The power of all types of board diversity

By Deborah DeHaas

What makes a board of directors "diverse?" For many years, discussions about board diversity have focused primarily on issues of gender, race, and ethnicity. Studies show that there has been some improvement in gender and racial diversity on boards, especially for the largest Fortune 100 boards (for examples, see the "2016 Board Diversity Census of Women and Minorities on Fortune 500 Boards," a multi-year study published by the Alliance for Board Diversity in collaboration with Deloitte). (https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/board-diversity-census-missing-pieces.html)

However, progress has been slow, and there is much more work to be done. Shifting demographics in the United States have brought diversity to the forefront of issues on the minds of executives and corporate boards. Conversations around board diversity are expanding to include the mix of skills, experiences, perspectives and other qualities needed to facilitate strong performance and to defend against new and emerging challenges. This expanding focus reflects that companies should address ever-increasing challenges in areas such as emerging technologies, global competition, regulatory changes, and business model disruption, among others.

Know Your Board's Skill Sets and Skill Gaps

A key initial step to realizing the benefits of a "skills-diverse" board is evaluating the skillsets of current directors against where the board believes those skillsets should be, in other words, skills gaps. Among the public companies surveyed as part of Deloitte's 2016 *Board Practices Report*, 91% conduct full board evaluations. (https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/us-board-practices-report-transparent-look.html). The key components of a successful evaluation of the potential skills gaps commonly include the following:

• First and foremost, the evaluation should to be objective, an evaluation that reflects perceptions or even biases often provides little or no value. This is one factor that may lead a board to engage an independent third-party facilitator to conduct the evaluation, either on an ongoing basis or periodically, to refresh the evaluation process.

• The evaluation should be comprehensive. It should consider "out of the box" capabilities, experiences and other attributes that might benefit the company, even if those attributes have not previously been factored into an evaluation process. For example, it may be important to assess whether a board has the appropriate perspectives for a company whose customer base may not be represented in the boardroom. It can also be helpful to consider the skillsets of peer company boards, to consider whether they have qualities desirable for others in the industry.

• The exercise should take into account the skills of each director as well as the collective skills of the full board.

Skills Matrices

Skills matrices that provide an overview of the board's skills and experience can be useful tools. Matrices can be prepared on an individual basis, to indicate each director's principal skillsets (which can be helpful for board succession planning as well), or collectively. Some companies publish director skills matrices (either individual or collective) in their proxy statements, often in response to investor requests for greater transparency and to establish a baseline to measure future progress.

Identifying the board skills needed in this future can sometimes be difficult, especially if the company is going through significant change or disruption. However, consideration of future board skills should be based upon an understanding of, and alignment with, the company's industry, culture and strategic vision, as well as its risk profile.

For example, if a company is considering global expansion, does its directors have experience and skills in that area? If the company seeks to expand its customer base, is its board on top of generational or demographic trends involving new customers and employees? If the company's performance has been affected by strategic or other risks, are its directors capable of getting management to better assess and mitigate mission-critical risks?

The definition of critical skills and other attributes should be carefully thought through and specifically defined. For example, what does it mean to say that a key skill is "international" experience? Can a director be said to have that experience because she has been CEO of a company with operations in several countries, or is it necessary for her to have lived and worked overseas? Similar considerations apply to other terms that frequently appear on skills matrices, such as leadership skills, marketing experience and, increasingly, technical knowledge.

Closing Thoughts

There is more work to be done, even by companies that are successful in creating a skills-diverse board. Joining and fitting in with a board can be daunting in itself; that process can be even more challenging for a new director who is the first female or person of color, or one who brings a new skill set to the board with which other directors are not familiar, such as human resources, cloud, or digitization. Boards are increasing the use of mentoring or partnering programs to avoid isolation and help new directors to fit into the board culture and begin contributing.

It is also critical to communicate to investors and other constituencies how refreshment practices, diversity, and newly added skillsets will help the organization to achieve strategic goals and defend against risks and other challenges. When successful, these communications demonstrate how the company's directors, ideally diverse in skillsets, experiences, and demographics, provide unique contributions to growth and success.

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