

## BOARD DIVERSITY

Every time we take up a new activity we wonder what kind of people we will meet. We ask ourselves 'will they like me?' and sometimes 'will they *be* like me?' It is easy to think that as long as we are with people who are like us we will be comfortable and happy. What does 'like us' mean? Think about the people in your lecture groups – are they like you? Hopefully you all share a common interest in governance (and the other subjects you study) but I am sure that in other ways you are very different. Some of you are keen sports enthusiasts, others are couch potatoes; some a party animals, others prefer the quiet life; some are natives of the country where you are studying, others have come from abroad; some are men, some are women. I wonder if you will encounter the same level of diversity when you get your first job, or as you progress up the career ladder.

A few years ago I showed my students a photograph of the board of directors of a FTSE100 company and asked them what they saw. The men were surprised at how old the directors were and the woman wondered why they were all men. In chapter 3 we looked at the issue of board independence and considered why it is so prized by regulators. Today regulators are increasingly concerned with diversity, specifically in terms of the gender balance on boards. A recent EU Green Paper<sup>1</sup> notes that across the European Union only 12 per cent of supervisory board members are women. It recommends member states to take action to increase the proportion and its use of the 'quota' has worried a number of commentators in the UK who see this as interference in business decisions and the introduction of tokenism. While the British may be sceptical other nations have embraced the cause of board diversity. Laws requiring 40 per cent of board members to be women were introduced in Norway in 2006, in Spain in 2007 and in Iceland in 2010. Norwegian companies achieved the target in 2009 while large Spanish and Icelandic companies have until 2015 and 2013 respectively to reach that proportion.

Why the fuss – what can women bring to the boardroom? By definition women do not belong to the 'old boy's network'. They may have been educated in different schools and belong to

different sports clubs. Their management style and life experience are different. These differences mean that women will not just 'go along' with the pre-existing group mentality of the board, they will question and challenge existing strategies and procedures. Does this sound familiar? If you have read and thought about director independence it should. Directors from non-traditional backgrounds bring a different outlook to decision-making in exactly the same way that independent directors are supposed to. Given the rather mixed evidence on the effectiveness of independent directors you may wonder if diversity matters. The evidence suggests that having women on boards improves accountability<sup>2</sup>, is associated with increased concern over risk<sup>3</sup> and the need for board evaluation<sup>4</sup> and with better financial performance<sup>5</sup>. Before you accept these findings at face value you might like to read chapter 10 of the book and consider exactly what is being measured in these studies. You could also take a look at some boards and consider the following questions:

1. Where women are present are they executives who have broken through the 'glass ceiling' or non-executives who come from diverse backgrounds and have specific attributes that make them more independent than others?
2. Where the annual report indicates the nationality of board members, how many directors come from overseas and how might their perspective be valuable to the company?
3. Where boards are diverse in terms of gender, ethnicity or nationality are they similar in terms of education and industrial experience? If so, can they really be described as diverse?

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<sup>1</sup> European Commission (2011) 'The Corporate Governance Framework' European Commission

<sup>2</sup> Brown, D.A.H., brown, D.L. and Anastasopoulos, V. (2002) 'Women on Boards; Not Just the Right Thing ... But the "Bright" Thing' the Conference Board of Canada

<sup>3</sup> TCAM (2009) 'Diversity and Gender Balance in Britain plc' : *The Observer*

<sup>4</sup> Brown, D.A.H., brown, D.L. and Anastasopoulos, V. (2002) 'Women on Boards; Not Just the Right Thing ... But the "Bright" Thing' the Conference Board of Canada

<sup>5</sup> Carter, D.A., Simkins, B.A. and Simpson W.G. (2003) 'Corporate Governance, Board Diversity, and Firm Value' *The Financial Review* 38, 33-53