

Diversity Beyond Gender – the Next Frontier

The Perspective

The topic of diversity in the boardroom has been under increasing scrutiny over the years as it has seen to be an important factor in creating a robust and effective structure of the Board for building a sustainable and successful company. The success of the “Women on Boards” campaigns has been impressive, but the evolving social dynamics of the market warrants companies to improve diversity beyond gender among their director ranks.

Diversity – What it is and Why it is Needed

Diversity means covering a range of sections of society, skills and experiences of the Board members to enable a wide range of views to contribute to board decisions and actions. Diversity increases the board’s ability to identify and recognise the needs and interests of its stakeholders, who are becoming increasingly diverse in their identities and thereby in their expectations and demands. The evolving social dynamics of the market warrants companies to improve diversity among their director ranks.

Need to Broaden the Idea of Diversity

The topic of diversity isn't new. Most of the people have well-formed notions or beliefs about diversity and its impact on business. But, is it time to challenge, set assumptions about what diversity is isn't? Or, perhaps there's room to broaden the perspective and definition of diversity. As the very idea of diversity is evolving and in fact, expanding, it is argued that the call for diversity in boardrooms should not just be premised on gender-binaries. While great strides have been made by many countries in relation to gender diversity, is action being taken to expand the diversity of boards beyond this first target? The drive for diversity needs to be extended to encompass initiatives for seeking entry of people with specific qualifications, skill sets, and experience so as to enable the board to collectively possess wide range of competencies for steering the growth of the company. Boards should be looking for candidates who have been successful in different fields and in different ways. Boardroom diversity should mean diversified skills. Diversity ensures boards generate effective debates and discussions around present business activities, potential threats and possible developments for which a mix of relevant skills, competence and diverse perspective is necessary.

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Diversifying the Board – a Step Towards Better Governance

Board diversity is justified as a key to better corporate governance. The following extract from academic literature by Conger and Lawler (2001) serves as a good summary of board diversity: 'The best boards are composed of individuals with different skills, knowledge, information, power, and time to contribute. Given the diversity of expertise, information, and availability that is needed to understand and govern today's complex businesses, it is unrealistic to expect an individual director to be knowledgeable and informed about all phases of business. It is also unrealistic to expect individual directors to be available at all times and to influence all decisions. Thus, in staffing most boards, it is best to think of individuals contributing different pieces to the total picture that it takes to create an effective board.'

Directors from different backgrounds bring in new skills, connections & opportunities for the company, helping in extending the board's knowledge base and business understanding. Some of key skills available in diversified board are: Digital Expertise, Governance Expertise, Futuristic Thinking, Emotional Intelligence, ESG skills, Financial Acumen, Legal Expertise.

The principal argument in favour of a diverse board is the wide range of perspectives that each individual drawn from different set of qualifications and skills would bring to the boardroom table. To perform to the highest level, businesses require a rich mix of people so that insight is coming from those whose age, race, social background, gender and range of skills and experience are different. A spectrum of diverse perspectives in the boardroom, aids to counteract "silo thinking" when the board is faced with a challenge. A board that is equipped to consider an issue from many angles (e.g. financial, economic, legal, generational, geographic, etc.) is far more effective at assessing the risk of such an issue than one that adopts a one-dimensional approach.

Board diversity can lead to more effective risk management, better alignment with customers, employees, and trading partners ' and a more innovative corporate culture. A 2018 McKinsey & Company international study found that more diverse businesses were 33% more likely to have higher financial returns.

Challenges in Moving Toward Diversity in Board Room

"Diversity is less comfortable for everybody," says Rachel Lomax, a board member at HSBC and former deputy governor of the bank of England. "You have to do things differently, and show a bit of empathy and imagination in dealing with other people. You cannot take things for granted in a mixed group, you have to work harder."

Finding the appropriately skilled individuals who also match other desired elements of diversity in the board room can be a difficult, time consuming and expensive task. This is especially true for boards operating in niche industries where highly specialised skills are required, which hugely constrains the pool of potential board candidates.

Chairman of the board need to be aware of the dynamics of managing board diversity. Studies have shown that diverse groups can be more effective but also be more difficult to participate in and manage. What is more, diverse groups are not automatically immune from the uniform responses and unconstructive interactions.

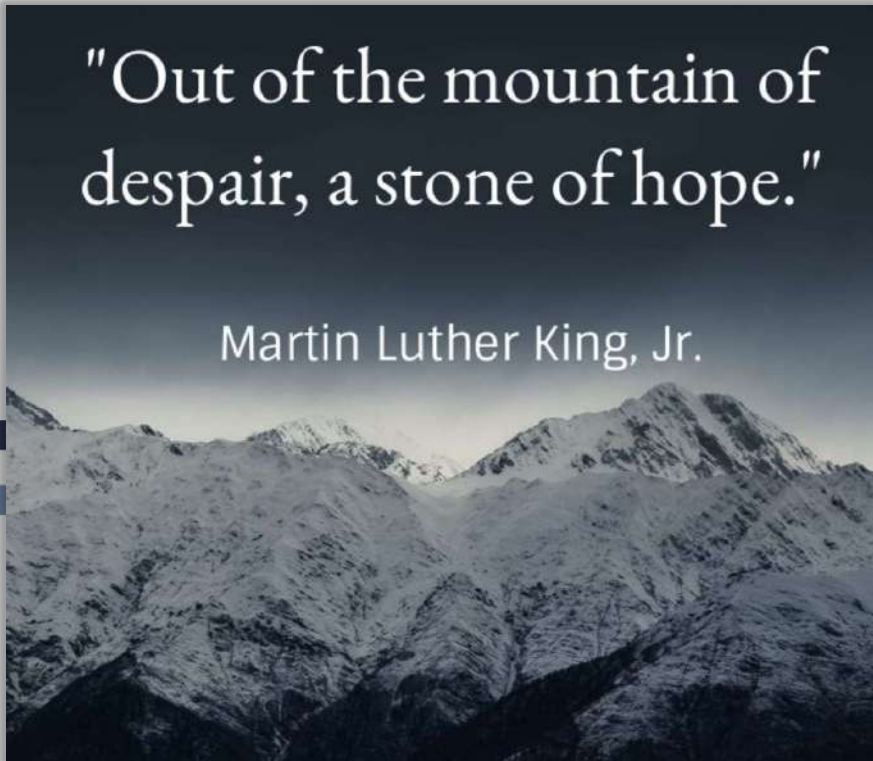
Conclusion

The changing dimension of business world make boardroom diversity a critical component of sound corporate. Having the optimal mix of skills, expertise and experience in the board room is critically important to ensure that the board as a collective is equipped to

guide the business and strategy for sustainable growth of the company. A board needs to constantly evolve and challenge itself to keep pace with the changing dynamics of business environment. Boards must continue to search for strong and diverse candidates, but diversity should not be limited to gender or race. The most important ingredient to the governance. Success of board diversity, however, would most probably be the board members' changing their mind set to welcome a more heterogeneous board, as well as to place greater trust in one another and work together more effectively.

References

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"Out of the mountain of
despair, a stone of hope."

Martin Luther King, Jr.