

Board Composition

Embracing Diversity on the Board Is One Way to Reduce Risk

By Phyllis Deiso

Anyone who serves on or works with a board likely will agree that boards are clamoring to increase diversity in their ranks. While demands for greater leadership diversity may have started more than a decade ago, the movement has accelerated in recent years and grown far more strategic.

The business case for diversity is being made largely because there is a growing body of evidence to support the conclusion that companies with more diverse boards produce better results for their shareholders.

Board diversity has gone from a “nice-to-have” to a must-have component that drives peak performance. Following the 2008 global financial crisis, boards sought answers to the question “How did this happen?” and worked to identify causes and implement safeguards to ward off similar disasters in the future. One culprit identified was the entrenched tendency of many boards to do things as they had always been done—including the pressure to reach consensus, ignoring divergent, innovative, and often valuable viewpoints.

Part of the solution in the ensuing years has been to build more diverse boards to enhance discussions and provide greater and richer input into the board’s key decisions.

Boardroom diversity is an area of growing importance to influential proxy advisory firms, too. Glass, Lewis & Co. emphasized as much in a recent report on board gender and diversity: “Investors are aware of the risks presented by ‘group

think’ among board members and are pressing companies to ensure that boards provide more effective oversight by asking challenging questions. It is believed that new and different ideas will more likely come from boards that are diverse in race, gender, background, and experience....”

How can you help mitigate the risk of a hidebound board that doesn’t embrace the diversity required to provide the per-

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spectives needed for the complex issues companies face today? Here are some things to consider:

1. Expand your definition of diversity. The newer definition of diversity goes far beyond the most obvious and easy-to-measure characteristics such as race, gender, ethnicity, and age. Diversity now encompasses experience, geography, background, network, special skills, and other attributes.

2. Let the strategy be your guide. Don’t start with assumptions about what sort of director you need. Rather, start with a skills gap assessment—against the backdrop of the company’s strategy—of what you have and what skills, experience, and disciplines you need to ensure the strategy’s success.

For example, the board of a company focused on expansion in a specific product area will require a very different director than a company focused on growth by mergers and acquisitions.

3. Fish in a bigger pond. Consider deviating from your traditional director search process unless you want to end up with the same director profile you’ve always had. Highly capable candidates are more likely to be found just below the C-suite level.

4. Do the advance work to ensure the success of the new recruit. Make sure current directors understand the need for the new director, particularly if the individual doesn’t fit the traditional mold, and embrace him or her as part of the team. Also, work with the new director on onboarding, perhaps buddying up with a veteran director, so the experience is more valuable for all.

Risk comes in all shapes and sizes. Boards can do much to mitigate overall risk by thoughtfully adding diversity to their ranks and paving the way for new and different directors to provide value.

To ignore the importance and contribution of greater diversity on boards is to attempt to tread water, and that is bound to be an unsuccessful strategy amid a tidal wave of change.



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