



**Byron Loflin**

### **About the Author:**

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In our hypercompetitive global business environment, diversity is a strategic advantage. Not only is the competitive landscape changing rapidly, you need to remain relevant and drive your corporate mission while making changes within the board to reflect shifts in society. A future-ready board adds value by augmenting opportunity-identification and cognitive diversity while fulfilling its duty to investors and other stakeholders. Some things to consider:

- Investors and consumers expect business leadership to lead well and to respect and reflect stakeholder values, among them diversity and inclusion.
- Businesses that communicate an authentic concern for ESG standards insist on transparency, corporate responsibility, and ethical business processes from within, and from outside vendors.
- Surrounding oneself with like-minded colleagues may feel comfortable, but is often limiting. Cognitive diversity invites different ways of thinking and discernment, complementing board oversight, and, looking down the road, its advisory role.
- People want to do business with companies that invest in innovative products and technologies that benefit a broad stakeholder community. They want to know that companies are taking security precautions to protect their intellectual property from predators and data criminals.

### **The meaning of 'future-ready'**

A future-ready board is diverse, socially responsible, tech-savvy, understands inclusion, and has a keen awareness of how to balance profit expectations with long-term stakeholder values. A future-ready director embraces efficient technology and is not distracted by those that are simply shiny objects. As existing directors and CEOs age, future-ready also means understanding the future needs of the company for the purpose of board and CEO succession planning. Long-term investors hold boards and CEOs accountable for taking action with regard to the impact of the business - positive and negative - on society. In short, the future-ready board is prepared for the tasks ahead.



## How to optimise the board composition to reflect company values

### 1. *Balancing Profit and Purpose*

'Purpose-driven' does not mean not-for-profit. Purpose is not new. Drucker, Demming, and others spoke about profit and purpose in the 1950s and 60s. A great product produced by great people (plus a little luck) delivers long-term shareholder value, or profit. Great leadership is about inspiring a positive culture so that each member of the team is moved to perform to their highest or best purpose. Success isn't about the leader; it's about the team. Profit is a team sport where, like the EPL or the NFL, each stakeholder plays a role.

Boards who understand stakeholder values maintain a 'cooperative capitalism' viewpoint that enhances and broadens the individual board member's perspective. They may, for example, visit company stores and facilities to understand employees and customers. They attend regulatory conferences to understand legal and compliance trends. They review the company's key vendors' values and impact. They ask 'How is the company impacting the communities where we work and sell?'

### 2. *Gender and Racial Diversity*

Investors and stakeholders expect the board to reflect gender and racial diversity. While women have made gains – holding a record 20.4% of board seats nationally<sup>1</sup> - there is still a long way to go to achieve gender parity. Having women on the board is simply good practice – it is known to result in less aggressive risk-taking and better investment decisions.<sup>2</sup>


Legislation is heightening the debate and resolve to achieve a better balance. California has mandated all locally headquartered publicly traded companies to have at least one female director by 2021.<sup>3</sup> In Norway, Spain, France and Iceland, boards must be at least 40% female.<sup>4</sup>

Progress has been much slower for people of color. Only 19% of directors of the top 200 companies are African-American/Black, Asian, or Hispanic/Latinx<sup>(5)</sup>. In the *Fortune 500*, minority men hold a mere 12% of board seats.<sup>6</sup> In order to acquire the depth of perspective that best represents the modern customer base, more diverse faces and voices need to be present.

However, it must be done in a way that's relevant to your company's strategy - and overall board goals. Don't ask directors to join your board solely to "check the diversity box." Now more than ever, the public is aware of tokenism and performative allyship, and will call out your business for such actions. Formalising the "Rooney Rule" for U.S. corporate governance guidelines is helping ensure that boards consider at least one woman or minority candidate and have meaningful interviews with these parties whenever there is a vacancy. Several EU countries have imposed diversity quotas, with positive results, attracting attention from other countries and regulatory bodies.

### 3. *Age Diversity*

The average board member age is 63.<sup>7</sup> Directors aged 50 and under filled only 6% of S&P 500 board seats.<sup>8</sup> Age diversity in the board is a point of contention largely because boards look for candidates who have significant experience in leadership roles, which takes time to accumulate.



