

DIRECTORS MONTHLY

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Tapping into the Growing Hispanic Market

By Pablo Schneider and Charles P. Garcia

Match your board's skill sets with a corporate strategy that recognizes diverse communities.

Addressing domestic emerging markets has become a core business issue. U.S. domestic emerging markets total approximately 100 million people with a “multicultural economy” of \$2.3 trillion. California, Texas, New Mexico, and Hawaii are already majority-minority states where minorities comprise over 50 percent of the population. The U.S. Census Bureau projects that by 2042, America will be a “majority-minority” country where three in ten Americans are Hispanic. Given the magnitude of these sea changes in human capital and market demographics, it may be argued that boards have a fiduciary responsibility to ensure that corporate strategy takes these trends into account and that board skill sets are aligned with that strategy. In this article, we interviewed several directors and governance experts who shared their views on these trends with us.

The Growing Hispanic Community

The Hispanic community is the largest domestic emerging market. The market size is expanding dramatically due to five driving forces: rapid population growth

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both in number and as a percentage of the U.S. population; steadily increasing purchasing power; the spending of more disposable income; growing corporate revenues from the Hispanic market; and, an increased interest by Latin American companies in tapping the U.S. market.

Purchasing power among U.S. Hispanics has been steadily increasing during the past two decades, and will continue to grow for years to come. In 1990, Hispanic purchasing power was around \$200 billion. According to the University of Georgia's Selig Center, by 2006 this figure had grown to approximately \$800 billion, and it is expected to reach \$1 trillion by the end of 2009. This would make the Hispanic market one of the top ten economies in the world.

What does this mean? After Mexico, U.S. Hispanics make up the second largest Hispanic nation in the world. The number of U.S. Hispanics is already greater than the population of California, and is greater than the population of Texas, Illinois, and New York combined. Hispanics are projected to number 102.6 million by 2050 and will make up about 30 percent of the U.S. population. According to Joe Robles, president and CEO of USAA, "Anyone who overlooks the economic power that is resident in the Hispanic community...is missing a tremendous opportunity..."

Hispanic-Related Corporate Strategy and Initiatives

To be competitively positioned in the Hispanic community, many corporations focus on attracting, serving, and retaining Hispanic customers, employees, vendors, and other stakeholders.

When working on Hispanic strategy with corporations like Wal-Mart and Brinker International, Jose Gomez, president of Multicultural Solutions, says that he asks four questions: How high a priority is the Hispanic community on the corporate agenda? Is the Hispanic strategy integrated across the enterprise? How does the market-facing approach take into account the wide diversity within the Hispanic market? And, what is the right mix of strategic external partnerships? It is also important to ask: Is the Hispanic strategy culturally appropriate? M. Isabel Valdes, one of the foremost experts on the U.S. Hispanic market, addressed that question when she pioneered the "in-culture approach," which infuses a Hispanic perspective into all facets of a corporation's relationship to the Hispanic community. Her latest book, *Hispanic Customers for Life*, follows that approach.

Board Diversity

Board diversity has remained low in spite of a strong demand for diverse directors. In Spencer Stuart's 2007 Board Index, 73 percent of S&P 500 companies surveyed indi-

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cated the desire to add minorities to their boards, yet fewer than 15 percent of directors are minorities.

Nell Minow, co-founder of The Corporate Library, asserts that "the lack of board diversity is disappointing. Board diversity is not a check box; it is an opportunity for strategic advantage that is being missed by many companies." Enrique Hernandez Jr., president and CEO of Inter-Con Security Services, chairman of Nordstrom and a director of McDonald's, the Tribune Company, and Wells Fargo, believes that, "to have a really strong board you need different kinds of people who have a wealth of viewpoints brought to bare to provide strategy and policy guidance as well as oversight."

Directors Monthly has published a couple of dozen articles on board diversity over the years. In those articles, the case for board diversity was made by focusing on board performance, corporate rationale, business relevance, and domestic and global positioning. The following passages illustrate each type of case.

Board Performance

"Whereas 25 years ago most board members were part of the 'old boy' network, today nominating committees are assessing the strategic needs of the corporation and selecting new directors based on the skills they can bring to the table." (Barbara Preiskel, January 1997, *DM*).

Corporate Rationale

"...top-line and bottom-line outcomes give diversity a powerful business rationale in addition to ethical and legal rationales." (Lorin Letendre, July 2000, *DM*).

Director Summary: The U.S. Hispanic Community presents a great resource for corporate America. There is an opportunity to appoint Latino directors to the board and add to the board's skill sets and strategic outlook while tapping into Hispanic markets. The end result should benefit both the company and the Latino community.

In Spencer Stuart's 2007 annual Board Index, 73 percent of S&P 500 companies surveyed indicated the desire to add minorities to their boards, yet fewer than 15 percent of directors are minorities.

Business Relevance

"The board members should reflect an appropriate demographic balance in terms of age, race, sex, and prior experience consistent with the unique company demographics and corporate purpose." (Dorothy Light, April 1999, *DM*).

