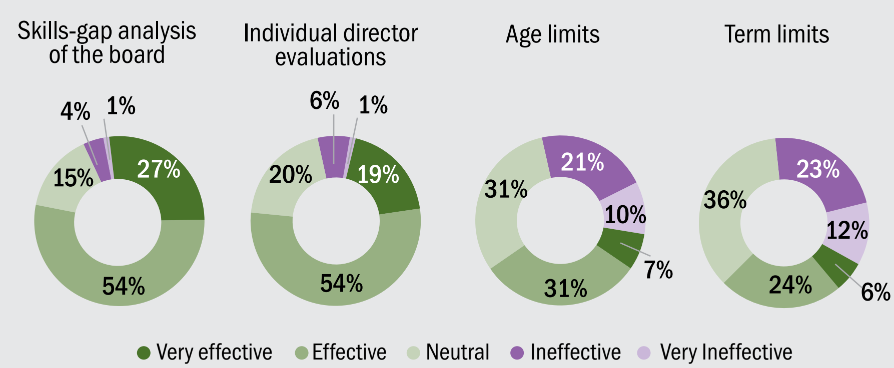
In the past year, has your board taken the following actions to increase the diversity of its composition?



Which of the following approaches does your board use to manage director tenure? (Select all that apply.)

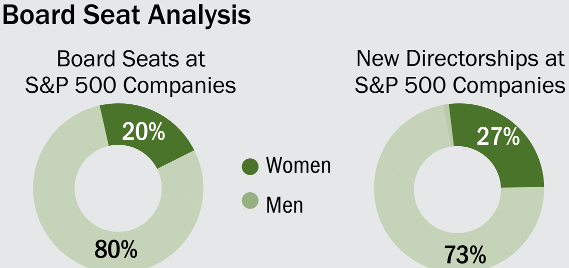


In your opinion, how effective are the following mechanisms at ensuring the right board composition?



Source: *2016–2017 NACD Public Company Governance Survey*

Board Seat Analysis



Note: Analysis is base on the companies in the S&P 500 at the time of their 2015 annual meetings as disclosed in proxy statements filed with the SEC. Data are provided by the EY Center for Board Matters.

A directorship was considered new if the director was not listed in the company's prior year proxy statement.

Source: Catalyst

The Women Who Hold CEO Positions at S&P 500 Companies

Mary T. Barra, General Motors Co.

Heather Bresch, Mylan

Ursula M. Burns*, Xerox Corp.

Debra A. Cafaro, Ventas

Susan M. Cameron, Reynolds American

Safra A. Catz, Oracle Corp. (co-CEO)

Lynn J. Good, Duke Energy Corp.

Shira Goodman, Staples

Tricia Griffith, The Progressive Corp.

Marillyn A. Hewson, Lockheed Martin Corp.

Vicki Hollub, Occidental Petroleum Corp.

Gracia C. Martore, TEGNA

Marissa Mayer, Yahoo!

Beth E. Mooney, KeyCorp

Denise M. Morrison, Campbell Soup Co.

Indra K. Nooyi, PepsiCo

Phebe N. Novakovic, General Dynamics Corp.

Patricia K. Poppe, CMS Energy

Debra L. Reed, Sempra Energy Corp.

Barbara Rentler, Ross Stores

Virginia M. Rometty, International Business Machines (IBM) Corp.

Irene B. Rosenfeld, Mondelez International

Meg Whitman, Hewlett-Packard Enterprise

*Ursula M. Burns will step down as CEO of Xerox when the company splits into two entities. No official date has been announced.

Source: Catalyst

The Visionary Board: Helping Companies See Far and Wide

By Susan Angele and Susan Stautberg

Change in the forms of new and unexpected sources of competition, the impact of technology on business models, changing customer needs, economic uncertainty, and geopolitical volatility are on the horizon, if not already impacting organizations everywhere. Companies can either find and seize the opportunities these changes present or risk disruption—and boards have an increasingly pivotal role to play in guiding the way forward. Today's rapidly changing business environment requires boards to be composed of directors who are equipped with a diverse set of skills and experiences to guide the company into the future while governing for the needs of the present. Boards therefore must develop the forward-thinking "muscle" required to help their companies handle unforeseen challenges and opportunities.

