



BUILDING YOUR BEST BOARDROOM

HOW TO FIND THE RIGHT DIRECTORS FOR A COMPLEX FUTURE

The digital transformation landscape is rapidly evolving and impacting organizations and boards on a global level. IDC estimated that global spending on digital transformation increased by 10.4% in 2020 to \$1.3 trillion.¹ Organizations and their boards need to adapt, innovate or be left behind. Meanwhile, a transformation is also happening in the boardroom, with board refreshment and diversity concerns fueling the change.

Today, modern governance is required for organizations to thrive and endure in the current fast-paced world. Simply defined, modern governance is the practice of empowering leaders with the technology, insights and processes to fuel good governance. However, finding, nominating and maintaining the right directors brings challenges. How can you overcome old approaches that are not suited for today? What are some best practices for nominating and onboarding new directors? What digital transformation tools can empower you to build the best boardroom for today and tomorrow?

This Diligent report identifies some current challenges to building a better boardroom, evolving trends and priorities, and implementing best practices, and makes the case for adopting modern governance tools.

¹ IDC, May 20, 2020

Challenges to Building a Modern Board

Board diversity is no longer optional. With NASDAQ proposing that any listed companies should have at least two diverse directors, and a new statute in California mandating that all publicly traded corporations headquartered in California must diversify their boards of directors with directors who come from “underrepresented communities,” it is clear that boards who fail to take a modern approach to a rapidly changing landscape risk obsolescence.

Current challenges include:

Fast-paced environment

The average company lifespan on the S&P 500 Index is approximately seven years.² That means companies are under an extreme amount of pressure to innovate quickly or be left behind. Boards face the challenge of locating the right level of subject matter expertise among board directors whose knowledge will continue to expand. What level of expertise does the director you nominate have? How will their skill sets interplay with those of other board directors? How can you quickly find and nominate the right individuals?

Shareholder pressure

During the 2020 proxy season, State Street Global Advisors voted against 64% of companies who were not adequately up to speed on ESG issues.³

Gone are the days of passive, quiet shareholders content to remain in the background. Today, shareholders are extremely active and vocal about their opinions and needs. They are frequently taking a long-term focus on their investments and depend on the board to reflect their interests. Whether it’s issues pertaining to gender, or generational or environmental issues, shareholder demands are increasing and putting more pressure on boards to change with the times.

Longevity of a board seat

In the past, many board directors would hold their seat for many years, even decades. But that’s all changed. The average tenure of a director is steadily decreasing, and has fallen by 7% over the past 5 years to 7.9 years.⁴

If a board nominates a director who is not a good choice, how long will the board keep this person? How can and will they refresh this board seat?

The challenge here is not only selecting the right board member in the first place, but determining what to do if the board director is not the right fit.

Modern Boards: Priorities and Best Practices

To help overcome many of these challenges, we identified some trends, changing priorities and best practices impacting modern boards.

Board refreshment

A board’s inability to refresh itself could be at the heart of its lack of innovation, diversity and growth. And it’s reached a high-water mark: in 2020 49% of directors surveyed said that somebody on the board should be replaced, with 21% saying that two or more directors should go.⁵

Board evaluations are more than just a “check-the-box” exercise. Organizations realize this, but are often slow in deploying an effective approach. Board evaluations should be the core of impactful board refreshment and must be taken seriously and done the right way. Going through the “check-the-box” motions is ineffectual, as 28% of directors surveyed said that their board made no changes following board evaluations.

Best practices for board refreshment include:

1. Communicate expectations

When new members join a board, be sure there’s clear communication as to why they’ve been recruited, how long they are expected to serve, how frequently you assess board composition, etc. This best practice deals with the challenge of a

² Innosight 2018 Corporate Longevity Report

³ SSGA 2020 Proxy Season Review

⁴ 2020 U.S. Spencer Stuart Board Index

⁵ PwC’s 2020 Annual Corporate Directors Survey

new director coming to a board, but not having any expectations set at the beginning. Establishing that clarity at the beginning with regular refreshment becomes vital and strategic.

2. Start with board leadership

Board leadership is ultimately responsible when it comes to refreshment. It may involve having some tough conversations, but it's extremely important to have a leader who is capable of doing so. Can this leader deliver bad news to directors? Is this board leader able to take the helm and point the board in the right direction?

Board Succession Planning

Impactful board succession planning to achieve a well-balanced and diverse board is critical to maintaining excellent modern board governance. Key best practices include:

1. Consider interplay of skill sets

Does your board now need a director with a singular focus on subject matter expertise? Or do you need more board directors that have broad business experience and high-level perspectives? There's no one right answer. However, a common problem that occurs is having a subject matter expert director whom nobody will doubt or question.