Domestic and Global Competitive Positioning

"...diversity is linked to competition in both global and domestic markets..." (Barbara Preiskel, January 1997, *DM*).

Hispanic-Related Skill Sets and Board Participation

Enrique Hernandez, Jr., believes that a key Hispanic-related skill set is the ability to understand the intense family orientation of Hispanics and to help guide the company in becoming a part of that family orientation. USAA's Joe Robles believes that major U.S. companies "...ought to have people on their boards who understand how Hispanics think, how they live, how they work, what they value, what they trust, what they don't trust..." According to Victor Arias, Jr., of Korn/Ferry International, Hispanic-related search criteria often includes track records and Hispanic market expertise, community experience and stature, relationships with influential leaders and elected officials, cultural understanding, Spanish language capabilities, and familiarity with Latin American markets.

Incorporating Hispanic-related skill sets into board selection criteria helps align board skill sets with corporate strategy. One indicator of long-term inclusion of Hispanic-related skill sets in board selection is that 48 *Fortune* 500 companies have consistently had one or more Hispanics on their board for the past decade, according to the Hispanic Association on Corporate Responsibility (HACR). According to the 2007 HACR Corporate Governance Study, this amounts to just 2.4 percent of *Fortune* 500 board seats, which is a low number in light of Hispanic purchasing power (8%), labor force (13.6%) and population (15.5%). The same study found that 194

Fortune 1000 companies had one or more Hispanic directors and that 806 did not have any Hispanic directors.

The following cases for increased Hispanic board participation mirror those made for board diversity

Board Performance

According to the July/August issue of *Latino Leaders* magazine, "Latinos should be on boards neither in spite of being Latino (as a barrier) nor just because they are Latino (tokenism), but rather, because they are outstanding directors in their own right and they have Latino-related skill sets that allow them to add extra value to the board, including providing a diversity of perspective." According to former SEC Commissioner Roel Campos, "There are not enough Hispanics on boards of public companies in America. That is to the loss of the companies. There is a huge talent pool with skill sets in all areas. Corporate America has missed an opportunity to improve the bottom line."

In a recent interview, Charles Elson, a director and professor at the University of Delaware, observed that "Having the right director skill sets enables a board to effectively monitor the job management is doing... If a company markets to a particular group, someone who has had experience with that group is going to be a more effective monitor than someone who hasn't. Boards need directors who can ask the right questions."

Corporate Rationale

The July/August 2008 issue of *Latino Leaders* also reported that "Approaches toward Latino board participation include corporate responsibility, reciprocity, and the business case approach. Corporate responsibility holds that corporations have a responsibility to reflect the makeup of society at all levels, including on the board of directors. Reciprocity holds that corporations should reciprocate for Hispanic economic contributions via commensurate inclusion of Hispanics at all levels, including on the board of directors. The business case approach holds that when a strong business case is made to corporations they will be more likely to include Latino-related skill sets in their board search criteria. These three approaches are mutually inclusive."

Business Relevance

Luis Nogales, who serves on the boards of Arbitron, Edison International, KB Home, and Southern California Edison, believes that "If a company operates in Hispanic markets, targets Hispanic consumers, and has Hispanic employees, it is important to have directors who are networked with the Hispanic community and Hispanic-elected officials."

According to HACR, the case of supermarkets makes this point. “A Hispanic perspective in the boardroom is critical and can go right to the company’s bottom line. The Food Marketing Institute released a report recently indicating that Hispanics spend \$133 a week on groceries, compared with \$92.50 by other shoppers, an impressive \$40.50 difference. In a business with thin margins, this represents a considerable financial upside, which should justify grocers’ reallocation of corporate budgets and resources to more effectively pursue the Hispanic shopping dollar. These facts repeat themselves across many industries.”

Domestic and Global Positioning

Angel Cabrera, president of the Thunderbird School of Global Management, believes that “Boards should reflect customers and constituents in diverse domestic markets as well as international markets. With Hispanic directors, corporations not only gain skills relevant to the most important domestic emerging market, they often gain skills and cultural competencies relevant to Latin American markets.”

What Directors Can Do

Given the importance of the Hispanic community to corporate America, there is a compelling opportunity to improve on the current low level of alignment between board skill sets and Hispanic corporate strategy. Here are some steps directors can take to address this misalignment:

1. Become well informed of what is happening in U.S. domestic emerging markets.
2. Keep apprised of your corporation’s Hispanic-related strategy and initiatives.

3. Ensure that Hispanic-related skill sets are included in board selection criteria if the Hispanic market is relevant to your business.
4. Cast a wider net for diverse candidates through the use of search firms which specialize in such candidates.
5. Connect with organizations such as the HACR and the National Society of Hispanic MBA’s as well as other business and community organizations that can serve as sources for outstanding candidates who also have Hispanic-related skill sets. ■

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