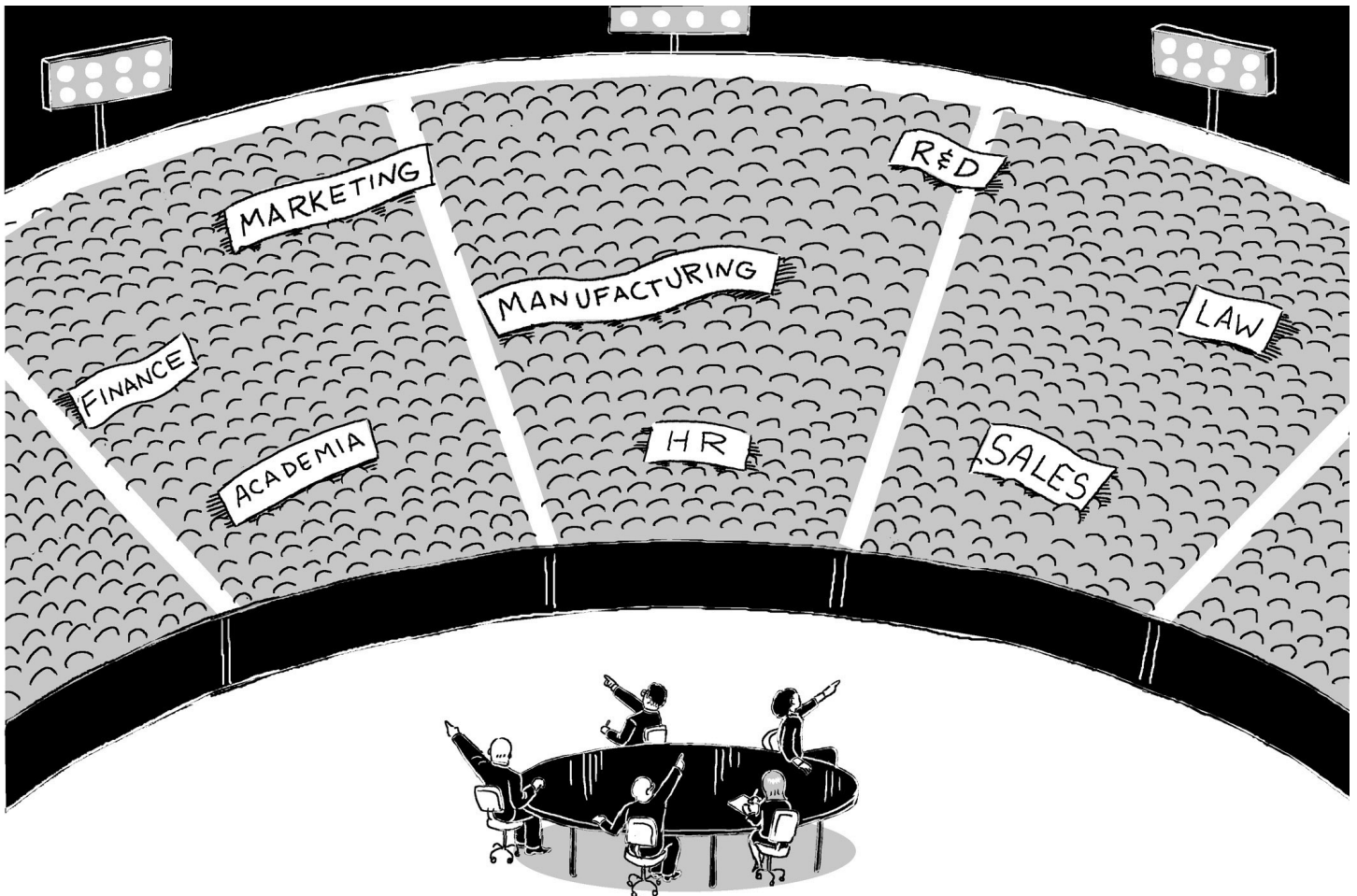


IN TOUCH WITH THE BOARD

Multidimensional Diversity: **Functional Expertise** and **Gender Diversity** Create a **Virtuous Circle** in the **Healthcare Boardroom**

While governance practices and compliance remain important topics in our discussions with boards in the healthcare sector, diversity now has emerged at the top of the agenda. Critically, the issue of diversity no longer relates only to gender, nationality or ethnicity but encompasses the broader experience, perspectives and competencies of individuals within a team. Furthermore, the focus on diversity includes the non-executive board, which remains under scrutiny by investors, regulators and others in the governance community.