Consider having board directors with complementary skill sets. This approach can be the catalyst for having more complex, comprehensive and richer conversations. In essence, their skill sets and shared experiences can harmonize or play counterpart to give the board a more unified view of an issue or subject.

2. Drill down on the desired people

When building a better board, you need to be specific as to what you're looking for in terms of a new board director. Boards must do better in crafting their board profiles and understanding the areas they need to strengthen. Also, depending on whom you have on the board, this individual might look through a different lens. So, you may want to have directors from various backgrounds giving different perspectives.

Don't completely rule out single-skill-set directors. As covered earlier, having just one subject matter expert may create an environment in which nobody will question their knowledge. However, a director with a specific skill set or body of knowledge can provide that in-depth knowledge. Overall, you want to be receptive to having such a director, but in a strategic way so as to give that perspective.

Evolve the skills matrix

Think about all the criteria you want to solve. With any framework, it's how you use it. A skills matrix process can be administrative, but it's really about the discussions you're having in the boardroom – and finding the holes.

Consider also the director's soft skills, which are becoming critical in the boardroom. Does the director have the ability to address those tough questions? Are they curious enough to dig in deeper on issues? How are they with respect to interacting with other board directors inside and outside of meetings? Overall, your skills matrix should continually evolve and change to avoid becoming stagnant and obsolete.

Onboarding

Historically, board members were current or past CEOs, CFOs or board directors elsewhere. However, boards today are more diverse; in fact, a report found that 47% of new directors elected in 2020 were female, and 22% were from a minority background.⁶

Today, new board directors are expected to be active participants, to speak up, and to share their thoughts and opinions. Therefore, there's pressure to have a more strategic and process-driven plan when onboarding directors.

⁶ 2020 U.S. Spencer Stuart Board Index

KEY ONBOARDING CONSIDERATIONS FOR MODERN BOARDS INCLUDE:

- **Structured process** – Onboarding should have a clearly structured, well-planned, formal, yet flexible process. Boards should specify the ownership of each step, but have the flexibility to tailor the onboarding to each new director.
- **Multidimensional** – Onboarding board directors requires a multidimensional approach that includes getting directors up to speed on various components: e.g., company history and strategy, board culture and director dynamics, legal and administrative processes.
- **Interpersonal** – Relationship-building across the organization is critical for modern boards to function. A “Board Buddy” is an individual who can help onboard the new director by providing answers, historical background to the board and guidance.
- **Ongoing education** – Make sure there are ways to provide continuing education for board directors. Boards should provide an easy way for directors to ask questions and to connect with each other outside the boardroom.

Modern Governance Tools for Modern Boardrooms

Covering all of these challenges, opportunities and best practices points us to a strategic and practical question: What tools can boards use to put modern governance into action? Attempting to use legacy approaches to improve modern board governance will not meet your expectations. Outdated methods and tools will likely create more obstacles than solve challenges when building a better boardroom.

In short, modern governance for the boardroom requires modern governance tools. To meet this demand, Diligent launched Director Network in 2020.

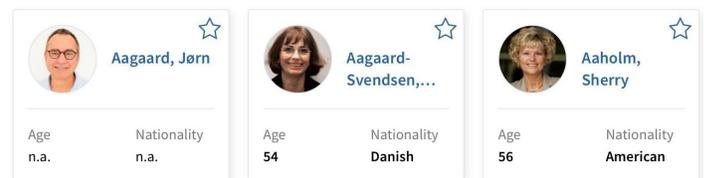
How Diligent Director Network Can Support a More Diverse Nominations Process

Diligent Director Network empowers boards to embrace modern governance practices with analytics to support highly effective and diverse boards, while reducing reputational, governance and shareholder activism risks.

Let’s examine some key features and benefits of Diligent Director Network.

Effective Board Recruitment

With Diligent Director Network, your committee can access data from across 24 global markets and 40 indexes. This can position your Nominating committee with information for more than 5,500 companies and the detailed biographies of more than 250,000 directors and executives.



Streamline Succession Planning

Enhance your succession planning efforts through an extensive, global and diverse database of director and executive profiles through the app.

Improve Board Skill Set Insights

The app easily allows you to view your board’s skills and expertise in relation to those of your peers and your industry to gain insights into their combined strengths and weaknesses.

Facilitate Boardroom Discussions

Improve the quality and efficiency of board discussions by providing up-to-date intelligence and profiles on companies of interest via Diligent Director Network.

