

# Why and How to embrace Board diversity

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***Board members are sort of like gardeners in that they're trying to cultivate an organization so that it thrives, The more diverse the set of gardeners, the more resilient the organization – Angelique Power***

While boards are a critical part of the scalability and sustainability of any organization, what a board looks like and how it is assembled can have a huge impact on its success. For a long time, boardrooms were commonly jovial, affable places where board directors were like-minded and knew each other well. An agreeable atmosphere is certainly nice, but it can cause some unintentional problems. Where everyone usually agrees, everyone tends to continue to agree and the group becomes exceedingly insular. Diversity among board members – in terms of gender, race, age, and disability status, among other factors – is of increasing importance to boards and to investors.

Diversity takes various forms in a boardroom and can be broadly categorised into the following elements: Skills, expertise and experience. Having the optimal mix of skills, expertise and experience is paramount to ensure that the board, as a collective, is equipped to guide the business and strategy of the company. Boards that seriously embrace their goal of serving as a strategic asset to their organization will need to assess what skills, insights and experience are needed to help guide, challenge and stimulate management teams in the face of external disruptive forces. Boardrooms need to be equipped to guide disruptions, opportunities and challenges—and that starts with the composition of the board.

## WHY IS BOARD DIVERSITY IN FOCUS TODAY ?

True diversity is “diversity of thought” that reduces “group think”; and it is perhaps the best way to unlock fresh perspectives, innovation, and organizational creativity. Diversity and inclusion are not just the right thing to do but are important to the business agenda. Boards are at their best when there is diversity of culture, thinking and perspective. The case for boardroom diversity has never been stronger. In Deloitte’s 2017 Board Diversity Survey, ninety-five percent of respondents agreed that their boards need to seek more candidates with diverse skills and perspectives. Diversity doesn’t matter as much on boards where members’ perspectives are not regularly elicited or valued. To make diverse boards more effective, boards need to have a more egalitarian culture — one that elevates different voices, integrates contrasting insights, and welcomes conversations about diversity.

A board composed of directors representing a range of perspectives leads to an environment of collaborative tension that is the essence of good governance. In a room where everyone has different points of view and there is a greater opportunity for cross-pollination of ideas, there are fewer unspoken assumptions, less “group think” and a greater likelihood of innovation. This allows the board to ask the probing questions and tackle the challenging issues, such as risk management and succession planning, which are at the center of good corporate governance.

Board diversity is more than a matter of optics.

Diverse members contribute fresh insights and crucial technical skills that can improve board functions. Boards that want to maximize their effectiveness need to ensure that different perspectives are regularly elicited and integrated into the board's work. Businesses and organizations have a diverse set of clients, customers and stakeholders. Bringing diverse perspectives out of a group means tackling the same idea from various angles. Great ideas often emerge when board discussions disrupt common thinking patterns. New perspectives make companies open to the needs of a wider array of groups.

- ◆ A wide range of perspectives, not merely token representation, is critical to effective corporate governance.
- ◆ The trend toward diversity is essential as boards look to navigate the complex and dynamic issues that companies now face.
- ◆ Boards become greater advocates for diversity as they have more direct beneficial experiences with it.
- ◆ A board needs to constantly challenge itself to keep pace with the changing dynamics a company faces. This is best done through a robust dialogue of differing views as long as they are offered respectfully and listened to carefully.

Diversity takes various forms in a boardroom and can be broadly categorised into the following elements:

**Skills, expertise and experience :** Having the optimal mix of skills, expertise and experience is paramount to ensure that the board as a collective is equipped to guide the business and strategy of the company.

**Gender :** This element is one of the more

emphasised forms of diversity in the boardroom. Historically, corporate boardrooms have largely been a male consortium. In recent years, this practice has been challenged as many companies, boards and shareholders have recognised the benefits of having a gender-balanced boardroom

**Ethnicity :** Ethnic diversity pertains to having a mix of individuals from various racial, cultural and religious backgrounds. The ethnic mix of a board should ideally represent the area in which the company operates.

**Geography:** Geographic diversity refers to having a mix of individuals from various geographic locations on the board. Ideally, the geographic mix should align to the areas that the company operates in lacking a robust understanding of the company's operating environment

**Independence :** Many argue that achieving the right balance of independent directors is crucial to a well-functioning board

## REASONS WHY DIVERSITY IS GOOD FOR THE BOARDROOM

The benefits of having a diverse board are particularly powerful when there is a critical mass of varied perspectives to support broad thinking. A board is better off if the representation is as well-balanced as you can get it.

- ◆ It reflects the real world – something every company should be sensitive to
- ◆ Healthy debate can lead to better decisions.
- ◆ Divergent backgrounds mean tackling the same idea in differing ways.
- ◆ Great ideas come from disruption of the status quo.
- ◆ Your clients and customers are diverse.
- ◆ This can make your company knowledgeable

and sensitive to a wider variety of groups.