The best boards today aim to be not just responsive, but visionary, adding significant value by helping their companies focus on the future and avoid inertia by continuously challenging the assumptions underpinning the company's strategy. To help boards provide oversight, insight, and foresight, the WomenCorporateDirectors (WCD) Foundation teamed up with KPMG's Board Leadership Center to identify the hallmarks of a visionary board and to develop practical recommendations. The resulting report, *Seeing Far and Seeing Wide: Moving Toward a Visionary Board*, captures insights from members of the WCD Thought Leadership Commission based on their decades of experience in board service.

One key theme that emerged from the discussions was the call for greater diversity in director slates. A visionary board is inherently diverse in terms of expertise, industry, geography, gender, ethnicity, and age. Nominating committees play an important role in opening the board to the different perspectives needed to govern the company's strategic direction.

For example, as institutional and activist investors grow in influence, would the company benefit from a director who can bring those points of view into the boardroom? Would someone who understands regulatory or social media trends bring a valuable perspective? Depending on the existing board and its needs going forward, adding any or all of these areas of expertise can help move the discussion forward in unanticipated and important ways.

Directors are recruited for their experience and interviewed to assess how well they will fit the boardroom culture. As an additional step in the interview process, directors should take a hard look at prospective directors to determine the degree to which they are future-focused and have a broad perspective.

"You need visionary leadership on a board—individuals who can see not only what's happening now, but can see around corners to anticipate what's coming," Commissioner Maggie Wilderotter says in the report.

While visionary leadership may sound lofty, it ultimately comes down to having the ability to gather information, learn about emerging trends, and leverage these insights for more robust and wide-ranging boardroom conversations.

Irene Chang Britt, another commissioner, stays on top of technology trends by attending trade shows, using social media, and reading extensively about those trends online. "This is not for fun," she says. "Technology is going to affect us, and if you don't keep on top of it, if you don't have a Facebook page, if you don't have a Twitter account, then you limit your external antennae as a board director."

Commissioner Evelyn Dilsaver notes that her board is kept informed by taking deep dives into the competitive environment. She says the board does its homework on the company's competitors to find out "where are the competitive threats coming from, what's their business model, how do they go to market, and how are they making their margins?"

Commissioner Izumi Kobayashi stresses the importance of understanding the environment in which the customers operate.

She recalled that her travels to emerging growth markets while she was an executive at the World Bank Group helped her to understand consumer needs. Although initial business plans had focused on bank branches and ATMs, she saw towns where electricity was limited but cell phones were ubiquitous. Armed with this knowledge, she pushed for the development of apps that could be used for transferring funds, and was able to grow the business by enabling banking activity in even the most remote locations.

In short, it's vital to capture insights from a variety of global information sources in addition to gaining firsthand, on-the-ground experience. Whatever the method, the message is clear: being a visionary board requires setting the bar high for individual directors to engage in continuous learning and maintain an engaged curiosity about the business and its place in a changing global landscape.

Of course, finding directors with the diverse mix of skills, experiences, and perspectives is critical. Using this lens to recruit directors can bring fresh thinking and a new dynamic to the board. To develop an understanding of a prospective board member's mindset, sitting directors should ask themselves:

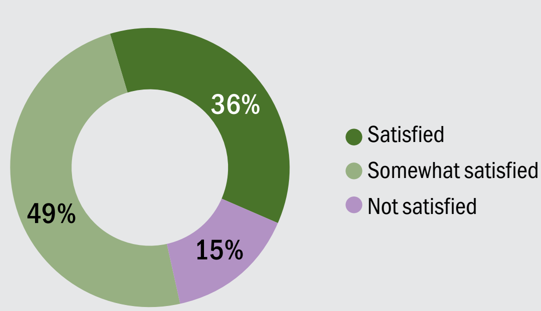
- Does this candidate have a broad intellectual curiosity?
- Does the candidate stay on top of broad trends as well as industry-specific trends?
- How does this candidate approach change?
- Can the candidate raise tough questions and express unpopular opinions in a constructive way?
- Does the candidate have strong emotional intelligence?

