Is Your Board Future-Ready?

The Expertise You'll Need

The competitive landscape in nearly every sector is changing rapidly. You are likely looking for ways to remain relevant and drive your company's mission while making changes to reflect shifts in society. A future-ready board adds value by augmenting opportunity identification and maintaining its duties to investors and stakeholders.

Leadership teams are expected to lead well and reflect respectful, strong stakeholder values. For example, diversity and inclusion measures are a core value for leading companies today. Those that communicate authentic care for ESG and stakeholder impact demand transparency, corporate responsibility, and more ethical business processes from within and from outside vendors.

Investors and stakeholders look to work with companies committed to investing in innovative products and technologies that benefit a broad stakeholder community. They want to know that companies are taking security precautions to protect unique intellectual property from social malfeasance and bad actors.

A future-ready board is diverse, socially responsible, and tech savvy, understands inclusion, and demonstrates keen awareness of how to balance profit expectations with long-term stakeholder values. A future-ready director embraces efficient technology. As the age of many directors and CEOs increases, future-ready also means understanding the needs of the company during board and CEO succession planning. Particularly, long-term investors are holding boards and CEOs accountable for taking action with regard to increasing impact on society. A future-ready board is prepared for the task ahead.

To optimize your board, ensure that its composition reflects your company's values. Look to include:

1. Balance of Profit and Purpose

A purpose-driven company is not a not-for-profit company. Purpose is not new. Drucker, Demming, and many others spoke to profit and purpose in the 1950s and 1960s. A great product produced by great people delivers long-term shareholder value, or profit.

Great leadership is about inspiring a positive culture so that team members are moved to perform at their highest or best purpose. Success isn't about the leader. Success is about the team. Profit is like a team sport, where each stakeholder plays a role.

Boards that understand stakeholder values maintain a cooperative capitalism viewpoint that enhances and broadens the individual board member's perspective. A few examples include, visiting company stores and facilities to understand employees and customers, attending regulatory conferences to understand legal and compliance trends, reviewing the company's key large vendors' values and impact, and asking about how the company is impacting the communities in which it operates.

2. More Gender and Racial Diversity

Investors and stakeholders are holding companies accountable if they don't have a board of directors that reflects gender and racial diversity.

While women have made gains, holding a record 20.4% of board seats nationally,[1] there is still a long way to go for companies to achieve gender diversity. Having women on the board is good practice, resulting in less aggressive risk-taking and better investment decisions.[2]

By California mandate, all locally headquartered publicly traded companies must have one or more female directors by 2021.[3] Norway, Spain, France, and Iceland mandate that boards must be at least 40% female.[4]

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.[5] In the Fortune 500, minority men only make up 12% of board seats.[6] 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 general public is more aware of tokenism and performative allyship and they will call out your business for such actions. Formalizing the "Rooney Rule" for your corporate governance guidelines will help ensure that your board considers at least one woman or minority candidate and have meaningful interviews with these parties whenever there is a vacancy.

3. More Age Diversity

The average board member age is 63,[7] and directors aged 50 and under filled only 6% of S&P 500 board seats.[8] Age diversity in the board is a point of contention for companies, largely because boards look for candidates who have significant experience in leadership roles. This experience 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. Additionally, because younger board members are still professionally active, they have their fingers on the pulse of best practices, employee challenges, and changing consumer expectations. These younger leaders may help you adapt your 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

Many companies are comprised of a technology element today. Directors are expected to meet a minimum technology understanding threshold. For example, the global average cost of a data breach is $3.92 million—a 12% increase since 2014.[9] Today, data security is everyone's responsibility. A director duped by a phishing scam puts your company at monetary and reputational risk.

Unfortunately, fewer than 40% of directors say the board fully understands the cybersecurity risks facing their company, while only 36% say the board has sufficient expertise in cybersecurity.[10]

The board should support embedding security and risk mitigation into all areas of the company and recognize 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 risk committee.[11] 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%) now file sustainability reports and 80% of mainstream investors now consider ESG information when making investment decisions.[12]

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

6. More Diverse Backgrounds

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

In addition, 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 help fill the gaps in the board's overall readiness. Look for candidates—other than former C-level executives—who have the insights and skills needed.

While an understanding of financials is generally appropriate, expanding your range of candidates to those who are well-versed in other areas of business is beneficial.

Key Takeaways for Your Board

- Whereas profit is essential, communicate how your company effectively engages key stakeholder goals.
- 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 pulse on today's 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 forward-looking, ongoing board member education, including an onboarding program that brings new directors up to speed quickly.

In order to build a future-ready board, it's important to conduct annual evaluations that provide metrics and insights into composition, functioning, and performance. With these insights, the board can take the right steps forward.

Nasdaq Governance Solutions is prepared to help you evaluate your board's future readiness and better disclose the strength of its governance practices. Discover solutions to optimize your evaluation process. Visit **nasdaq.com/solutions/board-evaluations.**

[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.