'I'M ALWAYS OPTIMISTIC'

Not much fazes Mark Weinberger, who retired as CEO of EY in 2019 and joined the boards of J&J, MetLife and Aramco just in time for the triple threat of a global pandemic, social unrest and political upheaval to hit. His take? Business will step up and survive. Here's how.

BY JENNIFER PELLET

When it comes to speaking up for what he believes in, Mark Weinberger is not shy—nor partisan. An advocate for tax reform as well as diversity and inclusion, he's held public sector posts for both Republican and Democratic administrations, including serving as assistant secretary of the Treasury under the G.W. Bush administration and on President Clinton's Social Security Advisory Board. His willingness to step up and serve, no matter who asks, reflects a deep belief in the importance of business helping to shape and inform policy—a philosophy that hasn't always been popular with stakeholders.

"As you could imagine, with 300,000 EY people around the world, when I sat on the Advisory Council for Trump before it disbanded, lots of people questioned whether or not that was the right thing to do," he recounts. "But being in the room and sharing my values and talking about how policy could affect all of our people and bringing our voice there, to me was much more important than standing outside the room complaining."

After retiring from EY, Weinberger was swiftly recruited to the boards of J&J, MetLife and Aramco, where his on-ramping experience was complicated by a pandemic-induced moratorium on face-to-face meetings. "It's been challenging because you want to really get to know your colleagues and build those relationships so you can feel comfortable raising your concerns and discussing issues," he says. "It's a lot harder to do that on a Zoom call than sitting in a room where you can see and react to people. Yes, you can save a lot of money by doing meetings virtually and not having office space. But that to me is a death knell for a company's culture, innovation and long-term success. So, I think we'll get back to [in-person] meetings."

In a wide-ranging conversation with *Corporate Board Member* that took place shortly after the 2020 election, Weinberger shared his perspectives on the business climate under a new administration, progress on diversity and inclusion and other pressing issues facing boards today. Excerpts from that conversation, edited for clarity and length, follow.

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As someone who worked for both administrations on issues like trade and tax policy, areas where the Trump administration got quite a bit done, how are you feeling about how a new administration might impact some of the headway made in those areas?
We saw, under President Trump, the incredible ability of a president to do, through regulatory change, lots of things, even when he couldn't get major legislative initiatives through. I'm guessing this expanded view of what the executive branch could do will carry over to the next presidency—and [Biden will use it] to undo some of what Trump did and to do things that he would want to do. The big difference is that Trump had a Senate that was Republican. I think you'll see President Biden try to do a lot of things through the executive branch but be stymied by gridlock because we're not going to be able to get much through Congress, frankly, over the next couple of years, from a policy perspective with a split government like this.

What's your outlook on the business climate under a new administration—optimistic, pessimistic, flat?
I'm always optimistic. First of all, government will have an impact, but we've seen governments swing both ways, pretty severely, and somehow we all survive. We're on the cusp with some of the things we're seeing business step up and do around the social issues where government hasn't been able to move, like continuing on climate change initiatives even though the government presence wasn't supportive. We've seen the business community continue to move in a direction to address those issues. We see more engagement around social justice and [companies] building that into their business models. We've seen the business community step up and take care of their workers through the pandemic, making sure they were safe when governments and states were doing all different things and different points of view were out there.

There's not a CEO I'm aware of who didn't recognize that no matter how difficult it was from a business standpoint, their employees and the safety of them

> **"We've seen governments swing both ways, and somehow we all survive."**

came first. You saw that over and over again. Those are all positive things that I think will continue. The concern I would have would be massive new regulations or costs put on business that would stifle our ability to do that. In a divided government, it's going to be harder to get those things done. For example, it will be difficult to get to the significant tax increase on business that President Biden ran on with a Republican Senate. So, I'm not concerned that government is going to bring down the opportunity that's out there.