As defined by the Commission, a visionary board is one that insists on the identification and assessment of external factors that may have a significant impact on the company. These factors include disruptive business models, new technologies, and related new risks; changes in demographics, the global economy, and the geopolitical landscape; and emerging trends that stand to impact customer and consumer needs, the competitive landscape, the talent pool, and the overall business environment. In addition, a visionary board focuses on key stakeholders, with particular attention to the company's societal impact and mission, relationship with investors, and factors impacting corporate reputation. A visionary board sets the right tone by partnering with management to ensure that strategy is examined and adjusted as needed; pushing the company to overcome inertia and maintain relevance; monitoring and encouraging a culture of innovation, engagement, and empowerment; and ensuring that long-term considerations factor into board and executive succession planning, performance goals and compensation incentives, and resource investment and allocation.

In our complex and ever-changing business environment, a visionary board that is future-focused and expansive in its thinking will be better positioned to help the company navigate volatility and uncertainty. To read *Seeing Far and Seeing Wide: Moving Toward a Visionary Board* in its entirety, visit www.kpmg.com/blc.

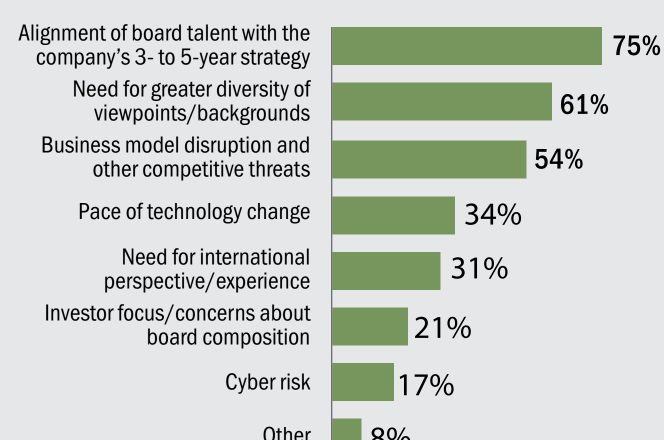
Susan Angele is a senior advisor, KPMG Board Leadership Center. Susan Stautberg is CEO and chairman, WomenCorporateDirectors Foundation.

How satisfied are you that your board has the right combination of skill sets, backgrounds, experiences, and perspectives to probe management's strategic assumptions and help the company navigate an increasingly volatile and fast-paced global environment?



Source: *2016 KPMG Global Pulse Survey: Building a Great Board*

What challenges or concerns are most influencing how your board is thinking about its current and future composition—skill sets, backgrounds, experiences, and perspectives?



How Board Oversight of Diversity and Inclusion Creates Long-Term Value

By Robert E. Hallagan and Michael C. Hyter

We no longer have to speculate about the value of diversity and inclusion. There is now a well-established business case that links companies that attract the optimal mix of talent and invest in a culture of inclusion to high performance and long-term value creation. Consequently, diversity and inclusion have shifted from tangential issues to important factors for board consideration in the evaluation of the company's talent management system.

Simply put, companies that have diverse leadership and adopt a culture of inclusion are better able to attract top talent, make better decisions, and produce stronger financial returns than those that do not. And you don't have to look far for the critical mass of data that reinforces the business case, most recently underscored in reports and studies from The Peterson Institute for International Economics, McKinsey & Co., Catalyst, and Korn Ferry.

If the role of the board is to ensure that companies adopt business practices that drive shareholder value, how can directors ensure that diversity and inclusion remain key objectives in developing leaders and that progress remains on the board's dashboard?

Companies that excel at creating and maintaining the sort of diverse leadership that drives high performance and long-term value don't leave anything to chance, but instead rely on proven best practices. According to Ronald Parker, president and CEO of the Executive Leadership Council, the preeminent membership organization for the development of global black leaders, "No one begins his or her career as a fully formed CEO, so the development process begins by ensuring that diverse candidates have access to the support and opportunities they require early in their career to ascend to enterprise leadership positions."

