



# Diversity in the boardroom

It seems we can't pick up a paper today without at least one article talking about diversity on boards, whether it be challenging the lack of diversity or the push to achieve certain targets for better gender representation.

But diversity is so much more than just gender diversity. Australia is the most ethnically diverse country in the world with over 26% of Australians being born overseas and at least 49% of Australians having at least one parent born overseas.

In addition to this 73.1% of Australians are under the age of 54. So why then are so many boards comprised of white males over the age of 55? A quick profile of ASX 200 boards shows:

- 27% of ASX200 board members are female;
- 80% of all male board members are over the age of 60; and
- Only 4% of ASX200 boards had Asian representation according to the 2013 Diversity Council of Australia study.

Boards of directors are there to represent the stakeholders and guide strategy. They should therefore be representative of the constituents/stakeholders.

The argument has been put forward more recently that Australia just does not have suitably qualified diverse candidates for board roles. The lack of qualified female

director's argument was put forward by many commentators with regards to the AMP board after the stepping down of the female directors including the chairman. I find this argument naïve in the extreme and very unhelpful. Any board should look to have a diverse range of experience to deal with the complexities in today's world. With change and development taking place at such a rapid rate it is more important than ever that boards avoid the "group think" mentality. Therefore, having a boardroom full of people with the same background and experiences is less likely to deliver diversity of thought.

So why have a diverse board, what does it add to an organisation? Mike Myatt<sup>1</sup> identified 10 key reasons for having diversity in the boardroom, being:

1. It reflects the real world – something every company should be sensitive to.
2. Healthy debate can lead to better decisions

<sup>1</sup> Forbes 2013, Top 10 Reasons Diversity is good for the Boardroom, Mike Myatt

3. Divergent backgrounds mean tackling the same idea in differing ways.
4. Great ideas come from disruption of the status quo.
5. Your clients and customers are diverse.
6. This can make your company knowledgeable and sensitive to a wider variety of groups.
7. Counsel from a variety of authorities is sensible.
8. Setting an example at the top will hopefully have a trickle-down effect within the organisation.
9. Improved reputation and brand.
10. A variety of backgrounds can make the company more adaptable to its ever-changing environment

Besides the above there is a building body of evidence that suggests the greater representation of women in senior roles is linked to excess stock market returns and superior corporate profitability. This was highlighted by a Credit Suisse Report<sup>2</sup> that found investors focusing on companies where gender diversity is an important strategy are rewarded with excess returns running at a compound annual growth rate of 3.5% higher than those companies without such a focus, over their review period. The below table breaks down the performance differentials by industry sector.

In another piece of research by State Street, using a report by the Institutional Shareholder Service and the McKinsey Global Institute, found on average a 36% increase in return on equity for companies with a strong female leadership. The average price to book ratios in such companies was 1.8 compared with 1.6 where such leadership was absent.

None of the above reports are stating that female leadership is better than male leadership, but rather are alluding to those companies that embrace, in this case, gender diversity, deliver higher returns to shareholders. Having a gender diverse management means your strategic

approach is likely to be more attune to a company's customer base.

The same should also hold for diverse boards based on age and cultural diversity. Yes, having old wise heads in the boardroom makes sense but this needs to be balanced with younger outlooks when a significant majority of the population is below the age of 54. In S&P500 Boardrooms there are more directors 75 or older than there are aged 50 or under. Even more concerning is the average age of independent directors in S&P500 companies has increased from 61 in 2007 to 63 in 2017<sup>3</sup>. Despite this increasing age, in the same report directors from S&P500 companies indicated age diversity was more important than gender or cultural diversity in terms of achieving diversity of thought.

There is an added benefit of introducing younger members earlier in to the boardroom and that is around partnering them with older more experienced board members allowing the younger members to develop their board skills at the same time as bringing a different view point in to the boardroom. The onus is then on the chairman to ensure everyone is heard and speaks up to encourage this diversity of thought.

When it comes to cultural diversity it never ceases to amaze me that we are living through a period known as the Asian century and Australian companies are being encouraged to capitalise on the Asian century given our proximity. So, we have predominately Anglo-Saxon boards overseeing strategic plans encompassing Asian expansion. What can possibly go wrong?

Diversity in the boardroom for a large public company is just as important for small to medium sized businesses and for advisory boards. After all, the reason for the advisory board is to introduce a wider range of thought, to encourage a different way of thinking, so therefore why aren't more boards making sure their members bring with them a diversity of thought to start with?

<sup>2</sup> The CS Gender 3000: The reward for change; Credit Suisse Research Institute, September 2016

<sup>3</sup> PwC Board Composition Report April 2018

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