- ◆ Counsel from a variety of authorities is sensible.
- ◆ Setting an example at the top will hopefully have a trickle-down effect within the organization.
- ◆ Improved reputation and brand.
- ◆ A variety of backgrounds can make the company more adaptable to its ever changing environment.

## HOW TO BUILD A DIVERSE BOARD ?

The essence of a quality board is not only appointing board directors who appear diverse, but selecting board directors who are capable of thinking and communicating diverse thoughts and opinions. Beyond seeking people who truly lend diversity to board discussions, board directors should be chosen because they positively impact the chemistry and dynamics of the current board. Every company has to look at its purpose, strategy, and the current make-up of its board and workforce, and determine how to put in place inclusive cultures and practices. The definition of diversity has proved relatively fluid, changing with our increasing understanding of each group's challenges. While the value of diversity to the global corporate world has been repeatedly shown, making it work remains a similarly fluid concept. There are several ways in which nominating committees can successfully incorporate breadth of perspective into their candidate selection process:

- ◆ Creating a board composed of directors with a broad range of perspectives must be a conscious choice by the nominating committee. The natural tendency to turn to our own networks when looking to identify candidates can easily give rise to

self-reinforcing homogeneity. Often, we are not aware of how limited our own networks are when compared with the full universe of qualified candidates.

- ◆ Determine the set of competencies, priorities and insights to be sought and establish a process for screening for those qualities. In addition to needed functional or regional expertise, it is critical to include other competencies, such as conceptual thinking, resilience and the ability to manage ambiguity that are prerequisites to adding value to boardroom discussions.
- ◆ Conduct a gap analysis which can be a helpful tool to identify the experience and competencies represented around the boardroom table—and those that are lacking.
- ◆ Place priority on effective communications skills and interpersonal acumen. Effective communication is essential to competent directorship. This is all the more so in a diverse environment where shared perspective cannot be assumed. They should be able to succinctly and clearly express their point of view, probe and learn from the perspective of others, and extract solutions from the flow of boardroom dialogue.
- ◆ Cast a wider net. The ideal candidate does not have to be a CEO. We have seen a clear shift in companies' efforts to bring new perspectives: 36% of new board appointees in 2017 in the US had no previous board experience; and almost three-quarters of new directors had international experience. In addition to Chief executives, consider general managers, division heads, presidents of universities, retired public servants who have led large government agencies, and retired career military officers who have led complex

commands

- ◆ Ensure a meaningful director evaluation process. A diverse board is united by common boardroom standards and goals. A thorough director evaluation process is central to maintaining that touchstone. Boards need to get beyond the 'clubby' perspective that keeps them from providing robust direction and evaluation of their members.
- ◆ Although the decision making falls to the Nominating Committee, the push for diversity must also come from the Chairman or a strong Lead Director. Without strong support from one or more key members of the board, efforts to add diversity can often get sidelined.
- ◆ Developing a diverse board of directors is an ongoing project. Once a plan for diversification based on improving the company is in place, continued diversification will be necessary. Board members should be asked to broaden their professional circles as a way of getting to know more people with varying backgrounds. This way, as opportunities for expansion open up, directors likely will have someone in mind who can fill new roles on the board as they develop.

## SUMMARY

Productive board discussions require a breadth of perspective that is also diverse. Boards that choose directors based on filling a category to meet the desired composition without considering whether the director can fill the need for varied perspectives lose a prime opportunity for robust discussions and well-rounded decision-making. Such a dynamic is increasingly important because of the complex issues today's boards are facing. True diversity is "diversity of thought" that reduces "group think"; and it is perhaps the best way to unlock fresh perspectives, innovation, and

organizational creativity.

Diversity of perspective does matter. Having a broad range of collective attributes, rather than overlapping or redundant qualities, helps the board significantly in fulfilling its responsibilities of providing good corporate governance and strategic oversight. Boards that can collectively draw upon a broad assortment of competencies, priorities and insights are an invaluable resource for CEOs and senior management teams working in complex business environments with wide-ranging, multiple constituencies. Diversity of perspective leads to more innovation, better risk management, and stronger connections with customers, employees and business partners. Moving forward, boards would expectedly consistently consider the diversity of perspectives when considering the diversity of people for board candidates. The best candidates will be people who have a good combination of experiential, demographic and personal attributes. A good first step is for board nominating committees to cast a wide net when pursuing potential candidates.

As you work to build a more diverse board, keep the following best practices in mind:

- Don't approach diversity solely with regard to race. Look at the age, gender, ethnic, and socioeconomic makeup of your board and diversify from there.
- Do leverage your personal and professional networks to search for candidates, but don't jump on the first candidate you come across.
- Do be open and honest with your entire board and organization about your diversification goals and what you're looking for in a new board member.
- Don't lose sight of the goals, mission, and vision of your organization in your quest to diversify your board.
- Do reflect the population you serve on your board in a meaningful way.