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Boardroom Essentials: Finding Strength in Numbers and Diversity

THOUGHT PAPER

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December 11, 2022

Introduction

A modern-day boardroom must be, in all aspects, a reflection of the changing times. Does this call for a refreshed stance on what is essential in the making of an organization's board of directors? While our previous thought paper revealed that the top priorities for a board remain largely unaltered, it also sheds light on the growing need for change, especially with respect to composition. As laws requiring gender diversity on boards become increasingly common, it is safe to say that board evolution in an organization will no longer be restricted to formal retirement policies or business growth. Instead, this evolution will be driven by the renewed focus on diversity and inclusion, the impact and risks associated with climate change, and the rapid rise of digitization across the globe.

In this thought paper, we bring together our experience, research, and conversations with industry leaders to paint a clearer picture of the essential elements of evolution for an organizational board.

Board composition: What you have and what you need

Against the backdrop of an uncertain and ever-shifting business environment, business leaders are forced to face new and unseen challenges. In the aftermath of Covid, the increased social and political unrest, the rise in global inflation, and the fear of recession, the already volatile business landscape has undergone significant change. Add to this, the looming risks of climate change silently affecting businesses regardless of size, scale, or industry. It is especially in times like these, times of uncertainty when business leaders look to their boards for their wisdom and guidance.

Navigating through rough waters requires boards to be well-equipped, on all fronts, to deal with these new-age challenges. The current reality, however, points to a different story. The magnitude and frequency of change today require a new kind of board leadership and as some of the most recent studies point out, in their current shape, many boards may be out of their depth. To steer their organizations across uncharted territories, boards must recognize and work to improve their prevalent issues and blind spots.

of directors are looking for turnover

Source: https://www.pwc.com/us/en/services/governance-insights-center/library/annual-corporate-directors-survey.html

PwC's Annual Corporate Directors Survey shows that 48% of directors would replace at least one fellow member of their board. 19% of them would replace two or more. The findings show how directors are progressively recognizing the need for board turnover. Yet, few have taken any action towards implementing new policies for the same. This resistance to change can push businesses further into a spot. The current pace of change and accelerated focus on ESG underlines the urgency for board evolution. Thorough assessment processes can prove to be strong tools to enable this evolution.

Board assessment can help identify strengths and areas of improvement in a board, at the same time, it can also be a powerful way to ensure that every director is indeed a right fit for the board and the organization on the whole. Given how frequently the business landscape is being disrupted, forward-thinking boards will benefit from refreshing their approach to conversations around board composition from a long-term strategic viewpoint. Every board member will have a critical role to play in shaping the future of a company and therefore, deeper thought, regular evaluation, and continuous improvement will be vital in ensuring a strong, reliable board.

The numbers game

There is no universal guide or agreement on board composition. Each company will have to, based on its unique strategic goals, and needs, decide what the right board for them looks like. What works for well-established companies may not work for emerging startups. The number of directors on the board of a young company may be fewer than that of a large enterprise.

> **Young ventures should have at least 3 to 4 directors on their board. Depending on the nature of the business, it is important to have a leader who has a strong understanding of the regulatory environment and knows it inside out, enabling them to effectively guide the company in stakeholder management and ensuring that the business is compliant. As the business grows, companies can look at growing their boards, bringing in independent directors, and increasing diversity; and allocate committees suitable to their professional interests and expertise.**
>
> - Founder of a fintech company

It is not always a question of the number of directors on a board. There is an intense focus on representation in organizational boards. Significant strides have in been made across the globe in achieving board diversity. In 2020 there were 347 companies with more than 30% board diversity in the Fortune 500, representing (approximately) a 21% increase from the number of companies exceeding 30% board diversity in 2018 and more than twice the number of companies in 2010. Diversity on a board includes but is not restricted to adequate gender, race, and culture/ ethnicity representation. It also entails diversity in expertise and experience. It is abundantly clear that **a diverse board benefits an organization by exhibiting a wider range of capabilities and competencies, differing approaches to business challenges, and individual risk/reward orientations – all of which make way for increased innovation, improved decision-making, and better identification of opportunities.** A commitment to diversity must include all of the above, even the frequently overlooked element of age diversity.

