Embracing Age Diversity

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Age diversity in the boardroom is seldom preached or practised. But boards whose members come from different generations can result in greater insights and better-informed decisions. However, inclusiveness, rather than tokenism, is key to reaping the benefits.

Over the last two decades, a lot of ink has been spilled on the importance and benefits of board diversity, but compared to other facets of diversity, age diversity or more accurately, generational diversity, remains an overlooked element in the boardroom.

Baby boomers boom

The four major generational groups that currently dominate the workforce are:

- The Traditionalists – born between 1925 and 1946,
- The Baby Boomers – born between 1946 and 1965,
- Generation X-ers – born between 1965 and 1981, and
- The Millennials – born between 1981 and 2000.

A generationally diverse board will typically be represented by two or more generations. However, it is not uncommon for board memberships across the world today to be dominated by only one generation – the Baby Boomers.

According to the *Singapore Board Diversity Report 2014* by NUS Business School, this is true for more than half of the boards of SGX-listed companies. Other studies in the US, UK and Australia found similar homogeneity.

In the US, the average age on all boards of S&P 500 companies is 62.4 and board age diversity does not seem to vary significantly by company size or industry. Similarly, in the UK, non-executive directors are notably drawn from a narrow pool of candidates predominantly above 60 years of age. The situation is not much different in Australia, where close to 80 per cent of directors are aged between 50 and 70 years.

Generational diversity and boardroom performance

In theory, generational diversity makes sense because it helps the board tap into the perspectives of different directors who better understand the need and sensitivity of stakeholders in their generation. Some would also argue that younger generations are more open to new approaches than older ones, which may gravitate towards maintaining the status quo. Moreover, having a wider range of perspectives in the boardroom also means that the status quo is constantly challenged and critically re-assessed, which guards against the notorious "groupthink".

While conventional wisdom dictates that business experience can only be gained with age, this may not always be the case. An obvious example is the technology literacy gap prevalent in older generations. In 2014, Walmart bucked the trend by appointing 30-year-old Kevin Systrom, former CEO and co-founder of Instagram, to its board of directors, believing that Systrom's technical and digital expertise to be invaluable as Walmart planned to further connect with customers and deploy new capabilities through e-commerce and mobile channels.

In practice, however, empirical studies show that the benefits of generational diversity are inconclusive. On one end of the spectrum, the *Singapore Board Diversity Report 2014*, for example, observes that Singapore companies with generational diversity performed significantly better with an average return on assets of 3.3 per cent compared to 0.6 per cent for those without.

On the other end of the spectrum, there is research such as a German study by Talavera, Yin and Zhang, *Managing the Diversity: Board Age Diversity, Directors' Personal Values and Bank Performance*, which found that generationally diverse boards are harmful to firm performance, profitability and strategic change due to communication breakdown and conflicts among directors.

Yet other studies, for example, Ferrero-Ferrero, Fernandez-Izquierdo, and Munoz-Torres' *Age Diversity: An Empirical Study in the Board of Directors*, found no significant effects between generational diversity and corporate performance.

Bridging theory and practice

The gap in benefits between theory and practice may be due to the fact that while it is easy to achieve diversity, it is much more challenging to achieve inclusiveness, which requires an environment of mutual respect, involvement and connection.

The benefits of diversity can only be reaped where the group can work cohesively together, but this cannot happen if minority board members are marginalised. Where democratic participation in the team is limited, it may result in hostility, unproductive behaviour, group dissatisfaction and turnover.

An alternative outcome, which is no more desirable, is that minority board members simply conform, in which event they become deadweights who contribute nothing to team performance.

As such, generational diversity can be a "double-edged sword" that has the potential to bring rewards, but if not managed properly, could lead to inefficiency and shareholder costs. It will require exceptional leadership from the board chair to harness the richness and value of a heterogeneous board by creating a culture of openness and constructive challenge which allows a diversity of views to be expressed and where each member is accorded mutual respect.

That said, generational diversity for the sake of it benefits few. The unsaid assumption is that it must first be undergirded by the board as a whole possessing the pre-requisite skillsets, experience and competence. Clearly, age alone brings no direct shareholder benefit but where a candidate fulfils the skills and competencies in the desired board composition matrix, the added benefit of having generational diversity could come into play. Where a company places a greater emphasis on other aspects of diversity rather than the skills and expertise of an individual, it runs the risk of making such individuals feel disenfranchised from the wider board.

Even when a company does manage to find appropriately skilled individuals to add more diversity to the board, the company needs to be prepared that board members may first need to earn each other's trust in decision-making and this may, at least initially, lead to a decision-making process. Such inefficiencies will generally reduce over time as members become more familiar with each other, but if stretched over an even longer period of time, the heterogeneity in the group could dull. This underscores the importance of board refreshment, which should be done often enough to maintain a healthy level of debate and engagement at board discussions, but not so often that it becomes disruptive to the dynamics among the members.

Building a diverse board

To effectively build a pipeline of diverse board talent may require effort on the part of the board.

Often, board candidate names are drawn from an elite social network of the existing directors themselves, and the lack of access minority groups typically have to such network may be one contributing factor to the perceived shortage of qualified minority candidates for corporate board service. The problem is accentuated for boards operating in niche industries, such as oil and gas, and life sciences, where an appropriate level of industry expertise is desired, causing the pool of potential board candidates to be reduced.

Where boards hit a dead-end within their own network of contacts, it may be helpful to engage professional search firms to widen the pool of potential director nominees. Other than assisting with due diligence on a candidate's leadership, independence, character, competence and experience, the brief to external search consultants may specifically include the requirement to present diverse candidates for consideration.

In summary, boards whose members come from different generations can translate to greater wealth in information and perspectives within a decision-making unit, but inclusiveness is key to reaping its benefits. Tokenism may appease, but it brings no direct shareholder value. For many boards, a change in mindset may be required for the group to achieve an optimal mix and one that effectively offers constructive dissent, leverages each member's experience and perspectives to better understand issues, asks thought-provoking questions, demands pertinent information and makes better informed decisions – achieving outward diversity is just the first step. ■