

## INSPIRE BUSINESS ARTICLE

### Boardroom Diversity: Focusing on the Bottom Line

When a debate arises over increasing boardroom diversity, it is often focused narrowly on numbers and percentages. It's reasonable considering the almost glacial pace of boardroom diversity expansion at a time when the workforce has never been more diverse.

Unfortunately when numbers and quotas become the main focus, some of the most valuable benefits of increasing the diversity of corporate leadership are overlooked.

Perhaps the challenge is that for too long businesses and social engineers have looked at diversity as a goal when it can also be seen as a solution—a solution for achieving more effective corporate leadership in a globalized, diverse and constantly changing marketplace. For years, organizations have sought to quantify the value of boardroom diversity in hard numbers. Consider these two differing statistics from studies of women on boards:

*"Companies with three or more women on their Boards had an 83% greater return on equity, a 73% better return on their sales and a 112% higher return on invested capital when compared with companies that had the lowest representation of women." – 2007 Catalyst Study: Corporate Performance and Women's Representation on Boards*

*Among Denmark, Norway and Sweden's 500 largest publicly traded enterprises "...No significant diversity effect of gender, age, and nationality is seen on stock market performance or on ROA." – The Nordic Innovation Centre: A Nordic Perspective on Corporate Board Diversity*

What should a business do when data offers arguments for and against a more diverse board? Perhaps it's time take a step back from the numbers and use two essential executive leadership assets—logic and instinct—to analyze why diversity fulfills important needs in a business today.

### Achieving Representation of the Entire Business

No business today has a customer base, workforce, investor community or partnership group that is represented by people of only one age group, race or gender. Could such a biased board effectively know and address the needs, experience, perspectives and ideas of its broad portfolio and client base? Successful leadership requires a full understanding of the business, its challenge and its culture.

Today that means making balance in the boardroom and diversity a requirement for best representing and leading the organization. "There is strong evidence to suggest that the more diverse an organization's management team, the greater the impact it will have on bottom line performance through innovation and increased market penetration," said Carol Rosati, who serves as Director for Harvey Nash Plc.

### Expand & Broaden the Talent Pool

Boards seeking the most insightful and talented leadership teams must recruit from the very best, and that means expanding rather than limiting candidate options. One way to ensure today's boards are working to increase their own diversity is to delegate the responsibility to a board member. For some businesses, this might mean welcoming the chief HR officer, whose role it is to ensure workforce and cultural alignment, to the boardroom.

### Enhanced Corporate Governance

The Canadian Conference Board's comprehensive study of corporate board processes, which looked at data from 1974 to 2001, demonstrated a clear difference in corporate governance performance between boards with women and those without. For example, the study found that "94% of boards with three or more women monitored the implementation of corporate strategy, as opposed to only 66% of all-male boards." Ask business leaders to ignore the studies and look at their own experience, and you will get a similar story. Leadership forums that are more diverse, be it in terms of gender or culture, will be more attuned to the rules and more respectful of differences and decorum. "The common ground in a room of diverse and talented executives is structure, respect and education," explains Alexa Bailey of the Harvey Nash Inspire Board network. "If you put measures and education in place to increase diversity and respect, structure and performance will rise along with them."

While the quota debate around diversity issues will continue, it is important to keep the bottom line in mind. Businesses that best understand and communicate the values, experiences, needs and goals of an ever-diversifying marketplace will be best equipped to serve it and grow as a business. Businesses that choose to ignore the rapidly changing marketplace and maintain what Luis A. Aguilar, the Commissioner of the U.S. Securities and Exchange Commission, has labeled "abysmal statistics regarding the lack of diversity in Corporate America" do so at the peril of their own competitiveness and profitability.

### For More Information

As a way to help the executive leaders in Inspire stay informed on key topics important to our membership, Inspire publishes business articles on a quarterly basis. If you have topic suggestions for future articles, please share them with Alexa Bailey in New York (alex.bailey@harveynash.com or +1 212-481-2563) and/or Carol Rosati in London (carol.rosati@harveynash.com or +44 207-333-1587).

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