That diversity in all forms is necessary is a well-accepted notion. According to the global CFO of a young consumer goods company, it is important that the directors individually possess unique in-depth knowledge of the different aspects of a business.

> **It is good to have 7-8 directors on the board, out of which at least 1 would represent the founder or promoter's family, about 3 or 4 independent directors who will bring in diverse professional credibility, and the rest could be nominee directors representing VC/PE investors. This construct would be ideal for a mid-sized privately held company with revenue ranging from INR 500 to 2,500 Cr. It is important to have someone with deep market knowledge and a strong hold on the space in which the company is operating, someone with expertise in how technology is a key differentiator, and another member with a solid experience in HR and people functions; and hence, can be in charge of the remuneration committee and will prove to be valuable in identifying and attracting top talent**
>
> - Global CFO of a profitable and a young consumer goods company

Whether it is the investor push towards diversity or the sheer benefits that come with having a diverse board, companies across industries, regardless of their size, are motivated to partake in the diversity movement.

67% of directors state that their boards have replaced a retiring director with someone who increases the board's diversity. This goes on to prove that the need for diversity has also impacted succession planning. Does this mean every company should go back to the drawing board and rebuild its board?

> **Do not add new members to a board unless it is absolutely necessary or if it serves the strategic purpose of the company. Bring in more diversity only when the existing directors have started contributing effectively, i.e. when you see some tangible value addition from the current board members. This is not a process one should rush into.**
>
> - Founder of a fintech company

Conclusion

Organizations are feeling increased pressure from all corners, whether it is meeting investor expectations, or the complex demands of the changing business environment. The most well-equipped boards, the ones that will be able to sail through these choppy waters, will be boards that adapt and evolve with the changing imperatives.

Evaluating this need for change, identifying areas of improvement, and the strategic need for diversity will be essential in empowering this evolution. However, this evaluation needs to be a dynamic and continuous process. **Effective corporate governance requires a periodic review of not just performance but also, board composition. A progressive evaluation of boards needs to go beyond past performance and contributions and examine how the board (its committees and directors) is armed to respond to the shifting business and governance landscape.**

About the Author

Varun has over 20 years of experience in the corporate world, of which the last 15 years have been in executive search where he has led and managed critical client relationships across diverse industries. While working at EMA Partners, he managed engagements that span the sr. leadership suite with a special focus on Digital, Tech & IT Services, VC/PE-Portfolio and Professional Services. He was instrumental in developing firm's capabilities in the Digital & Technology space. Before co-founding PeopleAsset in December 2018, Varun was leading the tech practice at one the fastest growing executive search and hiring firm, headquartered in India.

Prior to joining EMA Partners, Varun was associated with Korn/Ferry where he was part of the Global Technology Markets (GTM) India practice. His areas of focus at Korn/Ferry included: Business & Professional Services, Business Information Services, IT/ ITeS, Electronics, Software & Emerging Technologies, Consulting, Big Data & Analytics, HR, and Finance. Earlier, between 2008-2011, Varun ran his own search firm before which he was associated with a niche economic, business and market research firm, IMA India.

Varun comes in with multi-domain, multi-functional expertise in Executive Search, and Leadership Coaching & Development. He had successfully completed Decision Dynamics Certification in the Executive Assessment Suite, is an Executive Coach, and regularly advises early-stage ventures/ entrepreneurs.

About PeopleAsset

PeopleAsset is a boutique Executive Search & Talent Advisory Firm geared to deliver high quality results. We help our clients dramatically improve performance through focus on leadership & talent.

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Varun Sarin is the Co-founder, Director at PeopleAsset.
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