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## OPERATING AN EFFECTIVE BOARD

# Unleashing valuable new perspectives in the boardroom

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It is not uncommon for the topic of diversity to enter into boardroom and management discussions these days, and that is good news. Yet, there remains a gap between talking about diversity in its many facets and embedding diversity into boardroom thinking, ideas, actions and composition. With the growing number of challenges and risks boards face, it's the latter that is critical to help answer that nagging question in the heads of many board members: "What are we missing?" We hear that question frequently when visiting with boards and management. It doesn't matter which industry or geographic region they're in, or how profitable or successful the organisation they represent. The question stays fixed in the minds of board members, especially amid rising shareholder activism.

Answering that question, however, can be difficult if directors do not have the benefit of diverse viewpoints and perspectives, some of which may be driven by their organisation's customer and employee base. Embedding diversity of thought – as well as diversity of people – is a healthy way to challenge the status quo and help directors view issues through a new lens. Granted, introducing



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diverse ideas to the boardroom is not always comfortable. There's value in the added perspective as it enriches the conversation and provides board members with a fresh point of view.

We find it useful to address the question of "what's missing" by examining boardroom diversity in the context of three fundamental elements: people, processes and technology. Refreshing the board composition is one way to bring diverse people and their perspectives to issues that existing directors might not see as they wrestle with such challenges as cyber security, business model disruption, reputational risk and others. Recent efforts to broaden board composition have addressed diversity, but the improvements are narrowly focused on gender and ethnicity, and the gains relatively small. At S&P 500 companies, women represented just 19 percent of all directors in 2014, which was a three percentage point increase from the 2008 level, while only 13 percent of board seats were held by ethnic minority directors in 2014, a 1.2 percentage point increase since 2008, according to *Boardroom Refreshment: A Review of Trends at U.S. Firms* from Institutional Shareholder Services. And this is at a time when minorities and women make up more than half of the

workforce. While organisations may not intentionally seek conformity in the director recruitment process, lack of diverse thinking can inadvertently limit board members' effectiveness in serving their organisation and stakeholders.

It's important to understand how new members will strengthen the board's ability to advise management, oversee risk and address shareholder interests. Broadening the definition of board-ready talent to include business unit heads, regional leaders, academics, entrepreneurs, government leaders and other non-C-suite executives can create a wider pool of very talented candidates. Seeking skill sets and experiences that connect to the trends shaping business, such as technology, social tools, globalisation, corporate social responsibility or others, can help the board bring in diversity of thought to discussions.

Having robust board performance assessment and board succession processes in place is another way companies can begin to transform board composition. While a majority of boards set an age limit for their directors, less than 10 percent have term limits, according to the *2014 Board Practices Report: Perspectives from the Boardroom* from the Society of

Corporate Secretaries & Governance Professionals, in collaboration with the Deloitte LLP Center for Corporate Governance. Boards should consider not relying on such mechanisms to allow for refreshment, and instead establish and maintain a robust assessment process. The report found that only 17 percent of surveyed boards conduct individual-director peer evaluations, and only about one-third of surveyed boards conduct full-board self-evaluations in group discussion.

Generational diversity can bring to a board another important voice. Generation X and Millennial consumers, talent and shareholders have different attitudes, priorities and expectations than previous generations. What better way for organisations to understand the strategic importance of what these generations expect and offer than to recruit from these demographic groups for their boards? By all means, the experience that older directors offer should not be underestimated. Rather, there is a great, and largely untapped, opportunity for boards to seek younger directors to gain perspectives of a generation that is redefining technology, consumer preferences, business strategy, business models and even business risk. If adding younger directors to the board is not feasible,



then consider other ways to gain perspectives of those who will likely have a significant impact on the future direction of many companies.

Business chemistry – how a person tends to process information, interact with others and reach decisions – can also affect board dynamics as much as other composition considerations. Analysing business chemistry can provide insights about individuals and teams based on observable business behaviours. Understanding which attributes are prominent among board members may help identify what behaviour may be missing from the mix with the aim of bringing more balance to the board in terms of personality types. In that way, the board might then have a productive combination of goal-oriented sceptics, consensus-seeking diplomats and healthy risk-takers, for example.

Creating a diverse board in numbers only is not the end game. Rather, one of the ultimate goals of diversity in the boardroom is to inject new perspectives into board conversations to drive innovation and value for the business. To do that effectively requires

strong onboarding and integration processes. While many boards have comprehensive onboarding programs, some may not have effective outreach mechanisms to invite and unleash valuable new perspectives. Barriers to integration can emerge when a new director is the sole voice on an issue, the only director without ties to other board members, or from an underrepresented group or function. It's important to create an environment that encourages innovative thinking, especially one that welcomes new perspectives from directors who may have been brought in for that purpose. Creating fertile ground for diverse thinking often falls to the chairman or lead director. In some cases, we have seen chairmen and lead directors make extensive outreach to a recently elected board member as a way of ensuring that the new perspective is considered.

Boards can get lulled into a false sense of holding fast to traditional processes because they are unwilling to consider new technologies, data gathering methods or approaches to governance. To keep current with the

marketplace, board members should consider monitoring social media to understand how the company is viewed and measured. Boardroom dashboards that analyse internal and external data, along with analytical and brand monitoring tools to help strengthen risk-sensing capabilities, are being introduced to boardrooms to help provide effective oversight. To benefit from technology enhancements, boards should be willing to step back and review traditional practices to help ensure they reflect the current business environment.

Ultimately, a well-functioning board is built on trust among its members. Embracing diversity of thought and investing in new processes and tools could understandably be a significant effort for many organisations. However, those that initiate the process today may realise the value of more dynamic boardroom discussions, a clearer understanding of the changes underway in their business environments, and how to plan and capitalise on the people, processes and technology that can create shareholder value. ■