

Boardroom Composition

Changing Course on Boardroom Composition

By Deborah DeHaas and Byron Spruell

Trust is a basic element of a well-functioning board. Directors rely on the judgment, knowledge, and support of fellow board members. But boards today face an increasingly long list of challenges, from strategy to social business and cybersecurity, and the director recruitment process can unintentionally limit directors' effectiveness in serving their organization and its stakeholders.

When seeking the best ideas, boards generally strive to be inclusive. Yet that cannot happen when boards become closed off from new ideas and perspectives, many of which are shaped by consumers and markets that are fundamental to their organization's performance.

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, finds that a majority of companies turn to their own directors for board member recommendations when recruiting. Based on survey responses of 250 public companies, the report found that 72 percent of respondents choose this approach as the number one option, ahead of using search firms (56 percent). A bias toward C-suite executives, though their experience is invaluable, can also limit diversity in board composition.

What's at risk with keeping to the traditional methods of board recruitment and related outcomes?

First, there would be a lack of board members with diverse experiences and views on emerging critical issues, such as cybersecurity, social media, international markets, analytics, and recruiting new

generations of talent. Second, the board would not have a pulse on the trends and demographic changes that could have an impact on the organization's corporate strategy and business model. Third, there wouldn't be the thinking, voice, and perspective of those who are influencing the organization's future direction and shareholder value.

These are only a few of the risks; however, these risks can be catalysts for transforming the board and preparing it for the challenges of coming decades.

In considering director candidates, it's important to understand how they might strengthen the board's ability to advise management 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, more diverse pool with some very talented individuals. Seeking skill sets and experiences that connect to the dynamic trends currently shaping business, including technology, social tools, globalization, and corporate social responsibility, can help transform the board to bring diversity of thought to boardroom discussions.

Changing demographics, the retirement of many Baby Boomers, and a shrinking talent pool also call for transforming the board recruitment process. Generation X and Millennial consumers, talent, and shareholders have different attitudes, priorities, and expectations than previous generations. Companies across industries will likely continue to feel the impact of these shifting demographics

for decades. What better way for organizations to understand the strategic importance of what these generations expect and offer than to recruit from these groups for their boards?

Transforming the board to embrace diversity of experience, thought, voice, and generation could understandably be a significant effort for many organizations. However, those that initiate the process today may realize the value of more dynamic boardroom discussions, a clearer understanding of the changes underway in their business environments, and how to plan and capitalize on them to create shareholder value.

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