Diversity in the Boardroom

Article 1

What is board diversity?
Introduction

Diversity in the boardroom has been a hot topic in recent years. Does the traditional boardroom of a fairly homogenous group of individuals really produce the most effective decisions and strategy for a company? Does such a boardroom have exposure to a wide enough range of perspectives to facilitate robust discussions of issues that arise? Is there something missing?

This article is part of a series that explores diversity in the boardroom. To view the other articles in this series, visit the Deloitte Africa Centre for Corporate Governance. http://www.corpgov.deloitte.co.za/

Article 1
What is board diversity?
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. Traditionally, boards recruit from C-suite executives. According to the Deloitte US 2014 Board Practices Report, C-suite experience was found to be one of the top three desired board skills and experience in US public companies. While the experience from C-suite individuals is invaluable, it may be beneficial for boards to broaden their definition of “board-ready talent”. Business unit heads, regional leaders, academics, entrepreneurs, government leaders, and other non-C-suite executives can create a wider, more diverse pool with some very talented individuals that could bring interesting and insightful perspectives into the boardroom.

Directors are usually selected for their leadership qualities - they often have experience with generalised management or leadership experience rather than narrow expertise or technical acumen. However, a move towards having niched technical experience in the boardroom does not appear to be implausible. Currently in South Africa, directors of listed companies who sit on audit committees are expected to have keen financial expertise with an understanding of financial and sustainability reporting standards. Furthermore, given the increasingly digital environment that businesses operate in, having a technology expert sitting in the boardroom could prove to be a strategically advantageous decision for a company. The importance of the board’s involvement in technology is reiterated by the King Report on Governance for South Africa (King III) which recommends that the board should be responsible for information technology (IT) governance. In order to appropriately discharge this responsibility, the board would need to have a keen insight into the IT environment of the company, further emphasising the need for specialised skills on the board in this regard. Another example of niched board skills would be human capital management. Most organisations argue that their workforce is their most valuable asset, yet very few boards have an individual with expertise in this area.

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According to a US survey⁴, only about one board in five had a member with expertise in human capital management. This is even more concerning in light of the fact that when the surveyed board members were asked who they rely on for expert knowledge pertaining to human capital management, the most common response was “other board members”.

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. According to a recent Deloitte global survey⁵, South Africa ranks fourth globally for the percentage of board chairs that are women at 7.8%, against a global average of 4%. The 2014 Board Practices Report¹ found that, on average, 18% of the 250 US public companies surveyed had increased the number of women on their boards in the last year. Females are increasingly sitting shoulder to shoulder with their male counterparts in the boardroom, bringing with them a unique style of management and perspective.

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. In South Africa, legislation such as the Broad-Based Black Economic Empowerment Act promotes ethnic diversity in the workplace. Nearly 30% of directors on boards of South African listed companies are African Black, Coloured or Indian. It is estimated that individuals from these race groups make up approximately 15% of all executive directors on listed companies, and nearly 40% of independent non-executive directors on listed companies.

Age
Age diversity is an often overlooked element in the boardroom. Board members tend to be older, as many boards equate age with experience. The 2014 Board Practices Report¹ found marginal evidence of generational diversity in boardrooms, with so-called “younger” directors being in their fifties. While older directors do provide a wealth of knowledge, having younger directors introduces a fresh perspective into the boardroom which should not be underestimated.

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. In an increasingly global workplace, neglecting this element of diversity would be particularly imprudent for a multi-national company as it may result in boardroom perspectives lacking a robust understanding of the company’s operating environment. According to a recent study, nearly 90% of European boards include at least one director from a country other than where the company is headquartered. In 2014, roughly a third of all directors serving on major European boards were non-nationals.⁶

Independence
Many argue that achieving the right balance of independent directors is crucial to a well-functioning board. The European Confederation of Directors’ Associations (ecoDa) Principles view the involvement of independent non-executive directors on the board as a key step in the governance evolution of a company. Independent directors bring a balanced perspective to the boardroom as they assess matters in a more objective fashion. The ecoDa Principles also indicate that the board should determine if a director is independent in character and judgement after considering all relevant factors. These factors may include taking into account the relationship of the individual or his/her close family ties, with the company, board and shareholders. In South Africa, approximately 60% of non-executive directors of listed companies are independent. This is largely due to the regulatory requirements in terms of the Companies Act, King III and the JSE Listing Requirements to have such individuals on the board.

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1 Deloitte LLP Center for Corporate Governance, 2014 Board Practices Report, Published by the Society of Corporate Secretaries and Governance Professionals in collaboration with Deloitte LLP’s Center for Corporate Governance, 2014

2 NACD Directorship, Changing Course on Boardroom Composition, Deborah De Haas and Byron Spruell, March/April 2015 edition

https://hbr.org/2015/09/all-boards-need-a-technology-expert


5 Deloitte Global Center for Corporate Governance, Women in the Boardroom – A Global Perspective, Fourth Edition

6 Egon Zehnder, 2014 Egon Zehnder European Board Diversity Analysis With Global Perspective

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