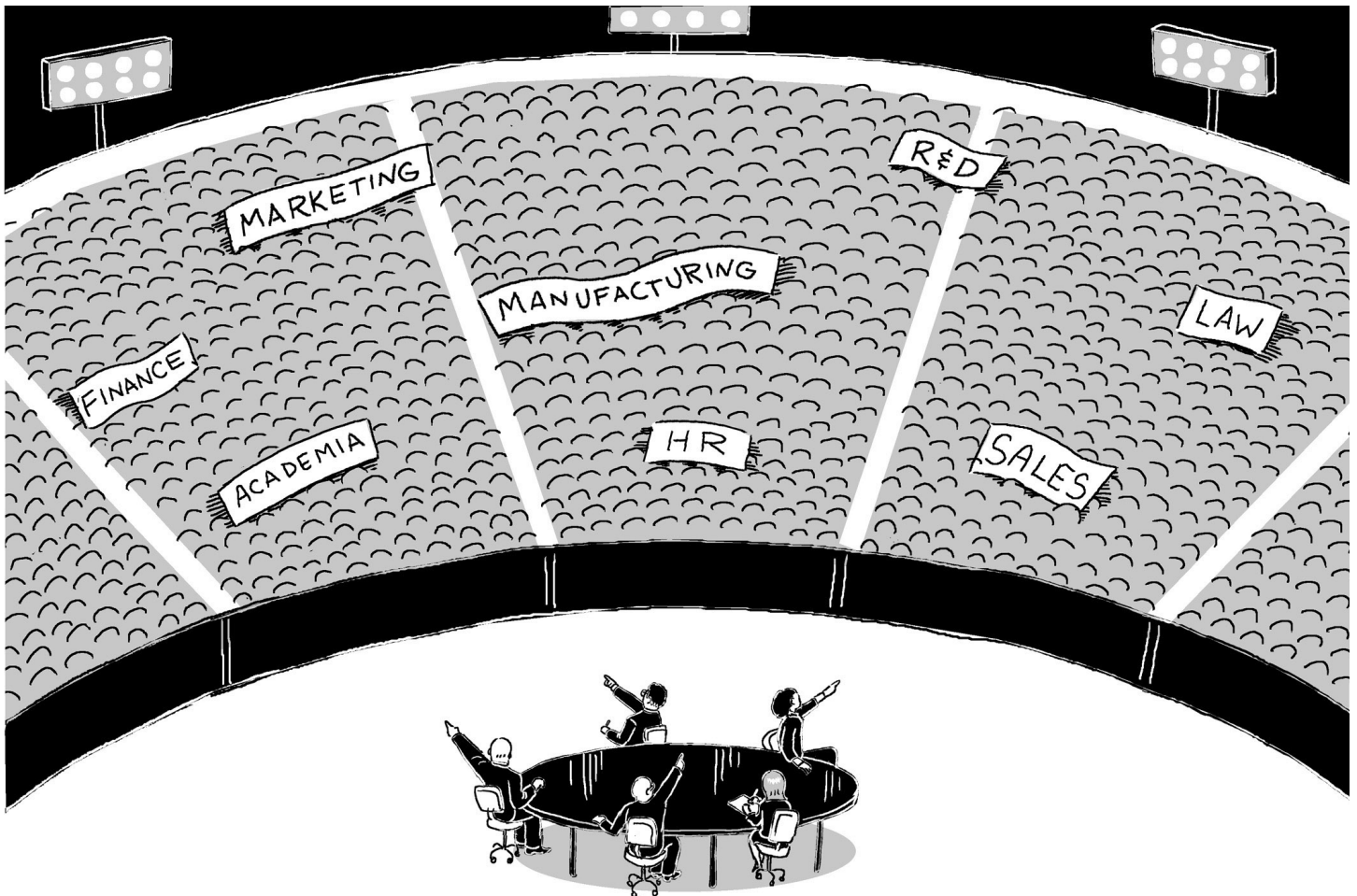


## IN TOUCH WITH THE BOARD

---

# 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

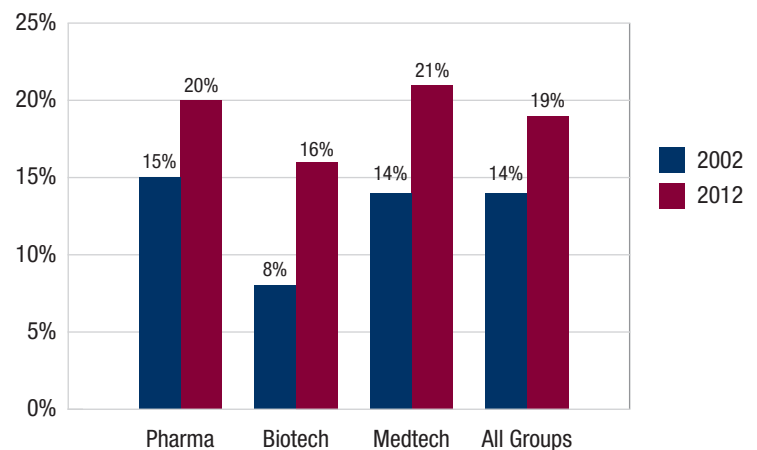
Companies in the pharmaceutical (pharma), biotechnology (biotech) and medical technology (medtech) industries face a highly dynamic regulatory environment, continuing challenges in managing the pipeline from development to market and ever-growing organizational complexity.

