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Why Does Diversity Matter on a Board?

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As well as oversight, a key role for a Board of Directors is providing advice and perspective to a company's management. In order to provide this perspective, it is essential that the Board has experience and diversity across a variety of areas.

Having a mix of people helps avoid mistakes such as incorrectly gauging what public reaction to an initiative is likely to be or missing cultural nuances. Moreover, it can introduce a wider variety of contacts to the company, rather than having directors with overlapping networks.

Last but not least, it is important not to overlook the importance of diversity on a company's culture and recruitment. Having people on the board from minorities in the community, then this can be inspiring for potential employees from such minority who are looking for a welcoming place to work. This can result in unlocking new talent and improving the productivity of existing employees who can aspire to similar positions in the future.

JIoD has identified several key areas across which a Board should actively seek diversity. These are: Gender, Age, Personal Background, Domain Expertise, Disciplinary Expertise.

Gender Diversity

The International Finance Corporation (IFC), in collaboration with various IoD's in the region, have undertaken a wealth of research on the effects of gender diversity on boards. Within the region, this [research](#) has to date focused on Jordan, Lebanon and Egypt with results showing that "a broad set of business benefits, such as improved financial performance and shareholder value, increased customer and employee satisfaction, rising investor confidence, and greater market knowledge and reputation, is associated with gender diversity on corporate boards."

For example, the Lebanese study of 1,600 companies found that "companies with female board members exhibited double the return on equity (20.7 percent compared to 10.3 percent for all-male boards), and 2.3 percent higher growth in return on assets." and that such companies had lower dependency on debt.

Aside from the quantitative analysis, the same study provided qualitative indications that having a female presence on boards is likely to create a better

workplace environment and culture, resulting in improved productivity and employee retention.

Age

It is apparent that younger board members can provide insights into their generation, something that is particularly important for a B2C business that wishes to target millennials or revamp an existing brand in order to appeal to younger consumers.

On the other side, older board members often bring a degree of experience and calm that comes with having been on similar journeys in the past.

Personal Background

Personal background can be divided into multiple areas such as nationality, ethnicity and socio-economic origins. Having an understanding of different communities and being sensitive to how decisions (and brand messaging) might be perceived by different segments of society can help to both mitigate reputational risk and also raise awareness of opportunities that might otherwise be missed.

Domain Expertise

Making day to day decisions and delving into technical detail is not usually part of a board's remit. However, it is useful to have industry experts. They can provide mentorship to senior management and also guide other board members through information specific to the sector. Moreover, the right expert may well have trodden similar paths before and can save the company resource and expense by pointing out the reasons that a particular approach is better suited.

When appointing an industry insider to the board, it is particularly important to do a thorough vetting process, making sure that there are no conflicts of interest and to create protocols in case such conflicts arise.

Disciplinary Expertise

As domain experts can guide the board, and advise management, on industry specific concerns, disciplinary experts can guide and advise on their subject area. From JIoD's experience, principal areas that should be considered on a board are Audit, Finance, Legal, Human Resources and Technology / IT depending on the business. However, there is a strong argument to include other experts as well, including areas such as Marketing and Sustainability.