

ethikos Volume 33, Number 3. March 01, 2019 Diversity: The hidden ingredient of successful boardroom governance

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In the coming decade, for organizational success and for efficiency in corporate governance, one of the key factors will be implementing diversity in the boardroom. In this article we will discuss why diversity is required in the boardroom and how a diverse and robust board composition can be established.

First off, it's important to really understand what is meant by a diverse, all-inclusive boardroom, because there are multiple versions of how diversity is interpreted around the globe. Advocates of diversity often refer to the two primary categories: (1) identity—gender, race, ethnicity; and (2) skills—professional experience, educational background, and leadership abilities.

Organizations that support identity diversity advocate for greater inclusion of women and racially or ethnically diverse individuals in the boardroom, while those who favor skill-based diversity focus more on an individual's skills and experiences as they relate to corporate strategy. Although geography and industry highly influence the board composition, current trends have compelled directors to adopt a comprehensive definition of diversity that includes both fundamental aspects—identity and skills—as a given in the dynamic nature of business world today, but neither aspect can be excluded from the other. Hence, a modernized, globalized, transparent, and futuristic approach towards board composition is required for a company to implement boardroom diversity based on its unique and specific needs for achieving excellence, sustainability, and positive growth.

Board diversity: A brief overview of the current state

As per the [2018 U.S. Spencer Stuart Board Index](#) (SSBI), the 33rd annual analysis of boardroom trends, boards are adding directors with creative leadership skills, qualifications, and futuristic perspectives.^[1] Let's have a look at some of the key findings of the report, which clearly suggest the current trends in boardroom diversity that lay a foundation for analysing the need for a diverse board:

- Only 35% of the new S&P 500 directors are active or retired CEOs, chairs, vice chairs, presidents, or chief operations officers in the current business landscape, so experience as a CEO or top corporate executive is no longer a must-have credential for board service.
- Board experience is also no longer a pre-requisite. One-third of the incoming class are serving on their first public company board.
- Directors with financial backgrounds are a priority, representing 26% of the new S&P 500 directors in 2018, up from 18% in 2008. Demand is high for experienced CFOs/financial executives and investment professionals.

- Tech savvy, qualified technology experts (QTE) and “digital directors” are a hot commodity, and boards are tapping millennial and Gen Z candidates with these skills. Nearly one in five (17%) of the incoming class are 50 years old or younger.
- Female representation among new S&P 500 directors rose to 40%, the highest since Spencer Stuart began tracking this data in 1998. Almost one in four (24%) of all S&P 500 directors are women, up from 22% in 2017 and 18% in 2013.
- Minority men (defined as African-American, Hispanic/Latino, or Asian) experienced a slowdown, representing 10% of the new independent directors, down from 14% last year.

The survey results show that board composition and diversity has been a top-of-mind issue at S&P 500 companies. The top three issues addressed by the surveyed directors over the past year were boardroom succession planning (96%), board diversity (93%), and new director skills (86%). The SSB highlights the push-and-pull of corporate boardrooms: There is demand for novel director skills and backgrounds, yet parameters around director qualifications and director refreshment stifle immediate change in the boardroom.^[2]

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