

Board Leadership

Making Board Composition Part of the Strategic Plan

By Dennis T. Whalen

Board composition continues to move higher on board agendas as investors, regulators, and the media sharpen their focus on the talent in the boardroom and ask: Does the board have the right mix of skills, expertise, and diverse perspectives to be effective in its oversight role and to guide the company forward? To better understand the tools and approaches directors are using to achieve the right mix of talent in the boardroom, we surveyed more than 2,300 directors and senior executives around the world. We also interviewed board members and business leaders from six countries to gather additional perspectives on how some boards are approaching these issues.

The core takeaways from the survey results and interviews highlight key opportunities and common obstacles that many boards are facing as they assess their current makeup and how they may need to evolve based on the company's future needs and strategy.

■ **Board composition—and how it aligns with strategy—is a key priority.** “Strategy is the No. 1 reason that boards are looking at their skill sets and composition. Where are the board's gaps in relation to the company's strategy?” one director remarked. Other reasons for this increased focus on board composition include the need for greater diversity of viewpoints and backgrounds, and the need for directors who understand the competitive environment, the pace of technological change, and potential disruptors to the company's business model.

■ **Significant barriers exist to building a high-performing board.** Respondents identified the following as the top three

obstacles to effective talent recruitment: finding directors with both general business experience and the specific expertise needed by the company (69 percent); identifying the board's future talent needs (55 percent); and resistance to change due to “status quo” thinking (43 percent). (Respondents could select multiple options.) As one director noted, “Companies should be forward-looking when appointing directors, otherwise the composition and expertise of the board may not be in line with the company's current stage of development. A ‘status quo’ bias is a huge impediment to maintaining a high-performing board.”

■ **About one-third of boards have a formal director succession plan in place or in process.** While the majority of survey respondents cited a formal board succession plan as a key mechanism to achieving the right board composition, only 31 percent reported having either a “formal succession plan in place that aligned with the company's future needs” (14 percent) or “robust discussions and succession planning in process” (17 percent).

■ **There are mechanisms that help maintain optimal board composition, but they are often underutilized.** Respondents ranked robust board evaluations (87 percent) and formal succession plans (77 percent) as the most effective mechanisms to achieve the right board composition. However, as previously noted, many boards have only addressed succession informally or have plans that are still in process, and nearly one-third cite “lack of robust board and individual director evaluations” and “difficulty in removing underperforming

directors” among the greatest barriers to building and maintaining a high-performing board. A talent map and skill matrix can help identify the skills needed now and in the future; plans and processes should be forward-looking (three to five years) and should align talent needs with strategy.

■ **Generating the change necessary to achieve the right board composition requires an active approach.** The survey's findings point to the need for a strategic, integrated approach to board succession planning, composition, and diversity, which should be part of discussions about long-term strategy. Robust board and individual director evaluations are also critical—and are areas that require attention by many boards.

In short, evaluating whether the current board has the necessary diversity of skills, expertise, and perspectives to be effective in its oversight role—and ensuring that the board's makeup evolves to stay aligned with the company's strategy in the years ahead—should be part of the company's broader strategic plan.

Our global survey results and interviews offer timely insights to help facilitate robust boardroom conversations about board composition and succession planning and to help guide directors as they tackle the challenge of building and maintaining the “right” board. For more information, read the full report online at kpmg.com/BLC.



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