



Article Highlights:

- Around the world, countries have begun establishing numerical measurements, as legal requirements, designed to mandate the representation of women on corporate boards.
- Enlightened Corporate Governance® is the most direct pathway to building long-term shareowner value. Rather than waiting for government legislation, or increasing pressure from regulation influencers to institute bureaucratic policies, enlightened directors know how to move their boards from interest to action.
- The key to board renewal and reformation is a regularly occurring board evaluation. This process of assessing the board's performance will reveal when the board needs new directors with different attributes, skills and experiences.

Enlightened Corporate Governance®: Leveraging Diversity to Build a Highly-Effective Board and Improve Long-term Shareowner Value

Written by Curtis J. Crawford, Ph.D.

In recent years, directors have become keenly aware of shareholder and the general populist's interest in increasing the representation of women and minorities on the boards of publicly traded corporations. While the value of "diversity of thought", and to some degree, gender and ethnicity, have been accepted, and pursued in corporate America over the past two decades, the focus has intensified during recent years. In fact, specifically, women representation on corporate boards has become a global, lightening rod issue.

Around the world, countries have begun establishing numerical measurements, as legal requirements, designed to mandate the representation of women on corporate boards. The Harvard Business Review published a summary, saying that countries are "adopting either mandatory quotas (Germany, France, Belgium, Iceland, Italy) or voluntary goals (Austria, Finland, the Netherlands, Spain, Sweden, the UK), in regard to female representation ranging, from 25% to 40%". Other countries, such as the United States and Australia, are considering options to encourage boards to improve diversity.

According to the recent SpencerStuart 2016 Global Board of Directors Survey, 75%, of participating directors do not support the idea of using quotas to achieve diversity goals. It is not surprising that in this same report, it is stated that 49% of the participating women support diversity quotas, while less than 9% of the men do.

As discussed in the NACD Blue Ribbon Commission, The Diverse Board: Moving from Interest to Action 2012, "Put simply: corporations will not be able to build or maintain a successful enterprise that yields sustainable long-term shareholder value, without bringing a greater variety of perspectives into the boardroom. Every director has a responsibility to set a tone at the top that embraces and leverages this new reality. The board has a unique role and responsibility in diversifying its own membership, and, ultimately, the leadership

and workforce of the organization".

Enlightened Corporate Governance® is the most direct pathway to building long-term shareowner value. Rather than waiting for government legislation, or increasing pressure from regulation influencers to institute bureaucratic policies, enlightened directors know how to move their boards from interest to action. Boards should not wait until those with good intentions, but with fewer qualifications, mandate actions which are likely to result in unintended negative outcomes.

Why is the issue of board diversity such a hot topic today? First, because many people pay attention to it. Second, it seems to be the right thing to do. It is debatable whether there is a direct correlation between board diversity and long-term or short-term corporate financial performance. While recent studies, such as those from The Peterson Institute for International Economics and EY, show that having more female leaders in business can significantly increase profitability, other reports conclude it is difficult to determine the relationship between female representation on boards and firm performance. The findings from Negative Effects of Female Representation on Firm Performance was that "all in all, increased female representation could potentially lead to decreased firm financial performance due to a number of strategic disadvantages, increased interpersonal conflicts, and their associated negative consequences. Following this reasoning, we expect a negative relationship between increased female representation and firm financial performance."

Notwithstanding the contradictory data reported above, intuitively, it seems that diversity (gender, ethnicity, experiences, ideas, opinions, etc.) would favorably influence the quality of boardroom discourse and result in improved financial outcomes for shareowners. It is my experience that directors are more likely to believe there is a positive correlation between boardroom diversity and corporate financial



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performance.

Based on my experience serving a variety of boards, as well as my consultative services to many more, I recognize the difficulty of the challenge for boards to break from long-time ingrained practices. I have learned that it begins with setting the right expectations and maintaining a commitment to excellence. Building a diverse board may seem simple (easily understood), however, for those responsible for implementing and executing the plan, it is not easy (presenting few difficulties). However, the long-term consequences of failure are woefully more challenging.

In the past, most directors were sourced from a ready supply of CEO's and "friends of the family", such as colleagues of current or former-serving board members. Well, things have changed significantly. Fewer CEO's are available, interested, or allowed to serve on outside boards. This is driven by new guidelines of governance advisors, and more importantly, the need for CEO's to stay focused on their own businesses. Most currently-sitting CEO's will serve on only one outside corporate board.

Given the reduction in the number of traditional candidates, boards must seek talent from a larger pool. Since there are more candidates, it would seem to be less challenging. However, that is not necessarily true. Because the size of the pool is expanded, the diversity of the pool is also increased. As a result, the process of identifying the best candidates requires more than the casual inspection of "friends of the family". As a result, more boards are partnering with board succession firms who assist in identifying and presenting the best candidate.

According to the results of many boards who have utilized the XCEO board evaluation tools, when asked about their board configuration, 83.8% of directors agree or strongly agree with the following statement: *Our board is rightly sized. We are aptly diverse on skills, geography, gender and ethnic origin, tenure and other dimensions. Our heterogeneity is a value-add for our shareholders. Each one of our directors makes a positive contribution to increasing shareholder value.* There is an obvious disconnect between the general view of the boardroom and the directors who responded to this question.