First, the global economic downturn has provided illustrations of falling into the trap of groupthink and of leaving tough questions not only unanswered but unasked. Second, the ongoing digital transformation of virtually every sector has placed increased importance on the board's role as the CEO's brain trust—and thus on the range of knowledge and perspectives represented on the board. Finally, the increased size and complexity of business enterprises today make it less likely that any given CEO will be a “silver bullet” leadership solution; it is more likely that there will be one or more areas in which the CEO's experience will have to be augmented by that of the board, as well as by the rest of the C-suite team.

These forces have emphasized that boards are strategic assets in their own right and have highlighted the nominating committee's responsibility for constructing a board with the collective experience, perspectives and competencies necessary to meet the challenges facing a company. The fundamental question the committee must address has evolved from “**Who** do we want on the board?” to “**What** do we want on the board?” But this shift in focus from people to experience, perspectives and competencies has affected more than how the committee approaches its charge. This trend also has had the effect of significantly broadening the pool of candidates into which nominating committees cast their nets.

Diversity in the healthcare boardroom

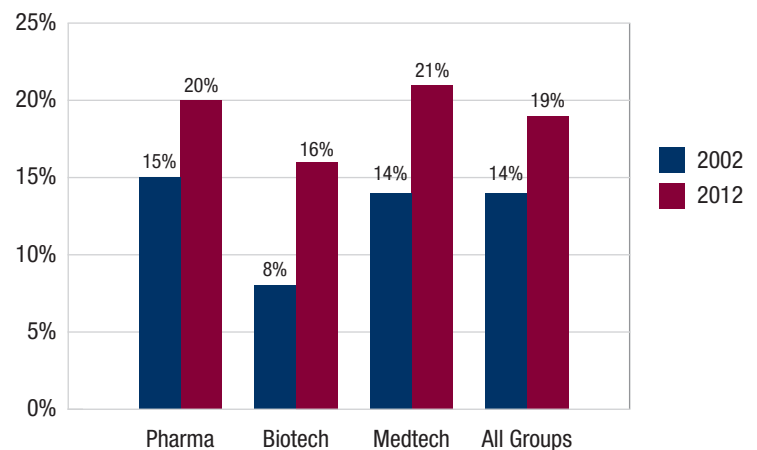
Companies in the pharmaceutical (pharma), biotechnology (biotech) and medical technology (medtech) industries face a highly dynamic regulatory environment, continuing challenges in managing the pipeline from development to market and ever-growing organizational complexity.

Nominating committees have responded by placing a premium on board members with expertise in strategically important functions such as marketing, finance, and research and development. This broadening of the potential talent pool has had the additional effect of increasing the percentage of board seats held by women.

Our analysis of board members of the world's 54 largest pharma, biotech and medtech boards¹ shows that **from 2002 to 2012, the percentage of board director seats held by women has increased from 14 percent to 19 percent** (Figure 1).

