

Beyond Optics: Why Board Diversity Really Matters

There is no doubt that women are severely under-represented in the board room. The lack of women on boards, however, is a reflection of a wider problem with diversity: it is one of colour, age, international perspective, and more. Board rooms that don't represent the stakeholders of the business and the environment in which companies are operating are not able to do their jobs as capably.

A lack of diversity is not simply a problem of "optics". It looks skewed not to have a diverse board, but just because in the modern world it looks odd, does it make a difference in real economic terms? Does it actually affect the bottom line? To my mind the answer is a resounding yes. We do not need diversity for diversity's sake, but because diversity on the board contributes to the profitability of the business. In other words, there is a fundamental economic reason why diversity is important: diversity of thought, experience, knowledge, understanding, perspective and age means that a board is more capable of seeing and understand risks and come up with robust solutions to address them. In other words, businesses led by diverse boards that reflect the whole breadth of their stakeholders and their business environment will be more successful businesses. They are more in touch with their customers' demands, their investors' expectations, their staff's concerns, and they have a forum in the board room where these different perspectives come together and successful business strategies can be devised.

An argument I have heard against actively seeking to achieve diversity on the board is a fear that too much diversity and independence of thought can be damaging to the cohesion of the board. Yet, for healthy boards with capable chairs the very opposite is true. The modern board requires that there be room for open and constructive dynamic discussion, with respect and regard for the people around the table. In my experience, the result is a more capable and better functioning board that can withstand the challenges of an ever-shifting landscape in which the organisation it serves operates.

Board cohesion is vital, and everyone needs to be moving in the same direction, but in order to come to the most robust conclusion about how the organisation should respond to the challenges it faces, there needs to be rigorous consideration of a whole range of stakeholder perspectives, fueled by as much diversity of thought and experience as possible. If everyone on the board is the same, then discussion will be dull, decisions stagnant, and the business will suffer. In other words, in order for boards to be effective, and to encourage healthy discussion, debate, and action, there needs to be independence and diversity in thought and deed.

It is not sufficient to have "diversity policies" in place. If a business is not demonstrating in deed that it values diversity, diversity policies are worth less than the paper they are written on. Diversity is a matter of organisational culture, and to a significant extent this is set by example from the top. A diverse board demonstrates that diversity is a value that the company holds throughout its business—the resulting culture then is not one in which the mentality is one of the lowest common denominator (how little can we get away with?), but one in which the quest for diversity is a quest for building a robust and sustainable business. Diversity then becomes part of very DNA that marks a business out as healthy and ready to face the future.

Healthy businesses need comprehensive diversity. Without it there is no independence of thought or action, and no way to keep in touch with the pulse of the stakeholders of today. By the same token, diversity is not a static one-time result that boards need to achieve, but one that poses a constant challenge of renewal. Good corporate governance in this sense also requires “turn over” in the board room so that organisations are capable of dealing with the today and the tomorrow. Over time, businesses will have no choice but to reflect the diversity of their stakeholders in their board rooms.

In an ever more global business environment, diversity also has an international dimension that extends beyond gender, culture, age, etc. Every board needs to keep a finger on the pulse of what is happening around the world. International diversity is required as it broadens a board’s knowledge and understanding of what is happening in the rest of the world and how this effects the environment in which the organisation it serves operates. International diversity in this sense also means that the best boards will be able to be proactive in instituting these changes, striving to live up to the highest standards of corporate governance from around the world, not simply waiting for the world to force them to do so.

When I see a business with a board that has a preponderance of people with similar, if not identical, profiles, this is a signal that it is not a healthy business – it is a canary in a mine that says that they are not looking after the fundamentals of the business. The reason why non-diverse boards set my alarm bells ringing is that it is good corporate governance and good business sense to have diversity of thought and experience, knowledge and understanding, perspective and age and a reflection of a whole range of a business’s stakeholders: customers, employees, investors, and the communities in which they operate. If a board is not diverse, it makes me wonder about the business as a whole.

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