## Composition

# Board Refreshment: Addressing Shareholder Concerns

## By Deborah DeHaas and Maureen Bujno

In the 2015 proxy season, directors will very likely hear institutional investors and activist shareholders voice concerns about—or call for—board refreshment. To arm yourself to respond, it is useful to assess your board's composition, understand how that composition relates to the organization's strategies, and have robust board performance assessment and board succession processes in place.

In fact, many boards regularly refresh themselves. The *2014 Board Practices Report* from Deloitte and the Society of Corporate Secretaries and Governance Professionals found that 50 percent of companies added their most recent director within the past year, and 86 percent did so in the past three years. Institutional Shareholder Services reports average director tenure of 8.6 years—very reasonable, given the complexity of directors' responsibilities.

In assessing your board's composition, consider the average and range of tenure; your board's size and committee structure; and the board's profile in terms of skills, expertise, experience, age, gender, and compensation. Examining these, relative to the board metrics used by major institutional investors and benchmarks for companies similar to yours in industry, size, and scope, can create context and identify likely shareholder concerns.

Concerns about refreshment are typically driven by perceptions of a board's ability to oversee evolving strategies and risks. For that reason, well-run boards take an ongoing approach to refreshment and develop succession practices to meet evolving needs related to board composition.

Useful questions for a board to ask itself to clarify issues of composition and refreshment include:

- Does the board have the skills, expertise, and experience required to advise management on the organization's strategy and associated risks?
- How does the board identify gaps in those areas?
- Are board members recruited with an eye toward filling gaps?
- How does the board go about refreshing itself?

While a majority of boards set an age limit for their directors, the *2014 Board Practices Report* found that less than 10 percent have term limits. 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 that full-board evaluations are the most common type. About one-third of surveyed boards conduct full-board self-evaluations in group discussion.

Rigorous assessments of individual directors can reveal missing capabilities, which in turn can allow for refreshment decisions and be factored into searches for new directors. Such assessments are typically driven by a strong board chair, lead independent director, or governance committee chair. These individuals are positioned to set the tone and culture of the board regarding performance assessments and, indeed, around refreshment processes that serve the organization, management, and its shareholders.

Investors want to understand a board's practices around refreshment. Therefore, the board should consider whether its practices related to composition and refreshment—and relevant metrics and profile—are within reasonable ranges, and address situations where they are not. To maintain the expertise, experience, and skills required to oversee the organization's strategies and risks, the board might consider maintaining processes to refresh the board through continual succession planning and cultivation of the best candidates.

A final step would be to disclose those processes to shareholders, so they understand the work of the board in these areas.

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