At least once a year, the CEO and the chief human resources officer should share with the board a report on the state of diversity and leadership that answers these three questions:

1. **Is the message about the critical importance of diversity coming from the top?** The entire organization needs to hear that diversity is a prized asset and that the company is continuously working toward increasing diversity. Since everyone else in the organization takes cues from the top, both the CEO and board must regularly reinforce this message, which includes modeling it in their own teams. As role models, boards should reflect this same commitment to diversity, not for diversity's sake, but because it will lead to better discussion and decisions.

2. **Is the importance of diversity reflected in our leadership pipeline?** The board should take a close look at the lineup of potential successors for key management positions and whether diverse candidates are in the running. Serious contenders for top leadership positions must first possess the skills and experience that sync with the strategic direction of the company, but diversity is an important consideration. Consider benchmarking progress against other best-in-class companies and seeking input from directors on lessons learned from their home company's experience.

3. **Is the commitment to diversity well understood by the organization?** Particularly if there is a dearth of diverse candidates for leadership positions, consider whether culture change is required to reinforce the importance of early identification and support for diverse candidates required for company growth. Sending a clear message about the commitment to diversity is also crucial to attracting diverse talent seeking career opportunities.

Boards must focus on helping to create a culture that grows and sustains the diversity in leadership that provides their company a competitive edge. While leadership development is essentially a management responsibility, the potential of diverse organizations to drive long-term shareholder value makes this an area of board oversight.

Robert E. Hallagan is vice chair and co-leader of Board Services at Korn Ferry. Michael C. Hyter is managing partner, Board & CEO Services Practice, and leader of the firm's Diversity & Inclusion Practice

Unleashing the Power of Board Diversity

By Deborah DeHaas

For many years, discussions about board diversity have focused mainly on issues of gender, race, and ethnicity. While women and minorities remain underrepresented on many U.S. corporate boards, diversity is beginning to be viewed through a much wider lens to encompass a range of skills, experiences, and perspectives that could help safeguard an organization against new and emerging threats.

The fact that many companies are facing a growing number of competitive, regulatory, and technological issues is driving this broader view of diversity. An important first step in unleashing the power of board diversity is assessing where the members of the board currently stand in terms of skills and experiences, and then comparing that baseline to where it needs to be.

A skills assessment is worth considering as long as it provides a robust and objective evaluation of each director and the collective skills of the full board. The exercise can include comparables with directors in the same and related sectors to see, for example, whether international or deep industry experience might be an important addition to the board. Matrices that provide a full view of an entire board's skills and experience are also helpful tools, especially to jump-start the evaluation process, depending on the organization and industry. Developing such matrices can be more efficient than conducting assessments of individual directors' skills. Some companies publish director skills matrices (either individual or collective) in their proxy statements, offering transparency and establishing an important baseline to measure future progress.

Identifying gaps in board skills and experiences is a difficult task. It's important that the process not be done in a vacuum. Assessments should start with a good understanding of, and alignment to, the organization's short- and long-term strategic goals and risk assessments. For instance, a board might ask: How important is board merger and acquisition experience, a cultural perspective on how to break into emerging markets, or knowledge of generational or demographic trends involving new customers and employees? What are the risks that keep the CEO or CFO up at night? How can directors challenge senior management to raise their game at identifying and mitigating risks that can disrupt the core strategy? These are issues that point to the importance of broader board diversity and composition, as well as the need to align capabilities and experiences to an organization's strategic direction.

An often overlooked aspect of diversity and skills-based assessments is follow-through involving the onboarding process. Being the first female or African-American director, or even the most tech-savvy director, should include close interactions with other directors, possibly through a mentoring or partnering approach, to avoid isolation and help allow new directors to quickly contribute their talents and ideas. As Sheila A. Penrose, chair of the board at Jones Lang LaSalle and a member of the board of McDonald's Corp., says: "A key responsibility of the chairman or the lead director is to help build and foster an inclusive board culture that allows the power of a diverse board to be fully realized."