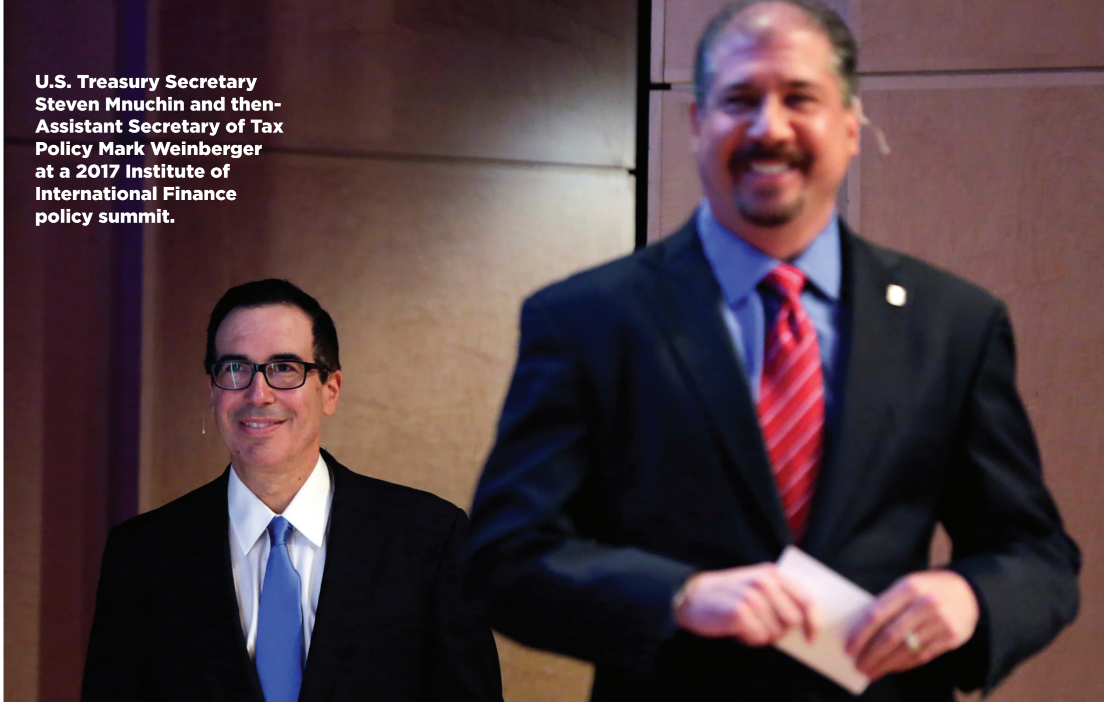
We are seeing and hearing more about business stepping up, including the Business Roundtable's statement on purpose. What conversations are taking place in boardrooms about working with companies to push that forward, to balance pursuit of profit and share price with this greater emphasis on values and purpose?
Obviously, with the Business Roundtable, I was involved in that effort to focus on stakeholders, not just shareholders. But I think—and people missed this point—the reason it was important wasn't that it was massive redirection of what good CEOs did. In all honesty, a good CEO always focused on stakeholders to drive shareholder return. It's not an *or,* it's an *and*. You drive investment in enabling your employees, engaging them and keeping them; in building supply-chain relationships, in getting a good reputation in your community and in having good governance. Those were things that would help your business model, de-risk the company and lead to great shareholder returns.

Over time, with a 24-hour news cycle and activist investors that can come in and make the case that your financials could be a lot higher in the short term if you didn't invest as much in your employees or in all these other causes, there was pressure in the public market for CEOs to respond to that. What you've seen is crucial investors—Larry Fink in his letters, State Street, Vanguard, all of these—saying, "You know what? We recognize that to have a sustainable, de-risked company over the long term, we need to make sure the corporations are doing what CEOs frankly already wanted to do and investing in these stakeholders. We're not going to just look at the numbers that come out every quarter and value the company based upon whether you missed your earnings."

So, you saw some real leadership from some of these institutional investors in what they were saying. There is a question as to how much they followed up with their investments to what they said. That's a separate issue, but this gave the CEOs then the ability to think that way because they weren't having to respond to all these short-term pressures.

