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## **Achieving Adequate and Effective Board Diversity**

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A lot of ink has been spilled on the topic of board diversity. Much of the focus, however, has been on gender diversity, which is just one aspect of board diversity.

A different approach is required to cast a wider net over the subject.

### **What board diversity is and is not**

While Guideline 2.6 of the Code of Corporate Governance requires that “the board should comprise of directors who as a group provide an appropriate balance and diversity of skills, experience, gender and knowledge of the company”, it may not have gone far enough to recognise the complexity of the subject.

Board diversity should not be about being politically correct, nor should it even be about equal opportunity, uplifting minorities or eliminating discrimination. It should also not be seen as an instrument of social policy. It is partly because the nominating committee and other directors owe a fiduciary duty to always act in the best interest of the company that, in the context of corporate governance, board diversity should instead be viewed exclusively as tool to increase board effectiveness, that is, achieve a better functioning board that delivers better outcomes.

In fact, it can be argued that board diversity is just a proxy for diversity of thinking. Its outward manifestations of gender or minorities and so on are just a way to avoid “groupthink” or faulty or dysfunctional decision-making outcomes caused by peer pressure or the desire for conformity by people who are more alike than different from one another.

One way of approaching the subject is to take inspiration from the Code’s requirement for the board to review the adequacy and effectiveness of a company’s risk management and internal control systems. Can we apply these same measures of “adequacy” and “effectiveness” to board diversity?

## **Adequacy**

Board diversity, as suggested by the Code, has many dimensions. It is generally accepted that there is good diversity if there is sufficient variation amongst directors in these six key aspects:

- Skills, qualification and experience.
- Gender.
- Age.
- Culture and ethnicity.
- Nationality and residence.
- Tenure.

Diversity in each dimension has, of course, to be appropriate to the company.

For example, if a company is in the retail industry, it would obviously be critical for its board to have members who are broadly representative of its principal retail customer base in terms of gender, age, financial and social background. Coty Inc, a major American beauty products manufacturer listed on the New York Stock Exchange, has been criticized in the past for being inadequate in having an all male board, even though it makes products for women.

Similarly, if a company operates in the social media industry or the shared economy, it may be more important that more of its directors are younger, and digitally experienced. Earlier this year, The Wall Street Journal discovered that, while the median age of the directors of S&P 500 companies is 63, the median age of Facebook's board is considerably less at 46.

## **Effectiveness**

However, having a diverse board is pointless if the diversity does not actually result in effective decision making in the boardroom.

Diversity is meant to avoid groupthink, provide different perspectives, and ensure rigorous decision making through the constructive contention of ideas and views. This may not necessarily happen just because the men and women in the boardroom are different in the six dimensions above.

If the board culture and boardroom dynamics do not encourage each director to express his or her own view, or if individual directors in the spirit of "collegiality and cohesiveness" fail to speak up, or simply lack the courage to act according to their conscience, then any diversity in the board makeup is not "effective".

**Achieving Adequate and Effective Board Diversity**

Which is why the UK Financial Reporting Council in its *Guidance on Board Effectiveness* said “the aim should be to secure a boardroom which achieves the right balance between challenge and teamwork, and fresh input and thinking, while maintaining a cohesive board. It is important to consider a diversity of personal attributes among board candidates, including: intellect, critical assessment and judgement, courage, openness, honesty and tact; and the ability to listen, forge relationships and develop trust.”

**Taking board diversity further**

The suggestion that board members should have a diversity of personal attributes does shed interesting light on what diversity of thinking can really mean.

A deeper examination may entail exploring how true diversity in thinking means having a mix of optimists and realists; a variety of different risk appetites and entrepreneurship quotients; different personality types, those that are quick to decide and those that need time to ponder and deliberate; and different religious beliefs and different social classes that bring with them different social values.

As indicated earlier, diversity should not be embraced merely for diversity’s sake. It must be harnessed as a means to an end.

Here, the nominating committee should decide which aspects of diversity are important, even critical, to the company, and which are a better fit for its current business strategy. The composition of the board can then be designed in light of these considerations.

In the end, the discussion on diversity must be more than a rehash of old chestnuts. It involves a more thorough exploration of the entire spectrum of human experiences. A diverse board is one that is both adequate and effective in its diversity, and this requires a board to have directors with different attributes, allowing for rigorous discussions to take place for more effective decision-making.

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