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Boards Must Mind the Talent Diversity Gap

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To say we live in an increasingly complex world is an understatement. The challenges facing our economy and businesses are myriad.

What's certain is that no one alone will have the best answers; collective wisdom within each organisation is needed to arrive at the best solutions.

A future-ready economy must be an innovation-driven one, and the same goes for businesses.

If we accept the premise that innovation is essential to creating sustainable growth, and that innovation depends on harnessing talent, then it is in every company's best interest to fully utilise and optimise talent in all its forms.

And since boards are accountable for the oversight of risks, including those relating to talent management, then boards must be concerned with the talent and diversity agenda.

TALENT AGENDA

The board's talent agenda works on two fronts: within the board itself, and within the company's workforce.

Boards and management must recognise that diversity is very much an integral part of a broader talent agenda because different perspectives matter across all parts of the business.

And diversity needs to be anchored by inclusiveness in such a way that different perspectives can be properly leveraged to deliver the best outcomes.

Further, boards and management must "walk the talk": they must demonstrate diversity within their ranks as well.

In fact, it is a business imperative that the boardroom set an intentional tone on talent diversity – in terms of its composition and actions – that permeates to the rest of the company.

This focus on board composition diversity comes at a time when institutional investors are paying greater attention to board effectiveness and, to that end, whether there is a right mix of board talent to deliver that.

EY's business linkage research shows that the best-performing teams are invariably made up of highly engaged individuals with diverse backgrounds.

They outperform all norms in terms of revenue per person and brand favourability, and deliver better outcomes for clients.

Other research shows that better gender balance on boards, a key indicator of diversity, is correlated with higher share prices and better financial performance.

A report by the Credit Suisse Research Institute found that between 2005 and 2014, companies with boards with a higher-than-average percentage of women outperformed those with a fewer-than-average percentage by 36 per cent.

If nothing else, the push for diversity should be grounded in pragmatic economics.

BEYOND GENDER

That said, achieving diversity must transcend gender boundaries. Often, conversations about diversity focus on gender because of its optical prominence.

But that is too narrow. Diversity should encompass a spectrum of attributes such as skills and experience, ethnicity, generational, cultural, socio-economic background, nationalities and tenure, to name a few.

This explicit focus on diversity is important because unconscious bias may lead boards to look for directors with similar backgrounds, and from the usual networks of executives.

Such homogeneity could breed group think and result in less rigour when it comes to challenging management assumptions and decision-making.

Healthy debate and questioning are important as they prompt companies to reach more robust and innovative outcomes. At least, that is the goal.

The need for diversity escalates as the business becomes more international, and the company must engage a broader slate of stakeholders including customers, suppliers and employees.

A company that invests in monitoring diversity as part of business sustainability is also more likely to experience increased social acceptability and a stronger reputation.

FROM GOOD TO GREAT

To strengthen board effectiveness through diversity requires companies and the greater ecosystem of industry stakeholders to make a conscious shift in mindset and effort.

Take gender diversity on boards as an example. In my view, three mutually reinforcing factors to accelerate female representation on boards are focused public sector attention, committed private sector leadership, and corporate transparency.

On a more general level, directors must be committed to perform robust and thoughtful self and peer assessments when deciding on board composition and renewal. They should ensure that their boards' composition and collective expertise reflect the convergence of industries, and technological and demographic changes.

In their discussions, boards should consciously balance the viewpoints of tenured directors with new members. They also need to put strategic talent management on the board agenda to ensure that diversity is embedded in the company's workforce.

Initiatives by SID such as the recently launched Nominating Committee Guide, which has an entire section on diversity, and the Board Diversity Pledge are important for raising awareness and instigating action.

Ultimately, advancing board diversity for the greater economic and social good is a shared responsibility. However, achieving talent diversity cannot stop at the point of "feel good" tokenism or pro forma compliance with quotas. To truly reap the economic and business benefits, it is the spirit of wanting to do the right thing for the best outcome that counts most. ■