

## Board Composition Benchmarking: Data-Driven Analysis for Board Succession Planning



Board Composition Benchmarking is a data-driven exercise, unlike the opinion-based feedback that emerges in a Board 2.0 exercise or even a board evaluation. It may not result in the level of alignment or bias for action that these other tools can achieve, but it can nonetheless stimulate robust discussions based on factual information rather than individual perspectives. For this reason, it can be a good complement to Board 2.0. or even to a board evaluation that's going into depth on board composition/board succession issues. Some boards undertake a board composition exercise on a stand-alone basis, as part of their due diligence in formulating director recruitment priorities.

Here's how it works: Take the peer group your board has developed for executive compensation purposes and analyze the backgrounds of each peer company's outside directors.

The analysis typically examines *only* outside directors and excludes the CEO, Executive Chair (if there is one) and any other inside directors. The reason for this is simple: the analysis is focused on the governance team overseeing management – and they need to have the type of expertise necessary to both add value to management and effectively challenge management in board discussions. Including the CEO's expertise or that of an Executive Chair can serve to artificially bolster the appearance of the board's oversight capabilities in certain areas.

The exercise is not premised on the notion that your board ought to mirror those of other companies in your industry or sector. But where notable gaps emerge – for example, all of your competitors have a technology expert on their boards and you don't – this can raise some useful issues for discussion by the Nominating and Governance Committee. Board Composition Benchmarking nearly always produces some very eye-opening results. Table 1 on the next page provides a summary chart derived from this type of analysis.

**Table 1 Sample Board Composition Benchmarking Analysis: Primary Expertise/Skills/Background**

	Corporate CEO/COO	Finance	Industry Expertise	Info. Technology	Political	Academic	Human Resources	Legal	Other	TOTAL Outside Directors
Company A	5 (36%)	4 (29%)	3 (21%)			1 (7%)		1 (7%)		14 (100%)
Company B		1 (14%)	3 (43%)			1 (14%)	1 (14%)	1 (14%)		7 (100%)
Company C	1 (8%)	4 (31%)	4 (31%)	1 (8%)				1 (8%)	2 (15%)	13 (100%)
Company D	1 (8%)	2 (17%)	6 (50%)	3 (25%)						12 (100%)
Company E	4 (36%)	2 (18%)	2 (18%)	2 (18%)			1 (9%)			11 (100%)
Company F	4 (50%)	1 (12%)	2 (25%)	1 (12%)						8 (100%)
Company G	4 (40%)	2 (20%)	1 (10%)	1 (10%)	1 (10%)			1 (10%)		10 (100%)
Company H	3 (33%)	1 (11%)	1 (11%)	2 (22%)			1 (11%)		1 (11%)	9 (100%)
Company I		3 (38%)	2 (25%)		2 (25%)			1 (12%)		8 (100%)
Company J		4 (44%)	2 (22%)	2 (22%)				1 (11%)		9 (100%)
Company K	5 (42%)	1 (8%)		2 (17%)	2 (17%)		1 (8%)		1 (8%)	12 (100%)

You can expand the analysis to examine other composition issues beyond skills/expertise. For example, a board diversity analysis may be useful, as illustrated in Table 2.

**Table 2 Sample Board Diversity Benchmarking Analysis**

	<b>Gender</b>		<b>Ethnicity</b>		
	<b>% Female</b>	<b># of Female Directors</b>	<b>% Ethnic Minorities</b>	<b># of Ethnic Minority Directors</b>	<b>TOTAL Board Size</b>
<b>Company A</b>	20%	3	0.7%	1- African American	15
<b>Company B</b>	38%	3	25%	1- African American 1- Hispanic	8
<b>Company C</b>	29%	4	43%	3- African American 1- Asian American 2- Hispanic	14
<b>Company D</b>	46%	6	46%	3- African American 3- Asian American	13
<b>Company E</b>	33%	4	0.8%	1- Hispanic	12
<b>Company F</b>	22%	2	22%	1- African American 1- Hispanic	9
<b>Company G</b>	10%	1	20%	1- African American 1- Asian American	10
<b>Company H</b>	10%	1	0%		10
<b>Company I</b>	29%	4	43%	3- African American 2- Asian/Asian American 1- Hispanic	14

Two things become immediately evident in studying Table 2: (i) some boards in this peer group have done a poor job incorporating racial diversity into their board composition; and (ii) many of the more diverse boards in Table 2 are larger in size, begging the question as to whether these boards simply expanded to add a “diversity seat” or if diversity was truly woven into the board’s core expertise – a preferable approach, but one which requires more effort. This illustrates the sort of insights that Board Composition Benchmarking can yield – and the dialogue it can stimulate at the Nominating and Governance Committee.

A review of board composition policies can also be worthwhile – such as retirement policies, mandatory resignation on change of primary employment and the like. Table 3 provides an illustration of this type of analysis - in this instance, focusing on director retirement policies.

**Table 3: Sample Board Policy Analysis – Director Retirement Policies**

	<b>Retirement Age</b>	<b>Retirement Policy</b>
<b>Company A</b>	72	No director can stand for election after reaching age 72
<b>Company B</b>	70	Board Members must step down at the first Annual Meeting after they reach age 70
<b>Company C</b>	72	No director can stand for election after reaching age 72. However, the full board has discretion to grant a waiver of this policy. (Note: In 2018, two directors age 73 were re-nominated to the board)
<b>Company D</b>	70	A Board Member must resign at the first Annual Meeting that is held after they reach age 70. The Governance Committee has discretion on this issue and may extend a Board Member’s tenure beyond the age of 70 in appropriate circumstances
<b>Company E</b>	72	No explicit retirement policy was found in Company E’s governance materials. However, one of their directors who will turn 72 in 2019 is noted to be retiring mid-year, suggesting that Company E does in fact, have a retirement policy at age 72.
<b>Company F</b>	72	No director can serve a new term after reaching the age of 72. (This board has 3-year terms)
<b>Company G</b>	70	No director can stand for election after reaching age 70, unless the board determines otherwise
<b>Company H</b>	72	Directors must retire at age 72 at the Annual Meeting which coincides with the expiration of their annual term
<b>Company I</b>	73	Directors are required to retire from the board at the Annual Meeting next following their 73 <sup>rd</sup> birthday. The board may waive this requirement if it deems such waiver in the best interests of the company
<b>Company K</b>	70	Absent exceptional circumstances agreed to by the majority of the board (excluding the affected member) each Board Member will resign upon reaching the age of 70 immediately at the next board meeting.

Board Advisor can either undertake a Board Composition Benchmarking analysis for your board – or we can provide guidance and oversight to your own internal team. We help you establish the peer group - the executive compensation peer group is a good place to start, but most boards make a few changes. We provide advice, answer questions that inevitably arise mid-project and review your team’s analysis before it’s presented to the board. We’ll also discuss the implications of the analysis and key take-away’s from the exercise with board leadership – and even with the full board. If we’re also working with you on a Board 2.0 exercise, we’ll integrate the two – providing your Nom/Gov Committee and entire board with a comprehensive approach to board succession/director recruitment that fully engages and aligns directors around this important issue.