However, younger board members may bring expertise in cybersecurity and cutting-edge technologies, helping companies uncover new opportunities, partnerships, and business models. And because younger board members are still professionally active, they have their fingers on the pulse of best practice, employee challenges, and changing consumer expectations. These younger leaders may help you adapt the corporate culture to societal and economic shifts and broaden the board's overall perspective of where the industry is heading.

#### **4. Expertise in Technology, Risk, and Security**

All companies have a technology dimension today. The board-ready member must meet a minimum level of tech understanding. The global average cost of a data breach is \$3.92 million—a 12% increase since 2014.<sup>9</sup> Data security is regarded as everyone's responsibility. A director duped by a phishing scam puts your company at monetary and reputational risk. Yet fewer than 40% of directors say the board fully understands the cybersecurity risks facing their company, and a mere 36% say it has sufficient expertise in cybersecurity.<sup>10</sup>

The board should support embedding security and risk mitigation into all areas of the company, and recognise that they need to invest in ongoing improvement, especially as new collaborative technologies and processes are implemented. The board should also consider specifying who oversees technology and cyber risk. Most S&P 100 companies (88%) have already charged at least one board-level committee with cybersecurity oversight, typically the audit committee (64%) or a risk committee.<sup>11</sup> Consider combining cybersecurity and risk expertise into one committee.

#### **5. Experience in ESG**

Environmental, social, and governance (ESG) reporting has moved into the mainstream. Most of the S&P 500 (85%) file sustainability reports and 80% of mainstream investors consider ESG information when making investment decisions.<sup>12</sup>

It's important for boards to be well-versed in issues such as discrimination, data security and privacy, climate change, and responsible consumption. They should be ready to address ESG issues that concern Investors and stakeholders.

#### **6. More Diverse Backgrounds**

Diversity is about more than gender or race. Board readiness requires an understanding of cognitive diversity, augmented by diversity of experience and a deep understanding of the sources of human choice. Boards should broaden the range of professional backgrounds they consider for candidates that both represent and understand the company stakeholders.

Consider taking a more comprehensive approach to director assessment, focusing on skills and areas of expertise. Determine if there are redundancies in board member experiences and identify what type of candidate will fill gaps in the board's overall readiness. Look for candidates other than former C-level executives, who have the insight and skills needed. While an understanding of financials is always appropriate, consideration of candidates who are well-versed in other areas of business is beneficial, even essential.



## Key Takeaways for Your Board

- Whereas profit is essential, future-ready boards are communicating how the company engages with key stakeholder goals effectively.
- Consider the gender, race, experience and skillsets of minority candidates to bring diverse and unique backgrounds to your board.
- Add younger leaders, who have a finger on the pulse of societal and economic shifts and offer new perspectives.
- Assign technology and risk oversight responsibilities and activities to one board committee.
- Build ESG into your corporate strategy, given the focus of today's investors and stakeholders on such issues.
- Encourage ongoing forward-looking education for board members, including an onboarding program that brings new members up to speed.

To build a future-ready board, it is important to conduct board performance evaluations that include skills diversity, and to provide metrics on board composition, functioning and performance. With these insights, the board will be able to take the right steps forward, adding value to the organization and its competitiveness.

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(1) Business Wire, "2020 Women on Boards' 2019 Gender Diversity Index Shows Women Make Historic Progress Toward Gender Balance on Corporate Boards," Nov. 14, 2019.

(2) Harvard Business Review, "Research: When Women Are on Boards, Male CEOs are Less Overconfident," Sept. 12, 2019.

(3) California Secretary of State, "Women on Boards," 2018.

(4) Harvard Business Review, "When and Why Diversity Improves Your Board's Performance," March 27, 2019.

(5) Spencer Stuart, "Institutional Investor Focus 2020: Board Composition," February 2020.

(6) Deloitte, "How to create a board culture of inclusion," March/April 2020.

(7) PwC, "The evolving boardroom: Signs of change," 2018.

(8) PwC, "Age diversity in the boardroom," 2019.

(9) IBM, "How much would a data breach cost your business," 2019.

(10) PwC, "The evolving boardroom: Signs of change," 2018.

(11) Nasdaq, "Boards Through the Lens of Cybersecurity," 2019.

(12) Forbes, "Corporate Responsibility: What to Expect in 2019," Jan. 14, 2019.