Private Sector Opinion

DIVERSITY AT THE HEAD TABLE

Bringing Complementary Skills and Experiences to the Board

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Dr. Yılmaz Argüden

A well-functioning board of directors needs diversity of experience and perspectives. If everybody thinks the same, then there is no need for a board; one individual would suffice! Diversity for its own sake, however, is not an improvement in governance; what matters is the combination of complementary skills and experiences that members bring to the table to better address the challenges the company is likely to face.

Foreword

What caused the crisis? Many factors contributed, but poor governance certainly played a part—there is general agreement on that. So, what caused poor governance? People have spent countless hours considering this question, and the determination to improve governance has intensified since the crisis. As Dr. Yılmaz Argüden brings out, two distinct approaches have emerged: external, through regulation; and internal, through strengthening the integrity of company boards.

Dr. Argüden makes the case for the latter approach, noting that regulation frequently is not the answer. Companies vary widely in their business, customers, and stakeholders, and they all require different types of people—with different skills and experiences—to manage them. Companies need the freedom to be innovative and to take measured risks. In most cases, it is better for the boards to determine what will be effective for them than to have structures and processes imposed on them by regulation[1].

As Dr. Argüden has written previously,[2] you need the right people, team, and processes in place to make the best decisions. In this paper, he promotes diversity on boards as a remedy for the poor governance that—prior to the

[1] Even though, ironically, in some parts of the world, such as Norway and Spain, regulation has helped improve diversity by requiring a quota of women on boards.

[2] Yılmaz Argüden, *A Corporate Governence Model: Building Responsible Boards and Sustainable Businesses*, Private Sector Opinion Issue #17, Global Corporate Governance Forum.

Global Corporate Governance Forum

IFC International Finance Corporation World Bank Group

The Global Corporate Governance Forum is the leading knowledge and capacity-building platform dedicated to corporate governance reform in emerging markets and developing countries. The Forum offers a unique collection of expertise, experiences, and solutions to key corporate governance issues from developed and developing countries.

The Forum's mandate is to promote the private sector as an engine of growth, reduce the vulnerability of developing and emerging markets to financial crisis, and provide incentives for corporations to invest and perform efficiently in a transparent, sustainable, and socially responsible manner. In doing so, the Forum partners with international, regional, and local institutions, drawing on its network of global private sector leaders.

The Forum is a multi-donor trust fund facility located within IFC, co-founded in 1999 by the World Bank and the Organisation for Economic Co-operation and Development (OECD).

crisis—prevented boards from providing the oversight and guidance that is central to their role. Either the boards were not aware of the risks they were carrying, he argues, or they were allowing the management to bet the company.

Dr Argüden is absolutely correct. For boards to function well and lead their companies to compete with the best in the market, they need to challenge and question the management. Checks and balances are vital. To be successful today, companies (particularly those that aspire to be global) need to understand the context within which they exist and operate—not only of the risks and opportunities of sectors and markets, but also of the developing views of society at large and the differences in cultures.

This paper provides examples that help develop a better understanding of each type of diversity needed on boards. Dr. Argüden sees diversity as much more than gender or race—including such other factors as experience, nationality, age, and tenure on the board. He also sees the mix of people on boards changing, depending on the business scales and stages of business life cycles.

Notwithstanding the focus on numerous dimensions of diversity, the paper includes a prominent section on ethnic and gender diversity, the promotion of which is supported by a greater quantity of available academic evidence. Women reading this article should feel pleased that evidence shows that women generally contribute positively to company performance!

I believe this article is timely. It will broaden our perspectives on understanding diversity and its relevance for better governance. The world has changed its expectations of companies as a result of the latest financial crisis. Society can see what havoc companies, such as banks, can wreak on the world's largest economies. Companies need to renew trust and confidence in the corporate world. They need to have people who can bring diverse perspectives to board discussions, and who will challenge "the way we've always done it"—to ensure that they benefit from the opportunities of this new day, and avoid the pitfalls.

At the end, Dr. Argüden provides a road map on how to manage diversity, and what steps companies can take to improve the balance of people on boards. Diversity on boards, as he presents it, is critical in putting companies in the best position to move forward in this new environment.

Anita Skipper
Corporate Governance Director
Aviva Investors

DIVERSITY AT THE HEAD TABLE

Bringing Complementary Skills and Experiences to the Board

Dr. Yılmaz Argüden[3]

Diversity is the art of thinking independently together.
—Malcolm Stevenson Forbes

Events leading to the recent economic crisis and recession show that numerous companies either were not aware of the risks they were carrying, or were betting the company. Also, compensation arrangements for key executives were not aligned with the long-term performance of these companies. Clearly these institutions faced serious governance failures, with many boards falling short in their two key areas of responsibility: guidance and oversight.

