

Battle ready boards

**Do you have the
right composition
to win?**

Introduction

If business is war, boards are an important brain trust to help in the fight--not only by representing shareholder's interests from a pure governance perspective, but also by providing a deep well of diversified skills, knowledge and experience to offer guidance. So why might this be in contrast to what is actually happening on boards? The fact is that many boards are composed of talented executives from a range of backgrounds knit together as a governance body, but their composition may not be diversified enough.

The lead director of a very prominent company's board recently shared with us that he was going to have some difficult discussions with some very prominent board members. It seems this highly prestigious company had a board that was long on some qualifications and seriously lacking in others. There were at least three board members whose qualifications were almost completely redundant. Each were exceptional executives, but they had very similar experience, skills and knowledge.

Item 401 of Regulation S-K requires companies to disclose the experience, qualifications, attributes or skills that were used to qualify an individual to serve on the board. The regulation however does not prescribe specific qualifications, stating that:

"...companies and other proponents should be afforded flexibility in determining the information about a director's or nominee's skills, qualifications or particular area of expertise that would benefit the company and should be disclosed to shareholders."

For many years, boards often used the key qualifiers below:

- ▶ Domain expertise in the company's industry
- ▶ Financial/accounting expertise
- ▶ Corporate governance
- ▶ General business leadership

As demands on boards increased, some looked to beef up in more granular ways by adding individuals with qualifications in:

- ▶ Risk management
- ▶ Marketing
- ▶ International business

Now boards are also scrambling to add members with qualifications in:

- ▶ Digital/eCommerce
- ▶ Big Data/Predictive analytics
- ▶ Human capital
- ▶ Diversity and inclusion

Figure 1

Board composition chart: current board members (cont'd.).

Behavioral Competencies									
Persuasive	x								
Consensus Builder									
Dynamic Leader	x								
Strong Project Person									
Able Mentor	x								
Challenge Thinking	x								
Stands up to Convictions	x								
Strategic Thinker									
Accepts Responsibility	x								
Willing and Able to Work	x								
TBD									
TBD									

*TBD are custom requirements specific to this board and determined through board input to the nominating committee.

** Some of the components may not be relevant to this board. They can be deleted or substitutions can be made.

Among the skills, knowledge, and experience outlined in the chart above, each company has specific and unique needs based on their strategy and the state of the organization. In order to build the best board, these generic qualifications should be considered and further customized by the board, with management’s input, to create their own unique framework.

Once this is done, the board should determine how well its members collectively meet the required qualifications so that, in total, the board has both depth and diversity of experience while redundancy is minimized.

Follow this process:

1. Decide what qualifications are needed on the board based on the company's strategic objectives, current footing and market dynamics.
2. Have each board member self-assess against the list of qualifications and employ confidential peer assessments or utilize a third party to assess each board member as well.
3. Review the collective results against the overall qualifications to identify gaps.
4. Compare board members to one another to determine if redundancy is significant.

In the end, the board will recognize its gaps and determine an approach to fill them.

While skills, knowledge, and experience are important qualifications, the behavioral competencies noted in the Board Composition Matrix are also critical. Indeed, board dysfunction is often the result of weak leadership exacerbated by boards that lack these competencies. Broadly, board members often need to possess a meaningful number of the behavioral competencies listed below:

- ▶ Persuasive
- ▶ Consensus leader
- ▶ Dynamic leader
- ▶ Strong project person
- ▶ Able mentor
- ▶ Challenge thinking
- ▶ Stands up to convictions
- ▶ Strategic thinker
- ▶ Accepts responsibility
- ▶ willing and able to work

Finally, age, location, gender diversity and other personal characteristics are import for board composition.

Building a board is difficult. But if business is war, in today's more complex and rapid battlefield, a diversified board may give you the edge you need to win.

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