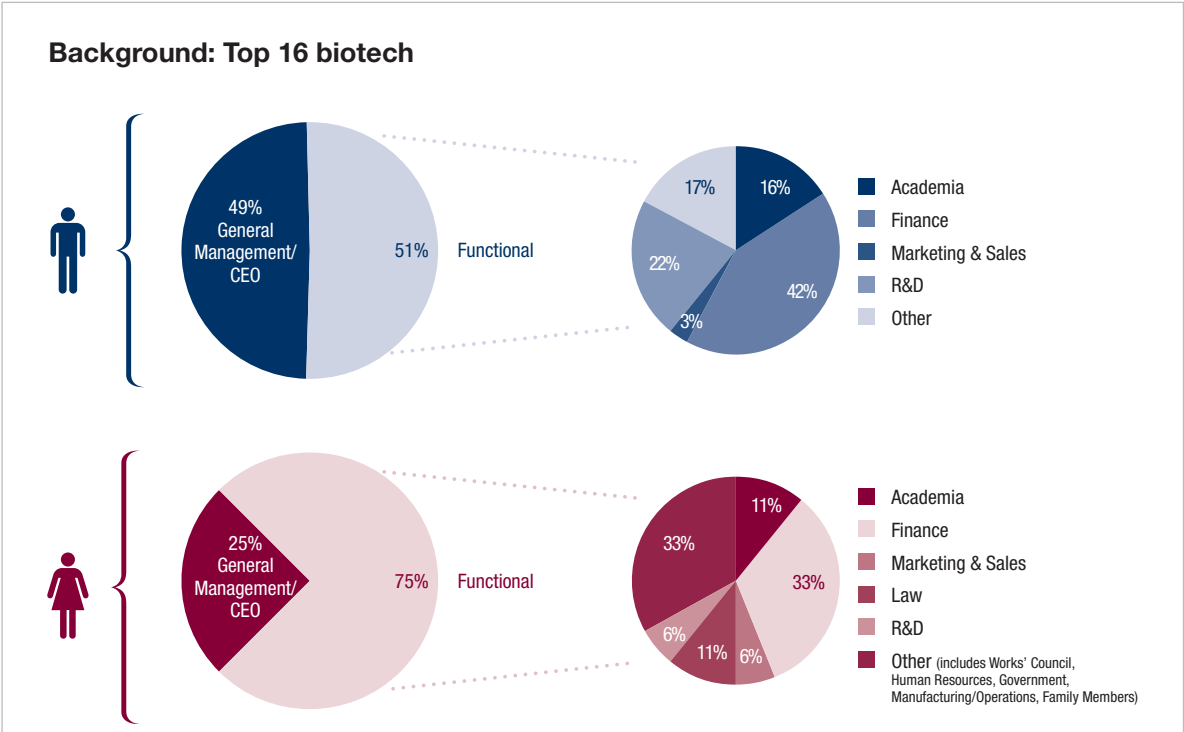
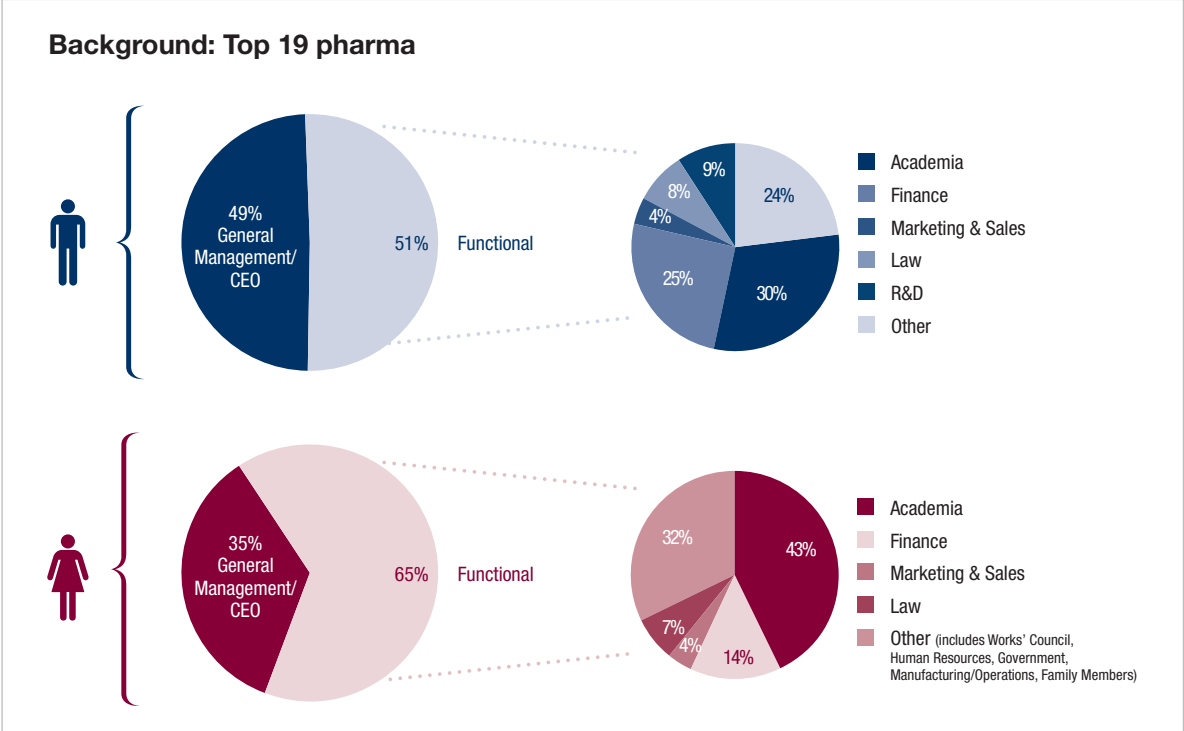
Looking further, it is clear that the importance placed on functional expertise has played a key role in driving this trend: **While 49 percent of the male directors in 2012 primarily have a functional background, 69 percent of the female board directors do.** This finding holds when data are broken out by industry sector as well (Figure 2).