The board's purpose—and this gets to your question—its biggest purpose is to manage risk: one, make sure the company is viewing all of its risks and managing risk in the right way; two, overseeing the culture and the long-term direction of the company. These things have always been in the mandate of the board, and the CEOs have wanted to do it. What you're seeing now, with the statement by the Business Roundtable and the increased attention through the institutional investors, is boards are getting even more involved and asking the right questions and giving support to the CEOs to be able to think long-term and invest in these issues. Some call them social issues. They're not; they're business issues.

You mentioned the question of whether the talk is real—are these institutional investors really willing to live up to what they've said about valuing purpose?
That point is so important. There is still a question as to how much do institutional investors really, in their mainstream analysis when they look at companies, make



U.S. Treasury Secretary Steven Mnuchin and then-Assistant Secretary of Tax Policy Mark Weinberger at a 2017 Institute of International Finance policy summit.

YURI GRIPAS/REUTERS/ADOBESTOCK.COM

a decision about whether or not to invest based upon that versus the quarterly financials. That's a legitimate question, because if a company is not doing well and missing the quarters financially, but they have great policies around sustainability and they talk a lot about purpose, they're not going to be around a long time. You have to do both.

And then there's the "how." It can be difficult to measure these intangibles.

You use the term *intangible*. Back in the '60s and '70s, when you were determining a company's value, about 70 percent to 80 percent of the value of an average company sat on its books. Today, for an average company, the vast majority of its value is the intangibles that you referenced. Whether it's IP for the big tech companies; your brand, which can go away in a minute; your culture or your talent, your workforce. Those things don't show up in your financial numbers. So, increasingly investors are going to need to know how to look at these intangibles.

There's no objective, uniform way to compare companies on these nonfinancial issues like purpose, like your employees, environment, your culture, a lot of your IP that you don't know whether it's going to be around next year or not. It's harder for these institutionalinvestors to measure. So, we're on a journey there, and we're not there. And until we get further standardization and agreement around the important indicators, it will continue to be difficult. That's the next challenge that board members are dealing with.

That's what the World Economic Forum—with the four accounting firms and Brian Moynihan leading it as the head of the International Business Council—is trying to pull together out of this alphabet soup of metrics, something that companies can all agree to look at and at least be transparent around.

It's really important for business to do this because if the business community, institutional investors and CEOs don't do it, the government could very well come in. And I'm not sure they're going to get a better answer than what the market could come up with. In fact, I'm sure they won't. So, the market better step in and be a huge player in helping to design how they want to be measured here.

You joined three boards over the past year—J&J and MetLife in 2019, Aramco in March of 2020. What was it like getting situated as a new director just in time for the pandemic to hit?

The boards' orientation, philosophies and execution were really important. Each of these boards invested heavily in orientation after I joined, meaning deep dives with their functional leaders, in the HR area, the finance area, the business unit leaders, the ability to spend one-on-one time with the leaders of those functions of businesses working with you as a board member, giving you an opportunity to understand where they're heading, what their issues are and ask questions. And each offered an opportunity to directly engage with management. That was very helpful.

In addition, the board members themselves were very free with their time to help get me up to speed and understand things. That is very important in any environment, but certainly when you have to get up to speed on issues as quickly as you did in the pandemic because materiality became much more important, values went down. You had to think about issues probably more broadly and more deeply than if you were just watching normal operations.

Building relationships and understanding the environment of the board are important in terms of being able to have open, honest discussions. All of that gets slowed down when you're doing it virtually. You want to go and walk the factories. You want to go sit at the oil rigs. You want to go see where J&J scientists are working, and that's just not feasible in this environment. That's the part that I'm looking forward to that I haven't been able to do as much of as I would like.

