

Boards and Diversity: Don't Stop at Potential, Strive for Greatness

By Michael Hyter, Julie Cohen Norris, and Jane Edison Stevenson

The demand for diversity on boards has never been greater, but the way in which boards view diversity has morphed significantly in recent years. Let's fast-forward beyond the traditional discussion of the value that diverse skills and experience bring to board decision making. That case has already been made—quantified financially in several studies—and is now generally accepted.

The change currently underway is the way in which boards are defining diversity. That often means broader, less conventional terms that not only account for gender and people of color, but also include geographic diversity and the diversity of age or thought that is often linked with changing technological expertise, customer profiles, or new delivery channels. The particular focus and criteria should be determined by a company's strategic priorities and the attendant skills and experience they require of the board.

The overarching goal is to enhance the board's ability to make better informed key decisions. This approach means boards are thinking seriously about how to leverage their strength as a competitive weapon—making strategic board appointments that augment the board's team capabilities.

Creating that synergy on a board is a two-part equation. The first half is the assessment and recruitment piece, which starts with a careful analysis of the skills, backgrounds, and experience needed on the board, and evaluated against the backdrop of the company's strategy, to determine what might be missing. While the traditional preference for a current or recently retired

CEO candidate is still in demand for invaluable profit and loss governance experience, boards are increasingly recruiting different sorts of directors, particularly those who are knowledgeable about global trends in a company's markets or who have backgrounds that are directly relevant to their specific strategy.

While attracting this sort of diversity is often considered crucial to board effectiveness, finding these less conventional directors requires some ingenuity. Fish in the same pond and you're likely to come up with the same profiles, so boards have to cast a wider net. The best candidates are often hidden beneath the traditional top operating leaders, necessitating a different research approach for the search.

According to our research, among the 2014 class of new directors in the Fortune 500, of the 27 percent who are women, only 29 percent are CEOs/COOs versus 58 percent of their male counterparts. Conversely, the women are more likely than men to be divisional presidents or functional heads.

But if boards only invest their time and resources in the recruitment of a diverse group of directors and don't also focus on igniting the potential of this carefully assembled board, they will under-leverage the team value this diversity can provide. No matter how impressive an individual director's capabilities may be, full value is only realized if the team dynamics are effective.

Think of a thoroughbred at the starting gate—great potential, perhaps, but actual performance depends on a range of factors

including training, the jockey's performance, track conditions, and the weather. Similarly, highly qualified directors and boards require optimal conditions to perform at peak effectiveness—especially when they are adding new and nontraditional directors.

Depending on the board and the prevailing culture, some prep work may be needed to align the team's understanding and acceptance of the new directors. The board should also give careful thought to onboarding new directors, particularly if they have never served on a board before. This will ensure the quickest route to both integration and team effectiveness, enhancing everyone's ability to contribute.

Building a diverse board is not the same as gaining value from it. If your board has already done the thoughtful work of aligning capabilities to company strategy, perhaps also making some strategic key appointments, don't leave the job only half done.

Determine what is required to fully leverage the power of the board's diversity and create value for the board and its stakeholders. Given the right conditions, new directors with needed skills, experience, and relevance can be catalysts for positive change, generating important insights that will significantly ramp up both board and company performance.

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