To accelerate the representation of women, and minorities on corporate boards, several organizations are advocating term limits for directors and reduced age limits. The

SpencerStuart 2016 Global Board of Directors Survey shows that 68% of women favor director term limits compared to 56% of male directors. The survey reports that this is "based on 4000+ responses of board members of companies headquartered in 60 countries, between October 12 and December 1, 2015 (U.S. boards made up 48% of the sample)". For obvious reasons, women seem to favor director term limits likely believing that a higher level of turnover in the boardroom will result in more women being elected.

Ironically, while the SpencerStuart survey reports that more than 35% of directors believe nearly 20% of the directors serving with them should be replaced, and according to results of the 2015 PwC Annual Corporate Directors Survey, 39% of participating directors believe at least one of their board members, for various reasons related to performance, should be replaced, it seems that men do not believe that term limits are the most effective way to increase boardroom diversity.

Term limits and age are frequently used as surrogates for managing the board's assessment of its effectiveness. While the data suggests that boards need to be replenished, there is no clear evidence that director age and/or service time is correlated with board effectiveness. Tenure and age provide an easy solution for boards lacking the courage to take appropriate action regarding underperforming directors and those who are no longer relevant.

The key to board renewal and reformation is a regularly occurring board evaluation. This process of assessing the board's performance will reveal when the board needs new directors with different attributes, skills and experiences. This will determine when the talents of the directors no longer fit the company's needs, and when one or more ineffectual board members are weakening the effectiveness of the entire board. Self-evaluations and external evaluations will accelerate the board's progress toward diversity and overall effectiveness well before they become regulatory requirements.

As suggested earlier, Enlightened Corporate Governance® is the foundation for building long-term shareowner value. Understanding how to build and leverage a diverse boardroom is a critical way of demonstrating effective leadership.

About the Author



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Dr. Crawford is President and CEO of XCEO, Inc. He is the author of *Corporate Rise: The X Principles of Extreme Personal Leadership*, *Compliance & Conviction: The Evolution of Enlightened Corporate Governance* and *Manager's Guide to Mentoring*.

Dr. Crawford currently serves on the Board of Directors of The Chemours Company, Xylem Corp, and ON Semiconductor. He previously served on the Board of Directors of E. I. du Pont de Nemours, ITT Corp, Agilysys, Lyondell Petrochemical, The Sisters of Mercy Health Corporation and DePaul University.

He has served as Chairman of the Board of ON Semiconductor; Chairman, President and CEO of Zilog; President, CEO and Director of Onix Microsystems; and Chairman of the Board of ISTAT. Dr. Crawford also serves as a special advisor to several start-up companies.

Dr. Crawford earned his BA in Business Administration and Computer Sciences and a MA in business from Governors State University. He earned his MBA from the Charles H. Kellstadt Graduate School of Business at DePaul University, and a Doctor of Philosophy degree in Organization and Management from Capella University. In addition, Dr. Crawford has been awarded two honorary doctorate degrees, one from Governors State University and the other from DePaul University.

In 2011, Dr. Crawford was awarded the *B. Kenneth West Lifetime Achievement Award* from the National Association of Corporate Directors (NACD) for his contribution to corporate governance and for having made a meaningful impact in the boardroom.

About Our Organization

At XCEO, Inc., we believe individual leadership is the driving force for inspiring creativity and ultimately maximizing intellectual capacity. We provide individual and corporate development in the principles of *Extreme Personal Leadership*®. We call this *X-Leadership* and it is the touchstone of our company.

In today's globally competitive world, intellectual property is a key indicator of long-term success. Corporations and individuals are seeking knowledge intensive solutions to sustain a competitive advantage. At XCEO, we offer *Professional Mentoring and Personal Leadership Development* programs, as well as *Corporate Governance and Board Leadership Development* programs, for high-aspiration individuals and forward-looking corporations.

Through our *Professional Mentoring and Personal Leadership* programs, we assist individuals in developing personal career and development plans to achieve senior executive-level positions. We also support corporations that recognize the need for a broad array of development options for their high-potential employees being groomed for senior leadership responsibilities.

As part of XCEO's pursuit of enlightened corporate governance, we have created the *Enlightened Corporate Governance Board Performance Evaluation Program* to support boards and directors in their pursuit of excellence. Through our program, we are leading the movement past compliance, toward principled action which maximizes shareholder value. We have designed a set of eight individual and board evaluation exercises which provide an exceptional opportunity for directors to take their boards to a whole new level of effectiveness.

XCEO is a unique research, development and consulting firm. We are committed to excellence and the pursuit of *Extreme Personal Leadership*®. We specialize in inspiration, and endeavor to inspire highly enlightened executives and high-aspiration individuals to pursue maximum personal achievement. We have a leadership team of highly trained and highly motivated colleagues who are eager to serve our clients. Excellence is our goal. We are located in the heart of Silicon Valley and we stand ready to help our clients achieve extraordinary levels of performance and success.

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