Before the lockdown, when I joined my first board, MetLife, I was able to attend a strategy session they had out on the West Coast where a couple hundred leaders from around the company came together before they rolled out their next wave strategy. It was an incredible opportunity to meet, see and understand the organization, being there with all these people for three days.

That being said, I think we're realizing that when you're not traveling, you can do a lot more meetings with teleconferences and really get good information and good dialogue. So there's going to be this hybrid approach, in all likelihood, going forward.

We've been living through a time of polarization in America, to the point where neighbors are lighting one another's lawn signs on fire, plus social unrest and Covid and tempers flaring with everybody home. And all of these people need to work together. Are boards talking about what that means for employees internally?

Absolutely. And this may be part of the "S" in ESG that we talk about—the amount of discussion around the health of the employees of a company. And, when we say health, we care about it from a pandemic standpoint and Covid, but it morphed into mental health. How are you leading when you're locked up in your house and can't meet with your teams and your kids are not going to school? These discussions were had on a regular basis. How are you helping your executives? What are we doing for our people to help them through the mental and physical health issues here? What about when the rioting and the social justice issue came up and your employees are a snapshot of the environment you're in?

I remember from my EY days, it is really important to recognize that people don't walk through your door and just forget about all those issues; they have the stressors they bring from their communities. And talking to them about that and making it a safe place where they're not concerned, or hopefully not concerned, that they may have a different point of view. They may want to raise a fear that they have. We created families, as we called them at EY, where they actually would sit down and talk about these issues that are not directly [about work], but that, I will tell you, have a huge impact on the productivity of employees and the retention of the employees and, ultimately, how well the company does. You better make sure that they don't feel stressed out and unhealthy when they come to work.

These were absolutely an increased part of our dialogue at the boards I'm on. And at each of the companies, we had great board members, some African-American board members who shared the stories, made them real through their experiences to those of us who were not minorities. And it was incredible; it was a great experience. I wish it could have been in person, but even translated through the wires of Zoom, we were able to learn and understand better. And that accelerated, in some ways, the "S" in ESG.

What came out of those discussions in terms of strategies to address those issues?

Everyone's got to come up with their own way to deal with it, depending on what industry you're in and what you're doing. But back-to-work policies were more reflective of safety and of recognition of mental health rather than just efficiency.

I would say that the general rule is that you look at resiliency and this kind of intangible asset that you have in your people and your relationship to your communities, and you value that more now in your decision-making than you did before because you recognize it is front and center. It is a bigger part of all of our lives, which used to be pure efficiency. Now, when you're looking at supply chains, trying to get efficient and have lower costs where you make products all around the world, you're going to be thinking about whether you're putting your workers at risk, whether you're too reliant on one country, all these things are brought forward and talked about more than they would have been.

It would be presumptuous to say that I have a roadmap or things that we did that others should do, but I will tell you that bringing that further into the discussion, making it a bigger part of the discussion—the resiliency, the healthcare, the relationships with the communities—that affects the outcome of the decisions that the leadership makes when they know the boards are focused on that.

The board agenda could be incredibly filled up with pure compliance, financial information and operational stuff. If you don't create the time on the agenda for these issues, then they become the residual. And what I have seen is more packing of agendas with these types of discussions and lowering down of some of the operational and financial discussions and decisions.

You have to create that time, maybe it's another meeting you put in, like we did on several of the boards. At J&J and MetLife, we had interim, in-between board meetings. We had teleconferences to provide more time and more reliable information updates, so sometimes you have to create those items on the agenda, put more time on the calendar.

Some of the boards you're on are facing intense challenges, Aramco with pricing

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issues and global energy headwinds and J&J, obviously, with research. What's been most challenging for you as a board member?

Every one of them has their own issue. Fortunately, we didn't have some of the very short liquidity issues of the hospitality industry. At a company like MetLife, you have a fundamental issue of, you know, thinking maybe your worst-case scenario would have been a 1 percent 10-year bond rate. And now it's down, you know, half a point. Well, you didn't plan that in your long-term investment strategy. And you've got to match your long-term liabilities against assets and insurances, so now you're thinking about a broader scope of scenario-planning than you would have done. So, the challenge is the uncertainty.