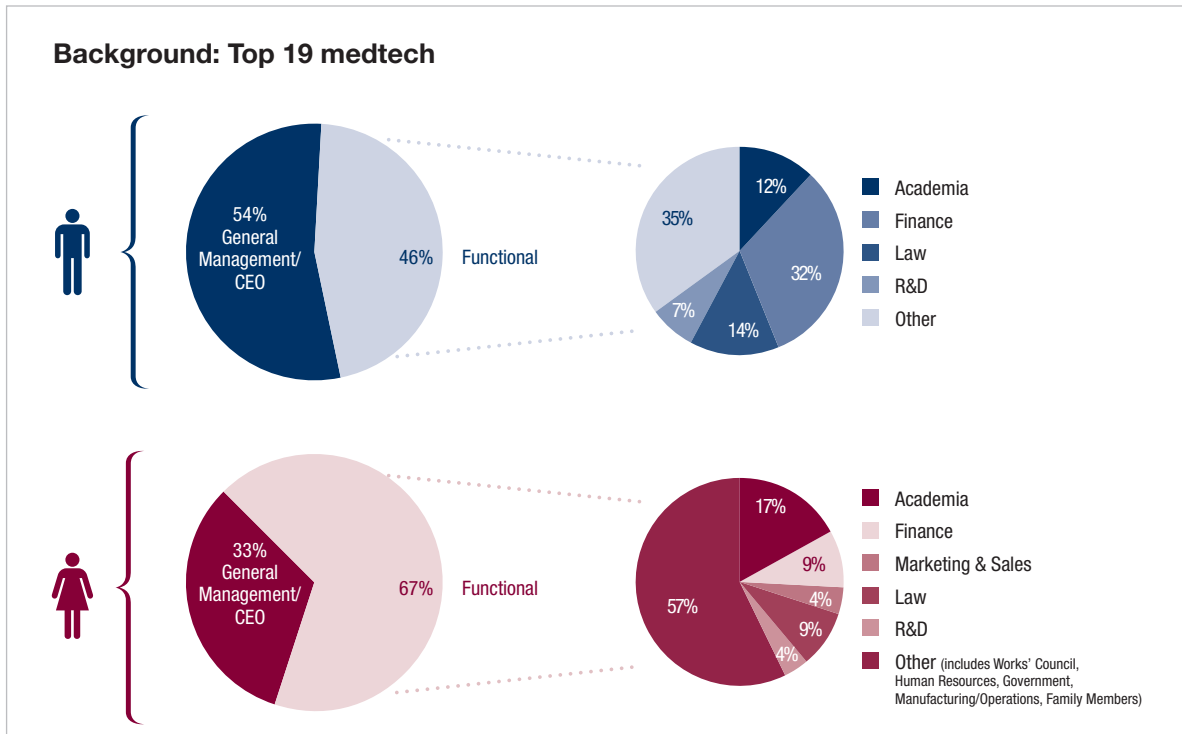
Figure 1: Female board members, 2002 vs. 2012



¹ The companies examined include the 19 largest pharmaceutical companies and the 19 largest medtech companies by revenue and the 16 largest biotech companies by market capitalization. Board composition data were compiled from BoardEx and from company web sites as of March 2012. Companies that did not issue an annual report until after 2002 were excluded from the 2002 data in Figure 1.

