

Take a long look in the mirror

Think carefully about your board composition, without being wedded to the way things always have been done.

BY DOUG RAYMOND

HONEST SELF-REFLECTION can be difficult. Boards struggle with evaluating themselves as much as do individuals. But a board cannot function effectively unless it has the right people on it. If board composition is not on point, then the company may be unable to implement its strategic goals or respond adequately in a crisis or other significant challenge.

Nothing is more important to a company than the people who sit on the board and, ultimately, control the strategic vision and direction of the company. Building the right board requires an honest understanding of the strengths and weaknesses of the existing directors, how well they work together, and their ability to formulate the company's strategy and lead the company to implement its strategic goals. Good governance means that companies must move away from electing directors solely because of their reputation or relationships with management, and, instead, focus on seating directors with the right mix of skills and experiences to achieve competitive success.

The SEC has sought to focus attention on board composition by requiring expanded disclosure of why individual directors are qualified to serve on the board through an explanation of their specific experiences, qualifications, attributes or skills. Additionally, the rules require the board to explain whether diversity is a factor it considers in identifying board candidates. The SEC does not define

diversity, which permits companies to focus on diversity concepts such as race, gender and national origin, or to view diversity more expansively to include differences of viewpoint, professional experience, education, skill, and other individual qualities and attributes.

The SEC's focus on diversity is a part of its effort to shine a spotlight on how boards are functioning. These disclosure requirements are aligned with recent research that concludes that boards provide better guidance if their members have a diversity of backgrounds, skills, and experiences. While a board made up of "good old boys" may share common goals and values, and be able to come to consensus more easily, studies have shown that teams with functional diversity — members with varying perspectives or expertise — generally perform better than homogeneous teams and the decisions made by these diverse teams may ultimately be better for the company.

As functional diversity is quite difficult to observe, boards are instead criticized for their more visible lack of gender and racial diversity. In fact, only 16% of the board seats in Fortune 500 companies are currently held by women. Leaving aside the calls to establish quotas, it is important to focus on bringing on members with global perspectives and diversity of backgrounds to help the board achieve the more productive functional diversity it needs. And, an honest search for functional diversity will often lead to candidates from dif-

ferent backgrounds, including women and minorities.

Achieving the right board composition requires self-evaluation. Boards can assess their composition through director evaluations, both self and peer evaluations. A proactive board should spend the time to create performance metrics that are important for that board, and then measure performance against those criteria. These evaluations will help the board determine what qualities are missing and whether a director with a different perspective is needed. Many times an outside adviser can be extremely usefully in facilitating what can be a sensitive area, as boards often struggle to deal with directors who do not meet these metrics.

Succession planning for directors goes hand in hand with evaluations. The board should consider not only the requirements for today's board, but what skills the company will need in the future, with a particular focus on the longer-term challenges that the company faces. It is poor planning to start thinking about a replacement only after a director announces that he or she is leaving the board. The nominating or governance committee should understand the likely timing for future board retirements, analyze director peer and self-evaluations, and design a systematic approach to board searches.

The skills, background, and personalities of the people in the boardroom are critical to the company's success, particularly during times of pressure or adversity. Thoughtful boards understand this and take the time now to think carefully about board composition, without being too wedded to the status quo or the way things always have been done. While there are no guarantees for creating a high-functioning board, these are the tools that will most likely help build a board that can effectively lead the company. ■



Doug Raymond is a partner in the law firm Drinker Biddle & Reath LLP (www.drinkerbiddle.com).

The author can be contacted at douglas.raymond@dbr.com. Ena Marwaha Lebel, an associate with Drinker Biddle & Reath, assisted in the preparation of this column.