SEMLER INSIGHT

In Board Governance

Raising the Board Refreshment Bar: Bringing Diversity Into Committee Leadership

DECEMBER 2017

Blair Jones

Tackling fresh opportunities. That's what profitable companies do. Delivering consistent, stellar results. That's what winning companies do. Whatever it takes, winning companies make it happen. With that in mind, there is one opportunity that has been acknowledged by leading companies but not yet fully realized—fielding a board of directors with diverse voices.

Diversity manifests in a number of ways—in experience, in skills, in gender, in ethnicity, in cultural background, in nationality, and in race. But boards are still a ways off from making this a reality. Take the issue of gender diversity. Boards today are still far from parity. In a world where Silicon Valley gives birth to billion-dollar companies in just two or three years, most companies have not delivered a diverse board in twenty. A host of research shows that diverse boards deliver better results—as much as 15 percent better with gender diversity, according to a 2015 McKinsey study—yet the "go-slow" approach suggests a need for continued muscle-building in governance.

According to Equilar, in 2017, 20.9 percent of board seats were held by women at the 500 largest companies by revenue. More important, women held only 8.4 percent of board leadership positions—lead directors or committee chairs. This underrepresentation of not just women but other forms of diversity as well is getting harder to explain given that 61 percent of directors feel a need for greater diversity of viewpoints and backgrounds on their boards, according to a KPMG study. That's why big investors like State Street and BlackRock have called on boards to address their composition, gender diversity in particular.

The lag in diversity is also getting harder to explain as committees continue to take on broader responsibilities. Nominating and governance committees are tasked with more rigorously identifying the diverse skills their boards require and populating board committees with the right membership. Compensation committees are now called on to deal with leadership development, succession planning, diversity and inclusion, and pay equity below the executive ranks. Sustainability and technology committees, the new kids on the block, need diverse thinking to respond to new developments savvy investors and customers increasingly care about.

While a first step in introducing diversity has been simply to get diverse candidates on boards, a logical next step in strengthening governance is to deliberately position diverse members—and leaders—on committees when their experience can make a difference. This remains an opportunity ripe with potential. It doesn't mean homogenous committees can't make good decisions, only that diverse ones, by applying a broader cross-section of experience to today's more multifaceted problems, can frequently make decisions even better.

The question is how to speed things up and realize the potential of this opportunity. Common wisdom would suggest that boards start with further expanding diverse membership, and then follow with creating greater committee and committee-leadership diversity. But like so many efforts, inertia can take over unless you apply a disciplined process to deliver measurable results:

1. Engage committees in identifying not just needed skills but perspectives. Do the directors represent a reasonable cross section of stakeholders affected by upcoming and ongoing decisions?

2. Cast a broader net for candidates, crossing traditional boundaries to source people with younger, more international, pioneering viewpoints and experience on the frontier of industry and social change.

3. Inject new diversity at identified junctures when adding new members, including retirements, and as needed, force rotation at regular intervals.

4. When orienting new committee members, affirm the value of the diverse perspectives the new members can provide—and support their questioning of tradition.

When the nominating and governance committee considers committee membership, it will be well served to consider the issues each board committee is addressing. On the one hand, longtime, seasoned committee members bring consistency and wisdom to the job. On the other, fresh, diverse members can help the company realized untapped value through new viewpoints on critical topics of exploding importance like social media, mobile apps, and cybersecurity. Similarly, within compensation committees, consider the fresh perspectives new members could bring to core decisions around retaining key talent, paying for performance, leadership development, and more recently, sexual harassment?

As with the committees as a whole, committee leadership will benefit in surprising ways from more heterogeneity. At one big healthcare company that had lost it Say on Pay vote, the board moved a woman from the nominating committee with a reputation for listening to investors into the leadership role of the compensation committee. Her track record in finding solutions that bridged shareholder/management divides gave her the legitimacy to credibly field investor concerns. In one year, she turned around investors sentiment to win a positive Say on Pay vote and change perceptions of the company to that of a governance leader.

To be sure, boards have a slate of opportunities to address, and diversity on committees and in committee leadership is only one. But injecting diversity into the key director positions is a simple means of raising the corporate game. Given that smart decisions today depend on deep insights on technology, markets, talent, ethics, communications, financing, and more, homogeneity on board committees can periodically pose a risk if issues outside most people's ordinary experience are not addressed by directors with inside knowledge. And this risk extends into the future, when diversity and depth of thinking on non-traditional issues today sets the tone for a winning company tomorrow.

All this will require faster change for the board as directors decide when to push diverse voices into committee and leadership roles. It will create more work as well during the on-boarding of directors from less traditional backgrounds. But the benefits of selectively placing diverse voices in key positions—which can spark the innovation that leads to new billion-dollar businesses and opportunities—are impossible to dismiss. A proactive program to match diversity with strategic necessity through faster, disciplined planning, rotation and refreshment is no longer a "nice to have." It is a fiduciary responsibility.

For more information, visit us at SEMLERBROSSY.COM, *or please contact:*

Blair Jones, Managing Director
Semler Brossy Consulting Group LLC
1021 Hedge Row
Clinton, NY 13323
212.388.9776
bjones@semlerbrossy.com

SEMLER BROSSY
NOT JUST ANSWERS. THINKING.