Figure 2: General management vs. functional background; male vs. female board directors, 2012





Looking at the data closely identifies several revealing trends:

- Pharma directors who have a functional background are most likely to come from academia, irrespective of gender, although there is greater diversity of functional backgrounds among female directors.
- Female directors in biotech are more likely to have a functional background than female directors in pharma or medtech.
- Biotech directors who have a functional background are most likely to come from finance, irrespective of gender, but the diversity among female directors is generally broader.
- Male directors of medtech firms who have a functional background are most likely to come from finance; no one background is prevalent for female directors with a functional background.

This correlation between a greater emphasis on functional expertise and increased opportunity for women in the boardroom is reflected in our anecdotal experience as well. For example, we currently are working with a publicly held U.S. specialty pharmaceutical company looking for two directors with very specific profiles: one with a financial expertise background to replace the outgoing audit committee chair and one with a commercial/business development background to help advise on an upcoming product launch and partnership discussions. The competency-based specifications led to initial candidate lists with numerous female candidates. Indeed, in each case, the top-ranked candidate is a woman.

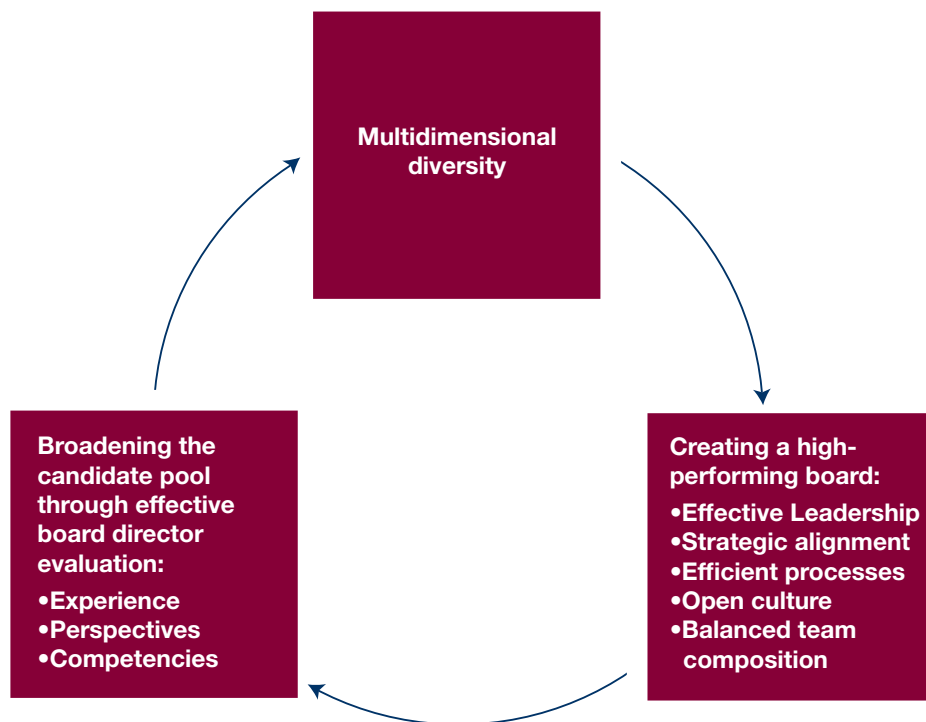
Based on these observations, one can conclude that the focus on functional expertise is positively affecting gender diversity within the boardroom of healthcare companies.

Leveraging the opportunity: a multidimensional model of diversity

In the past, clients would describe their ideal board director candidate as “a well-known, sitting CEO.” Unfortunately, there always will be, at any given time, a limited number of potential directors who fit that description—and even fewer who are available for additional board service. However, boards can significantly enhance their value to the business by defining more broadly the range of director attributes needed in the boardroom to support and challenge the CEO and management team.

For example, we have been working with the chairman and nominating committee of a publicly listed European biopharmaceutical client to help it build a balanced and diverse supervisory board using a competency-based approach. As a result, when the company experienced major growth-related investment challenges, the supervisory board proved to be a real asset. The board members were able to draw upon their combined functional and business experience in a constructive manner to advise and support the executive team in exploring alternative paths, which ultimately led to a merger and, subsequently, enhanced shareholder value. In essence, such an approach creates a virtuous circle (Figure 3).