At J&J, obviously you had the vaccine, but you also had the other side, the medical device business where they stopped all optional surgeries, so they took all that demand for surgeries, for those [knee replacements], off the table. You also had a heavy percent of the [employee] population in the manufacturing of pharmaceuticals and medical devices. These people are frontline and have to go to work; it's not just a professional service firm where you can do everything from home.

And with Aramco as well, you've got to be there on the ground, in the rigs and doing everything, so you had the people-concern issue, and you had the massive swings in the cost of oil and energy costs to deal with and understanding what that meant for your allocation of capital. With all these issues, the hardest part is the uncertainty that you have with volatility and this exigency called a pandemic and that we don't know when it's going to be over and how to plan longer term.

So, you can't just look at your normal planning and say, here's what we've done this year, here's what we're projecting out for the next three years, because the next three years are so uncertain. You have to have greater scenario-planning, and you have to have, frankly, resiliency where you recognize that the decisions you make today have to be really revisited on a more constant basis than you would have in a more stable time period.

"What people don't realize is how hard it is to get past the unconscious bias and make progress in getting diverse workforces. That requires absolutely measuring it and talking about it."

You've done a lot of work in the past on diversity issues and have been a vocal supporter of diversity initiatives as a member of Catalyst's board. How are you feeling now about the progress being made on that front?

We've made a lot of headway. We've got a long way to go. I'm a huge believer for so many reasons. Obviously, I have a daughter, and I want her to have every chance that my three sons have in the world. And I believe that there is unconscious bias and some systemic institutional issues that minorities, particularly African-Americans, have not had the role models, the mentorships necessary to get the opportunities to get ahead. I believe this is so important because EY's model says, "The better the questions, the better the answer, the better the world works." You ask the best questions when you get people around a table with diversity of views. You can have all the best answers in the world, but if you're not asking the right questions, you're not going to get to the right place.

And if you don't have people with cognitive dissonance in terms of their backgrounds, their experiences, their training, their age, then your results are going to be bad. So, I've always believed it's a business issue. It helped at EY that we were talent people, we didn't make engines or anything else. We had to have a really diverse group of people challenging each other to come up with new initiatives. I give the airbag example that when airbags were first created they didn't work for women or children. They actually hurt them. Why? Because they were all designed by men.

So, they had to go back to the drawing board on one of the most important inventions of our time, which was a lot more expensive than if they had the right people asking the right questions.

People do realize that. What people don't realize is how hard it is to get past the unconscious bias and make progress in getting diverse workforces. That requires absolutely measuring it and talking about it like you do every financial metric you have because then people will focus on it.

You can't just say, "We need to be more diverse." You've got to hold people accountable for giving people the opportunities. I am in absolute opposition to quotas. I don't believe you need to have somebody who looks like this here and somebody who looks like that there, but there better be equality of opportunity. And if you have a consistent pattern of minorities not staying or not getting promoted, you probably have a problem that you don't realize you have, and you better address it.

So yeah, we're making progress, but it's still going to take a lot of work and energy, especially in succession planning, to make sure you're holding your business leaders accountable for having people coming behind you who don't look like you and think differently than you and giving them those chances because that's probably going to be necessary for a while yet.

You've referenced the market being disconnected from economic growth—and is that the case also with the general population and the problem we're having with income inequality?

Yes. Absolutely. The answer is yes because, over time, what we've seen is the percentage of wealth in the country has gone more toward asset owners and away from labor and wage earners. Historically, you've had a percentage of wealth being generated by people doing their day-to-day jobs and earning wages versus people investing and asset growth occurring. Now, it's heavily skewed toward capital owners getting wealthier and wage earners stagnating, and that's not good. A large part of that is that wage earners don't have the ability to put money away and save, so they don't participate in the markets.