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 boards<sup>1</sup> 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).

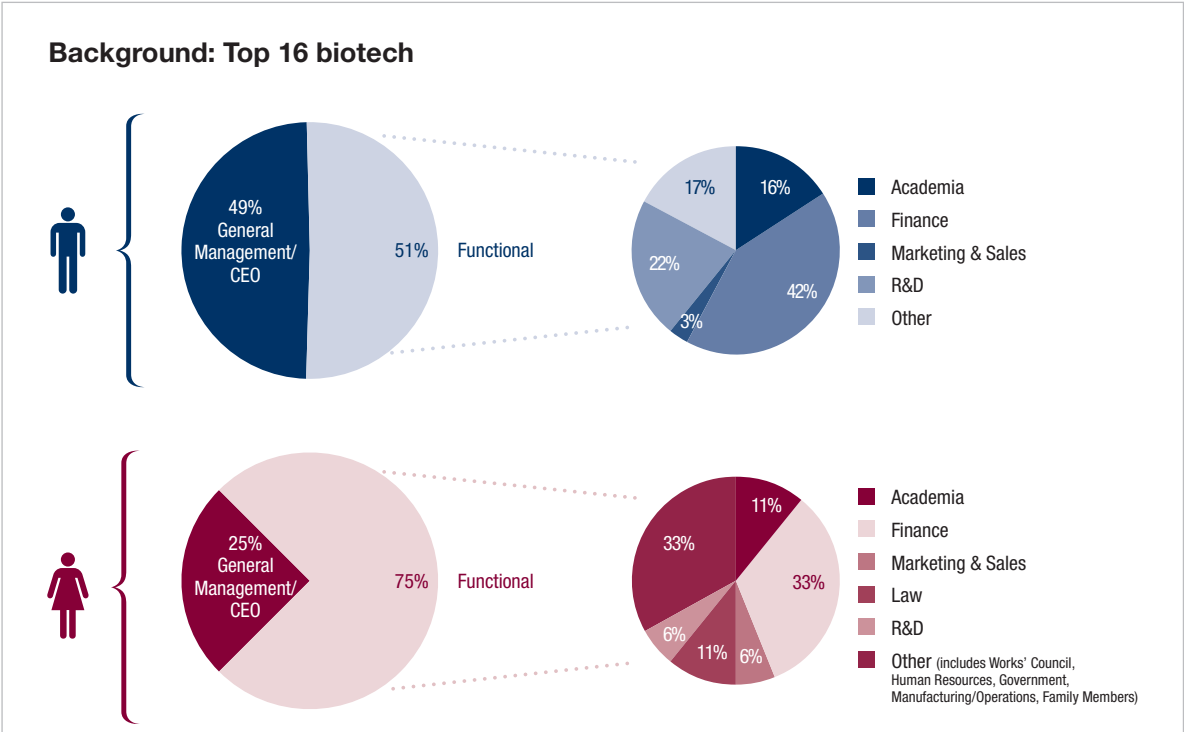
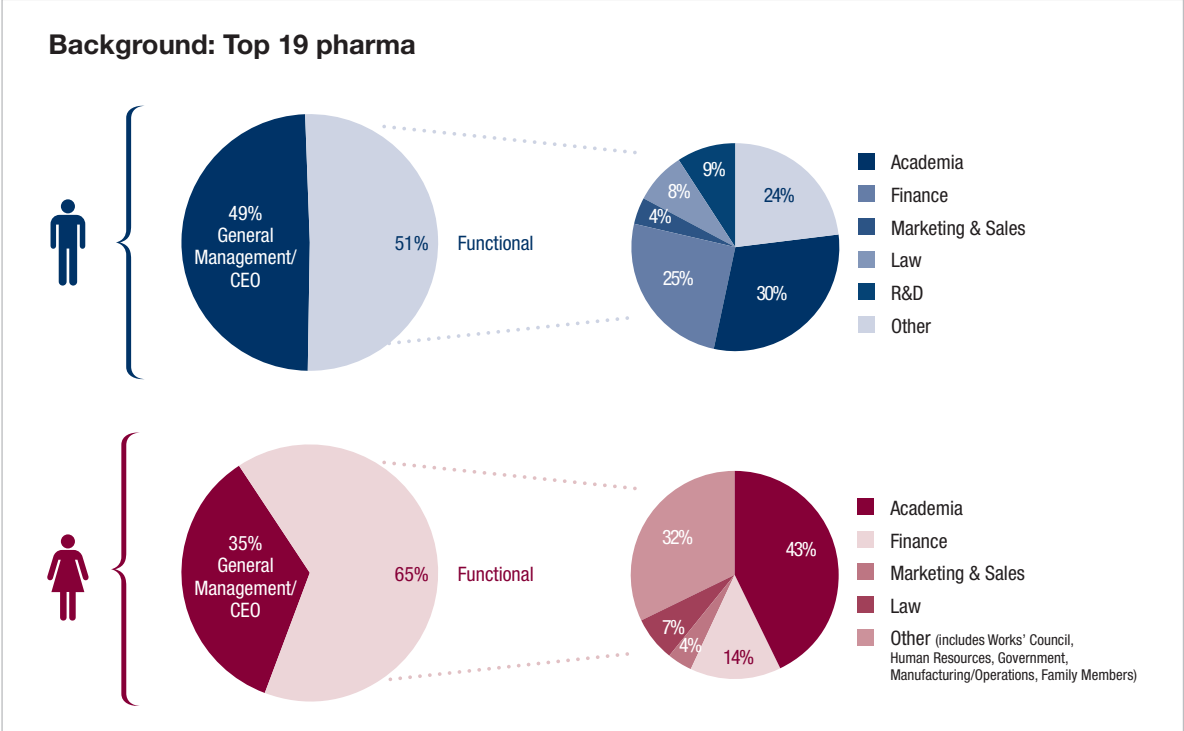
Looking further, it is clear that the importance placed on functional expertise has played a key role in driving this trend: **While 49 percent of the male directors in 2012 primarily have a functional background, 69 percent of the female board directors do.** This finding holds when data are broken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