It's vital to effectively communicate externally how board-level diversity and composition efforts support the organization's strategy and innovation planning, as well as help protect its business model against disruptive threats. Activist investors are clearly scrutinizing board composition, but other investors also need to know how the board influences and monitors a company's performance objectives in addition to, and in support of, the board's more traditional governance oversight duties. Such transparency shows how directors contribute uniquely to the success and prosperity of the organization, an important goal for any board.

Deborah DeHaas is vice chair; national managing partner, Center for Board Effectiveness; and chief inclusion officer at Deloitte LLP.

Creating an Action Plan for Diversity and Inclusion

By Subha V. Barry

Subha V. Barry is vice president and general manager of Working Mother Media, where she oversees *Working Mother* magazine, workingmother.com, Diversity Best Practices, the leading corporate membership organization supporting diversity and inclusion, and the National Association for Female Executives. Previously, Barry was senior vice president and chief diversity officer at Freddie Mac. During her 20-plus years at Merrill Lynch, Barry was managing director and global head of diversity and inclusion.

The number of women in management roles steadily declines at each rung of the corporate ladder: only 21 companies in the Fortune 500 have a woman CEO. This number is down from last year when 24 companies had a woman in the chief executive role. Representation data of women on corporate boards show improvement, but numbers are still too low. Currently, 18.8 percent of Fortune 1000 board positions are held by women, up from 17.9 percent in 2015 and 17.7 percent in 2014. There are many explanations for this phenomenon, including unconscious bias in hiring and management processes, a lack of inclusive work environments, and decisions surrounding prioritizing work life and family life.

In the United States, there are a number of initiatives focused on increasing the representation of women on corporate boards, including the 2020 Women on Boards initiative and the Thirty Percent Coalition, which, respectively, are working so that 20 and 30 percent of public company board seats occupied by women in the near future. If companies are similarly willing to set targets, and if men on boards actively recruit women for their boards, dramatic change is possible—and in order to make progress, an organization must make a focused effort to include and engage women. Directors are in a prime position to help turn the tide.

During my service as chief diversity officer for Merrill Lynch, the company's board had several men who were outspoken sponsors of diversity in the workplace. Co-presidents Greg Fleming and Ahmass Fakahany were key allies in facilitating my connection to the board that in turn allowed me to leverage the board to benefit the broader organization.

The women and supportive male board members put in place an action plan that set the stage for a broader conversation on inclusion in the workplace. This included meeting with groups of senior women and people of color as well as with employee resource group leaders. They also asked the CEO and executive leadership team about diversity and inclusion goals and targets and progress to date—going beyond the presentations and data, and challenging numbers that had not improved despite multiple programs being in place.

> Boards can be the key to success if they understand the issues and challenge the executive leadership team to deliver.

As the chief diversity officer, I built strong connections with several board members that I used to tee up new ideas that were well received by our executive leadership team because they were "introduced" by a board member. By using these board members as allies in our effort, we were able to make substantial progress.

By educating the board on all of the positive outcomes that result from a more gender-balanced leadership, we were able to instigate them to improve their own numbers. Our board became active in asking and holding our CEO and C-suite executives accountable for reporting results. They participated in many of our unconscious bias and other diversity and inclusion training programs, giving welcome remarks and then staying on to observe and learn themselves.

Women leaders in our organization used these board connections to create mentoring relationships, and ultimately sponsor-protégé alliances. These connections proved to be terrific accelerants to their careers.

Improving board diversity is key to improving leadership diversity in the corporate world. Boards can be the key to success if they understand the issues and challenge the executive leadership team to deliver.

Deloitte.

The Center for Board Effectiveness provides focus in the areas of governance and audit, strategy, risk, innovation, compensation and succession for aspiring and veteran board members.

www.deloitte.com/us/boardeffectiveness

Center *for*
Board Effectiveness

Governing Technology and Fostering Innovation

By Michelle Tartalio

Digital transformation permeates the corporate world, but boards aren't keeping pace. According to McKinsey & Co.'s recent Global Survey, only 35 percent of C-suite executives report that their board sponsors digital initiatives. Meanwhile, directors report that they would like more information regarding technology strategy, information technology risk, and cybersecurity.