Some would say, "Wait a minute, there are 401ks out there," and they're absolutely right. There are more people invested in the market than people realize, but even those people are kind of the upper-income people, not everyone has a 401k. So, while I do think that financial market growth is important because it gives companies the ability to do things that could translate to wages and investment capital expenditures and the like, you can't just focus on that. You have to look at wage earners, and that's why income inclusiveness is so important.

We've heard CEOs say that business needs to lead the way on some of these issues because they won't be solved by government. But a large part of America doesn't work for Fortune 500 companies. So how can business stepping up fix that issue?

To deal with the income inequality and the lack of opportunity, one of the most important things is for people to get upskilled and reskilled for the new environment with technology coming in. That means lifelong learning. A two-year degree or a three- or four-year degree is not enough. You're going to have to continue to learn. Business is the only place that provides that today, unless you want to go back and get another degree, which costs a lot of money.

At EY, we changed the philosophy to provide that, whether you stay with us or go somewhere else. If you leave, that's okay, you'll be great brand ambassadors for us somewhere else. Big employers have to think that way, that if we can upskill and reskill our workforce, it's good for our employees and, if they get credentialed and go do something else, they're going to be great brand ambassadors, but also part of an economy that we need to have our business thrive.

You need that whole supply chain. People look at big versus small business. But when big business hurts, small business really bleeds. You're seeing it now with all these big companies that aren't bringing their workers back to New York because they feed the large business people and employees. They're all connected. It's really not an either or. And if you have small businesses that are dying and the parts manufacturer is a small business that can't provide parts to the big business, the big business is going to fail. So, they have a joint interest in this.

> "We have got to get back to a global infrastructure where countries can actually resolve differences without trade wars, economic or, unfortunately, military wars."

As a board member, what do you see as the big issues brewing today?

One is the U.S. democracy and undermining our belief that we have the best system in the world. Even with all of our problems, having traveled around the world for 20-some years, seven days a week—and we were in 150-plus countries—the U.S. is still the place that almost everyone would love to live and be. And we have a great system. Forgetting that would be a huge mistake. So that worries me. How do we bring confidence back to the democratic process here in times like this?

The second is this whole big divide and economic war between China and the U.S. technology-wise. Ninety percent of the world's population under the age of 30 lives in an emerging market, the fastest-growing markets in the world are outside the United States.

There are more middle-class people in China than there are people in the United States. We better understand and figure out how to work with some of these countries and deal with these technology issues and wars, not just pull up the ropes and try to put a wall around ourselves and say, "We're the best country in the world. We can do it alone." That's not true anymore. Interdependency is important, whether it's on climate, economic security, whatever it might be. I worry that we have got to get back to a global infrastructure where countries can actually resolve differences without trade wars, economic or, unfortunately, military wars. That's a big issue.

We've actually been breaking alliances and getting a reputation for being xenophobic.

That's true, but on the other hand, for the longest time, we didn't pay attention to how some of these infrastructures were building out. There is a view in America, most people feel that we were taken advantage of and that the reason for higher costs and for how well China is doing from a technology standpoint had to do with some of the deals we made and that we lost sight of how much we were giving [away]. So, you do need to address these issues. There is conflict. That's why so many people [appreciated] some of the issues the Trump administration raised, whether the world organizations were working as they should, whether China is truly infringing on technology rights and limiting access.

And you are also looking at what the Europeans are doing with taxing the U.S. businesses, really making it a trade issue through the tax system, and with the data privacy issues, where they are restricting us. These are real issues. So, there is a positive side of raising these issues because the American people were getting pretty discouraged.

The real question is, once you identify the issue, how do you deal with it, in manner and in tone and substance? Then the question becomes how you get past them and build a win-win situation.

The bottom line is everyone's looking to protect their own national interests. It's a pendulum. For far too long we ignored them, and it was all diplomatic talk and good speeches. Now we've gone through a period of incredible disruption that's not healthy. We're going to get back to the middle somewhere, somehow. And that's what we need to work toward. **CBM**