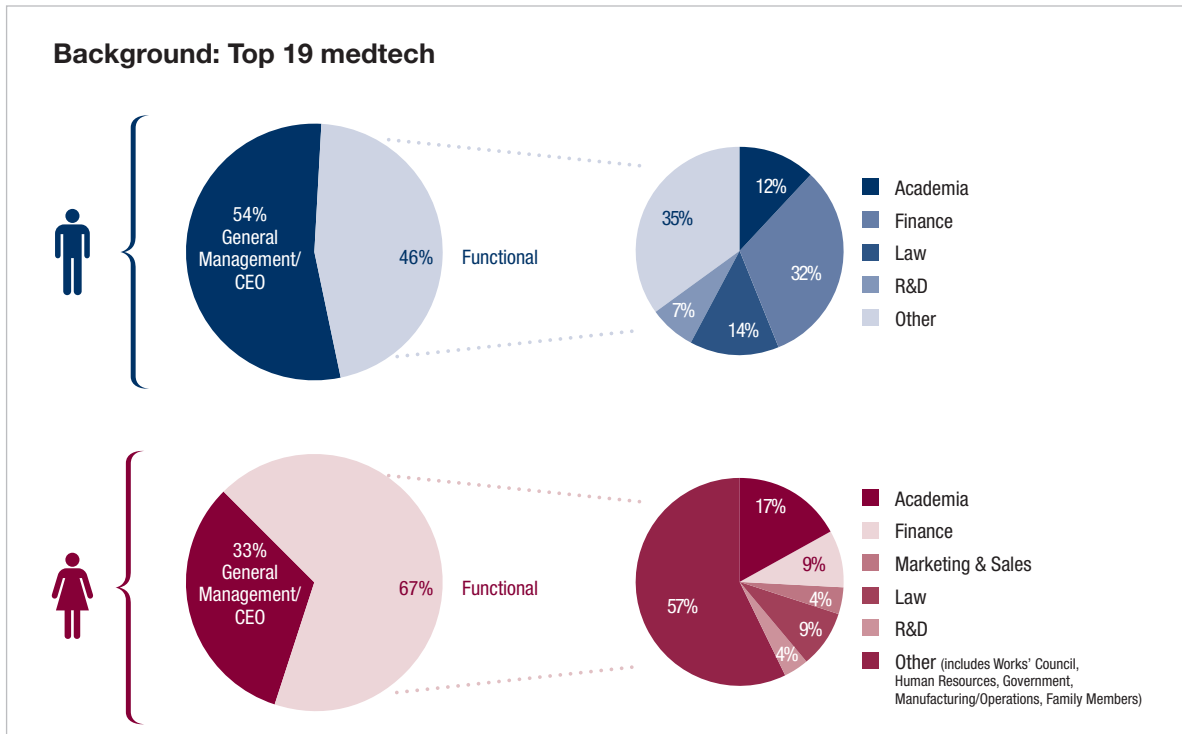
**Figure 1: Female board members, 2002 vs. 2012**