So, how can boards improve their approach to governing technology investments while fostering innovation? The survey reveals that high-performing organizations frequently review their business portfolios to address digital trends and opportunities. They also employ big data analytics to curate this data to potentially predict behaviors and events. Few boards have access to these types of information or extrapolative performance indicators—even though they are often strategically positioned to shift resources toward longer-term technology investments.

"At Farient, we leverage and encourage technology investments that will enable boards to uphold their duty and to govern more effectively," says Robin Ferracone, CEO of Farient Advisors and director of Trupanion and Enlight Research. "Directors must have pertinent company, peer, and industry information at the right time, as well as the agility and foresight to take advantage of strategic opportunities."

Some boards use big data to evaluate investment opportunities, find qualified board candidates, and bring new products to market more efficiently. With 38 percent of directors reporting they would like more external information, some directors use software that allows them to monitor peer news and industry trends in real time.

With this information, boards and management can foresee trends that may impact their business and determine whether strategic technology investments make sense. In the life sciences industry, technology has enabled companies to track information through clinical trials, wearable devices, and customer relationship management data. Big data and predictive analytics help pharmaceutical companies develop drugs more effectively, monitor drug adherence and performance in real time, and preemptively identify patients that may have positive or negative results.

Boards can further support innovation by actively engaging with consumers. In summer 2016, General Mills' executive team and key board members initiated "lemonade stands" where they test new products and immediately gauge potential success, or product adaptations based on customer feedback. Using this model, General Mills combines data-driven insights, an entrepreneurial, fail-fast mind-set, and a known ability to quickly scale up products, to shrink go-to-market cycles from 24 months to 12 and to improve performance.

Executives report that the most significant challenge to meeting digital priorities is a lack of internal leadership and talent. This is one of the most significant ways that artificial intelligence can contribute to board effectiveness. Human resources software now boasts the ability to match personality styles with critical company roles and teams, and could also be used to align potential directors with boards apropos of their areas of expertise.

Leading boards are more collaborative; they merge big data analytics and artificial intelligence capabilities with their collective intelligence to make better strategic decisions. They use digital capabilities to consistently review market data, and to immediately test product or service initiatives. They also visualize day-to-day business operations, improve customer experiences, and evaluate new processes through augmented reality. By enhancing their digital competencies and technology resources, high-performing boards accomplish this in less time and with more clarity and efficacy.

In a recent conversation about boards leveraging technology, Vanessa Chang, a board member of Edison International, Transocean Ltd., Sykes Enterprises, American Funds, and Forest Lawn Memorial Parks Association, shared her perspective: "As investors and consumers demand innovation, transparency, and accountability, corporate boards have a duty to promote and drive technology advancements within their organizations."

Michelle Tartalio is the co-founder of Enlight Research. She serves on the boards of Easterseals United Cerebral Palsy of North Carolina and Virginia.


#hellowork
There's nothing like the smell of compliance in the morning.
Even before that first pot of caffeinated goodness, we've got tax and ACA regulation on the brain. Because at ADP, we're always looking for new ways to pair innovative technology and human expertise to help you navigate risks associated with compliance. That way you can start your day by focusing on what's important – whole milk or skim.
Visit adp.com/hellowork and see how we can provide a more human resource for your business.
ADP®
A more human resource.℠
ADP and the ADP logo are registered trademarks of ADP, LLC.
ADP A more human resource. is a service mark of ADP, LLC. Copyright © 2016 ADP, LLC.
HR Solutions | Payroll | Good Job

Sustainability as a Business Differentiator

By Rose McKinney-James

A growing number of corporate boards are pursuing sustainable business practices as a strategic objective. Research shows that companies with board-driven sustainability initiatives have a competitive advantage. For instance, a 2014 report released by CDP (formerly the Carbon Disclosure Project) found companies that strategically reduced their carbon footprints had 21 percent stronger dividends than those that didn't.

