

Unleashing the Power of Board Diversity

By Deborah DeHaas

For many years, discussions about board diversity have focused mainly on issues of gender, race, and ethnicity. While women and minorities remain underrepresented on many U.S. corporate boards, diversity is beginning to be viewed through a much wider lens to encompass a range of skills, experiences, and perspectives that could help safeguard an organization against new and emerging threats.

The fact that many companies are facing a growing number of competitive, regulatory, and technological issues is driving this broader view of diversity. An important first step in unleashing the power of board diversity is assessing where the members of the board currently stand in terms of skills and experiences, and then comparing that baseline to where it needs to be.

A skills assessment is worth considering as long as it provides a robust and objective evaluation of each director and the collective skills of the full board. The exercise can include comparables with directors in the same and related sectors to see, for example, whether international or deep industry experience might be an important addition to the board. Matrices that provide a full view of an entire board's skills and experience are also helpful tools, especially to jump-start the evaluation process, depending on the organization and industry. Developing such matrices can be more efficient than conducting assessments of individual directors' skills. Some companies publish director skills matrices (either individual or collective) in their proxy statements, offering transparency and establishing an important baseline to measure future progress.

Identifying gaps in board skills and experiences is a difficult task. It's important that the process not be done in a vacuum. Assessments should start with a good understanding of, and alignment to, the organization's short- and long-term strategic goals and risk assessments. For instance, a board might

ask: How important is board merger and acquisition experience, a cultural perspective on how to break into emerging markets, or knowledge of generational or demographic trends involving new customers and employees? What are the risks that keep the CEO or CFO up at night? How can directors challenge senior management to raise their game at identifying and mitigating risks that can disrupt the core strategy? These are issues that point to the importance of broader board diversity and composition, as well as the need to align capabilities and experiences to an organization's strategic direction.

An often overlooked aspect of diversity and skills-based assessments is follow-through involving the onboarding process. Being the first female or African-American director, or even the most tech-savvy director, should include close interactions with other directors, possibly through a mentoring or partnering approach, to avoid isolation and help allow new directors to quickly contribute their talents and ideas. As Sheila A. Penrose, chair of the board at Jones Lang LaSalle and a member of the board of McDonald's Corp., says: "A key responsibility of the chairman or the lead director is to help build and foster an inclusive board culture that allows the power of a diverse board to be fully realized."

It's vital to effectively communicate externally how board-level diversity and composition efforts support the organization's strategy and innovation planning, as well as help protect its business model against disruptive threats. Activist investors are clearly scrutinizing board composition, but other investors also need to know how the board influences and monitors a company's performance objectives in addition to, and in support of, the board's more traditional governance oversight duties. Such transparency shows how directors contribute uniquely to the success and prosperity of the organization, an important goal for any board.



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