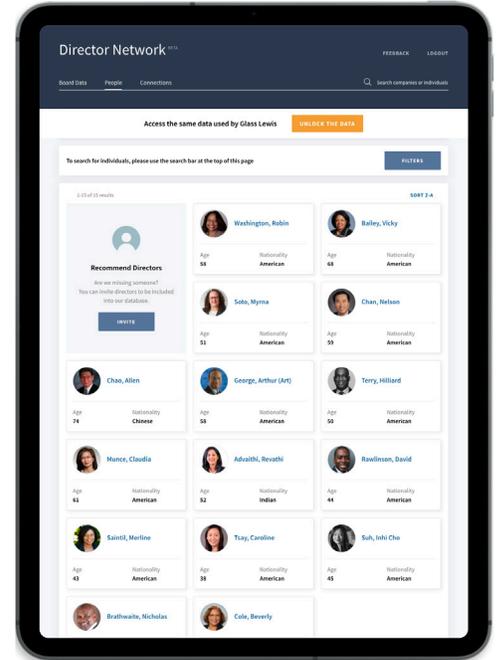


Build a Better Board and Empower Them With the Right Governance Technology

Building a better board is not always the easiest task, but with innovative technology in place, you can seize opportunities while streamlining processes. A modern boardroom means having the right modern technology infrastructure in the boardroom to empower board directors and administrative staff with the necessary framework to overcome governance challenges.

With Diligent technology, like Director Network and other Diligent technology solutions, boards can gain a competitive edge to improve governance by having the right information, analytics and insights to spot risks, act on opportunities and turn insights into action.

Governance demands and challenges will always evolve, but armed with Diligent's technology and insights, you'll be positioned to build a better boardroom today – and one that is built for the changing future.



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MODERN GOVERNANCE REQUIRES MODERN LEADERSHIP

Diligent is partnering with executive search firms, private equity firms and diverse leadership organizations to connect the Diligent governance community with qualified, diverse candidates. Board members can nominate deserving candidates in their networks, and diverse candidates can gain visibility into open board positions through the Diligent platform.

[LEARN MORE](#) ▶



Diligent Director Network™:

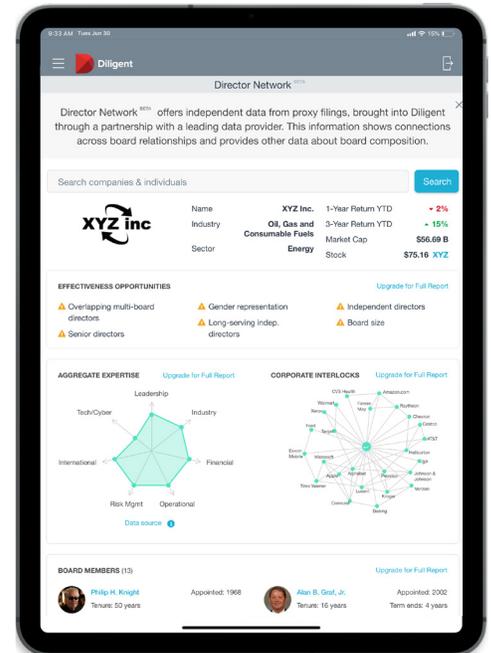
Instant access to director profiles and board data

Data to support good corporate governance.

The Director Network application offers independent data from proxy filings, integrated directly into the Diligent Boards iPad app, through a partnership with a leading data provider.

With Director Network you have instant access to the same information that is used by proxy advisors. Gain insights into opportunities where you can improve your board, compare your board composition against your competitors, and even support your executive search firm by searching for a candidate to fill in your next spare board seat.

Be one step ahead with an overview of your peers' board members and the upcoming executive movements in your sector.



Access a rich global data set to support your board's effectiveness

- Access the profiles of 250,000+ C-level executives to complement your executive search firm (including 20,000+ women to increase your boardroom diversity).
- View a snapshot of your board's structure and compliance.
- Review at any point in time your industry's peers' board members, their expertise, and upcoming executive movements.
- Gain an overview of how you are perceived by proxy advisors and investors.

How you can use the Director Network to improve your board

- Cast a wider net by identifying potential candidates to fill your board beyond your current network and reach.
- Find hard to reach executives, across the globe, to increase boardroom diversity.
- Gain competitive advantage by staying on top of peers' movements in your industry.
- View competitors' board members and learning their strengths and weaknesses.
- Understand governance risks and where you are potentially exposed.

Director Network is now accessible in beta directly from your Diligent Boards iPad app!

For more information or to request a demo, contact us today:

Email: info@diligent.com | Call: +1 877 434 5443 | Visit: diligent.com