Figure 3: The virtuous circle



To maximize their benefit from a strategy-driven, competency-based approach to board composition, nominating committees should work to systematically institutionalize the approach rather than adopt it on an ad hoc basis. A framework for doing so would include:

- **Assess the experience, perspectives and competencies the company needs in the boardroom to achieve its strategic objectives.** These may be due to regulatory requirements, specific events on the corporate horizon (as with the biotech company discussed above) or larger market forces at work. Give greater weight to particular areas where the CEO may need additional support.
- **Conduct a gap analysis against the current composition of the boardroom.** Prioritize needs and generate a specifications document for an open board seat(s).
- **Define the candidate pool.** A competency-based approach goes a long way toward pointing to where qualified candidates can be found. However, it still may be necessary to look beyond a company's peer group and the industries to which it normally turns for non-executive director talent.
- **Establish appropriate evaluation criteria.** Evaluation criteria must be tailored to reflect the specific skill sets desired so that candidates with similar backgrounds can be compared.

Completing the virtuous circle

In the past two decades, the efforts of activist shareholders, the evolution of business norms and an appreciation of the strategic value of diversity—not to mention legislation now in place in several countries—have opened the door for increased gender diversity in the boardroom, including in the healthcare sector. Even so, there is much more work to be done. **In the years ahead, we believe there will be significant occasion to continue to leverage the opportunity created by the business need for more functional leadership at the board level. Doing so may result in as much (or more) for diversity as an emphasis on diversity will.**

Authors

Jacques Bouwens leads the firm's global healthcare sector. Based in Amsterdam, he advises clients in the healthcare and technology industries on senior-level executive and non-executive board assignments.

Dana M. Krueger, Ph.D., focuses on senior executive search and assessment assignments in healthcare and healthcare-related industries. She also advises clients across a range of sectors on senior R&D roles. Dana is based in Amsterdam and works with both European and global clients.

Gabrielle Lajoie specializes in executive officer and board of director searches. She represents both public and privately held biotech, specialty pharma and diagnostic companies. Gabby frequently works with venture capitalists to attract senior management to their portfolio companies. She is based in San Francisco.

RUSSELL REYNOLDS ASSOCIATES

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Americas

Atlanta

1180 Peachtree St., NE
Suite 2250
Atlanta, GA 30309-3521
United States of America
Tel: +1-404-577-3000

Boston

One Federal Street, 25th Floor
Boston, MA 02110-1007
United States of America
Tel: +1-617-523-1111

Buenos Aires

Buenos Aires Plaza
Manuela Sáenz 323
Seventh Floor, Suites 14 and 15
C1107CBP Buenos Aires
Argentina
Tel: +54-11-4118-8900

Calgary

Suite 750, Ernst & Young Tower
440-2nd Avenue SW
Calgary, Alberta T2P 5E9
Canada
Tel: +1-403-776-4174

Chicago

155 North Wacker Drive
Suite 4100
Chicago, IL 60606-1732
United States of America
Tel: +1-312-993-9696

Dallas

8401 N. Central Expressway
Suite 650
Dallas, TX 75225-4404
United States of America
Tel: +1-214-220-2033

Houston

600 Travis Street, Suite 2200
Houston, TX 77002-2901
United States of America
Tel: +1-713-754-5995

Los Angeles

11100 Santa Monica Blvd.
Suite 350
Los Angeles, CA 90025-3384
United States of America
Tel: +1-310-775-8940

Mexico City

Torre Reforma
Paseo de la Reforma
115-1502
Lomas de Chapultepec
México 11000, D.F.
México
Tel: +52-55-5249-5130