<sup>1</sup> 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.

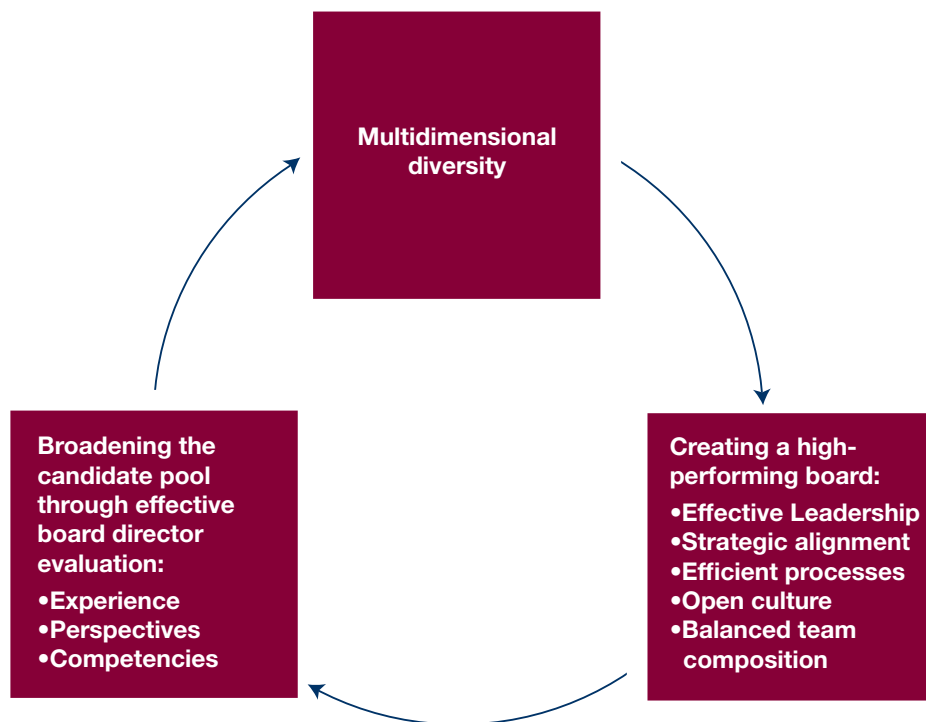
Based on these observations, one can conclude that the focus on functional expertise is positively affecting gender diversity within the boardroom of healthcare companies.

**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

**Leadership, Succession and Search.** In today's global business environment, success is driven by the talent, vision and leadership capabilities of senior executives. Russell Reynolds Associates is a leading global executive search and assessment firm with more than 300 consultants based in 41 offices worldwide. Our consultants work closely with public and private organizations to assess and recruit senior executives and board members to drive long-term growth and success. Our in-depth knowledge of major industries and of our clients' specific business challenges, combined with our understanding of who and what make an effective leader, ensures that our clients secure the best leadership teams for the ongoing success of their businesses. [www.russellreynolds.com](http://www.russellreynolds.com)

## 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