The MGM Resorts International board was ahead of the curve when it made sustainability a strategic goal in 2005. We were driven largely by the company's mounting of an unprecedented project that became the world's largest sustainable mixed-use development: CityCenter, a 16 million-square-foot urban complex located on the Las Vegas Strip. The project helped define our company's approach to water conservation, recycling, waste management, and all other aspects of environmental sustainability.

When I joined the MGM board in 2005, I had years of experience in overseeing sustainability issues. I had led the Corporation for Solar Technology and Renewable Resources and served on the board of the Nevada Renewable Energy Task Force. I also had extensive exposure to renewable energy issues when I served as a commissioner with the Nevada Public Service Commission and through my board position with the Energy Foundation. I brought to the board my unique understanding that incorporating environmental best practices throughout our operations as a strategic initiative would make a powerful difference for this company.

The existing diversity committee, which had established diversity and inclusion as fundamental values throughout our operations, added sustainability to its core functions. This made sense as this committee already had a framework for implementing and overseeing initiatives that were of prime importance to the company's reputation and success. For MGM, these efforts have become proven business differentiators, precisely because of the board's involvement.

The board began to engage more substantively in building projects, examining measurements around lighting, material selection, and water usage. I asked questions about solar power and other energy-efficient technologies that could be integrated into all of our construction projects, including CityCenter, and pushed for adopting that approach as a best practice. Management agreed, and we began using the data from those efforts to measure the impact sustainability had on the business across the board. It helped us to calibrate further refinements to our strategies.

Sustainability was top-of-mind when construction began on CityCenter in 2006. MGM diverted 93 percent of construction debris from the landfill and recycled it. In addition, a state-of-the art combined heat and power system that uses waste heat to warm domestic water for hotels was installed, as were plumbing fixtures that reduce water waste by 33 percent. As a result, CityCenter is 37 percent more energy-efficient than comparable resorts. The energy savings is equivalent to powering 8,800 households annually.

This was the beginning of what has become a company-wide sustainability initiative. Policies and procedures are now woven into the fabric of our culture and driven by the company's some 68,000 employees. The company launched its Green Advantage platform in 2010, which enables employees to monitor their environmentally friendly practices in their homes, and integrates recycling and water and energy conservation practices throughout our operations. As a result of these efforts across many of MGM's properties, the company has saved 794 million gallons of water since 2009. That's enough to fill 39,209 average residential swimming pools.

MGM continues to look for ways to do more. Working in partnership with NRG Energy, MGM debuted one of the world's largest rooftop solar arrays atop Mandalay Bay convention center: a 28-acre array that can supply 25 percent of the power demand for the entire property. Earlier this year, MGM paid an exit fee to leave the NV Energy grid and plans to purchase electricity from wholesalers.

Because the board was engaged on sustainability issues, MGM had the momentum needed to explore innovative ways to incorporate environmentally friendly practices into the company's operations. MGM continues to do new and exciting things on this front, and I believe this company will continue to make a significant difference not only within the organization but in the larger communities in which we exist.

Rose McKinney-James is managing principal of Energy Works Consulting. She previously was president and CEO of the Corporation for Solar Technology and Renewable Resources and chair of the Nevada Renewable Energy Task Force. Sonya Padgett, manager of corporate communications at MGM Resorts International, contributed to this article.


UP.
IT'S WHEN YOUR SENIOR LEADERSHIP TEAM IS ALIGNED AND REACHING ITS FULL POTENTIAL.
Together, Korn Ferry and Hay Group work with boards, CEOs, and executive teams to address the drivers affecting team dynamics and performance. Because we know that when leaders thrive, entire organizations succeed with them.
kornferry.com/boards
KORN FERRY®
Executive Search | HayGroup | Futurestep
Board Services:
Board Director/CEO Search & Selection
Board Succession Planning
Board Effectiveness
Executive Compensation & Governance
Board Building (Spins, IPOs, Bankruptcies)
CONTACT
Irv Becker
215.861.2495
Dennis Carey
215.656.5348
Robert Hallagan
617.790.5790