Minneapolis/St. Paul

225 South Sixth Street, Suite 2550
Minneapolis, MN 55402-3900
United States of America
Tel: +1-612-332-6966

New York

200 Park Avenue
Suite 2300
New York, NY 10166-0002
United States of America
Tel: +1-212-351-2000

Palo Alto

260 Homer Avenue, Suite 202
Palo Alto, CA 94301-2777
United States of America
Tel: +1-650-233-2400

San Francisco

101 California Street
Suite 2900
San Francisco, CA 94111-5829
United States of America
Tel: +1-415-352-3300

São Paulo

Edifício Eldorado Business Tower
Av. Nações Unidas, 8501
11º Andar
05425-070 São Paulo - SP
Brazil
Tel: +55-11-3566-2400

Stamford

301 Tresser Boulevard
Suite 1210
Stamford, CT 06901-3250
United States of America
Tel: +1-203-905-3341

Toronto

Scotia Plaza, Suite 3410
40 King Street West
Toronto, ON
M5H 3Y2
Canada
Tel: +1-416-364-3355

Washington, D.C.

1701 Pennsylvania Avenue, NW
Suite 400
Washington, D.C. 20006-5810
United States of America
Tel: +1-202-654-7800

Asia/Pacific

Beijing

Unit 3422 China World Tower 1
No. 1 Jian Guo Men Wai Avenue
Beijing 100004
China
Tel: +86-10-6535-1188

Hong Kong

Room 1801, Alexandra House
18 Chater Road Central
Hong Kong
China
Tel: +852-2523-9123

Melbourne

Level 51, Rialto Towers
525 Collins Street
Melbourne VIC 3000
Australia
Tel: +61-3-9603-1300

Mumbai

Unit 9(A), Grand Hyatt Plaza
Santacruz (East)
Mumbai 400 055
India
Tel: +91-22-6733-2222

New Delhi

203, Eros Corporate Tower
Nehru Place
New Delhi 110 019
India
Tel: +91-11-4603-4600

Seoul

16F West Tower
Mirae Asset Centre 1 Building
26 Eulji-ro 5-gil, Jung-gu,
Seoul 100-210
Korea
Tel: +82-2-6030-3200

Shanghai

Room 4504, Jin Mao Tower
88 Century Avenue
Pudong, Shanghai 200121
China
Tel: +86-21-6163-0888

Singapore

2 Shenton Way
#08-01 SGX Centre 1
Singapore 068804
Singapore
Tel: +65-6225-1811

Sydney

Level 40, Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia
Tel: +61-2-9258-3100

Tokyo

Izumi Garden Tower 14F
1-6-1 Roppongi
Minato-ku, Tokyo 106-6014
Japan
Tel: +81-3-5114-3700

Europe

Amsterdam

World Trade Center
Tower H, 18th Floor
Zuidplein 148
1077 XV Amsterdam
The Netherlands
Tel: +31-20-305-7630

Barcelona

Edificio Prisma
Avda. Diagonal, 613, 2ª
08028 Barcelona
Spain
Tel: +34-93-494-9400

Brussels

Boulevard St.-Michel 27
B-1040 Brussels
Belgium
Tel: +32-2-743-12-20

Copenhagen

Kongens Nytorv 3
DK-1050 Copenhagen K
Denmark
Tel: +45-33-69-23-20

Frankfurt

OpfernTurm
Bockenheimer Landstr. 2-4
60306 Frankfurt
Germany
Tel: +49-69-75-60-90-0

Hamburg

Stadthausbrücke
1-3/Fleethof
20355 Hamburg
Germany
Tel: +49-40-480-661-0

London

Almack House
28 King Street
London SW1Y 6QW
United Kingdom
Tel: +44-20-7839-7788

Madrid

Calle Miguel Angel, 11
Seventh Floor
28010 Madrid
Spain
Tel: +34-91-319-7100

Milan

Via Mascheroni, 5
20123 Milan
Italy
Tel: +39-02-430-0151

Munich

Maximilianstraße 12-14
80539 München
Germany
Tel: +49-89-24-89-81-3

Paris

7, Place Vendôme
75001 Paris
France
Tel: +33-1-49-26-13-00

Stockholm

Hamngatan 27
SE-111 47 Stockholm
Sweden
Tel: +46-8-545-074-40

Warsaw

Belvedere Plaza
ul. Belwederska 23
00-761 Warsaw
Poland
Tel: +48-22-851-68-38

Zürich

Löwenstrasse 28
CH-8001 Zurich
Switzerland
Tel: +41-44-447-30-30