To remedy this situation, many governments are considering new regulations—just as the Sarbanes-Oxley regulations came in the wake of the Enron incident. Even though good intentions may be behind this new regulatory impetus, we should not forget that regulation alone cannot bring good governance. In fact, excessive regulation brings the threat of overwhelming bureaucracy, which stifles innovation and risk taking. A better remedy would be to increase the diversity of the boards.

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A key function of boards of directors is to ensure that the risks taken by management on behalf of the shareholders are consistent and balanced, and that they have high likelihood of value creation. To be sustainable, an organization must strike a fine balance between:

- risk and reward,
- short term and long term,
- interests of various stakeholders,
- ethical considerations and market practices, and
- providing effective oversight versus motivating management to assume calculated risks for value creation.

[3] **Dr. Yılmaz Argüden** is the Chairman of ARGE Consulting and the Chairman of Rothschild investment bank in Turkiye. He is a board member of numerous companies in different jurisdictions, an author, a columnist, and an adjunct professor of strategy at the Bosphorus and Koç Universities. A member of the Private Sector Advisory Group of the Global Corporate Governance Forum, Dr. Argüden is also National Representative of the UN Global Compact and Chairman of Turkish-American Business Councils. He was selected as a "Global Leader for Tomorrow" by the World Economic Forum. www.arguden.net

To achieve this balance, an organization needs an effective process for challenging management decisions, particularly those involving strategic choices that inherently involve risk taking. It is very difficult to accomplish this objective by regulation. The need is for a well-functioning board of directors.

But, as the world has changed, so has the definition of a *well-functioning board*. Just as no single individual—regardless of capabilities—is likely to be sufficient in striking the right balance in all the areas listed above, neither can a *group* of individuals who differ little from each other. Gone are the days when a cadre of like-minded older men with similar résumés could provide adequate guidance and oversight for a company. The critical need today is for diversity of experience and perspectives. If everybody thinks the same on all matters, then there is no need for a board; one individual would suffice! A good team needs players with complementary skills and the ability to work together.

IMPORTANT AREAS OF DIVERSITY

Generally, we tend to think of diversity in the context of *gender* or *ethnicity*. However, to build a strong team, boards should also consider *diversity of skills and experience, age distribution, and tenure on the board*. Diversity for its own sake is not an improvement in governance; what matters is the combination of *complementary* skills and experiences that members bring to the table to better address the challenges the company is likely to face.

Diversity of Skills and Experience

Let's look more closely at diversity of skills and experience, breaking it down into *industry experience*, *geographic experience and nationalities*, f*unctional experience*, *stakeholder experience*, and *experience with different business scales* and *stages of business life cycles*.

- ***Industry Experience***

  In light of the increase in cross links between different industries, having broad industry experience on a board is becoming more relevant than deeper expertise on a single industry. For example, the board members of Nestlé do not come solely from the food industry. Their experience in different industries enables them to address issues that are important to Nestlé, such as following new trends closely (politics, academia), understanding the needs of youth (technology, multimedia), understanding capital and credit markets (banking, finance), and focusing on health and beauty (pharmaceutical, cosmetics). Although the board members come from different fields (see Table 1), they all have senior management experience and possess the skills to guide and to provide oversight to the company.[4]

[4] Yılmaz Argüden, *Boardroom Secrets: Corporate Governance for Quality of Life*, Palgrave Macmillan, 2009.

Table 1: Nestlé Board of Directors (2007)[5]

Name	Position	Industry
Peter Brabeck-Latmanthe	Chairman and CEO, Nestlé	
Adreas Koopmann	CEO, Bobst Group	Packaging (carton, etc.)
Rolf Hanggi	Deputy Chairman, Roche	Pharmaceutical
Edward George	Former Member, Bank of England	Finance
Kaspar Villiger	Former Minister, Switzerland	Politics
Jean-Pierre Meyers	Deputy Chairman, L'Oreal	Cosmetics
Peter Böckli	Attorney	Legal
Andre Kudelski	Chairman and CEO, Kudelski Group	Technology (digital safety)
Daniel Borel	Chairman, Logitech	Technology (computers, etc.)
Carolina Müller-Möhl	Chairman, Müller-Möhl Group	Asset Management
Günter Bobel	Professor, Rockefeller University	Academician
Jean-Rene Fourtou	Chairman, Vivendi Universal	Multimedia (TV, music, etc.)
Steven George Hoch	Partner, Highmount Capital	Investment Management
Niana Lal Kidwai	CEO, HSBC India	Finance (banking)

- ***Geographic Experience and Nationalities***

  With so many companies expanding their footprints throughout the world, it is increasingly important for different nationalities to be represented on boards of directors. These boards need to understand the global nature of the risks and potential rewards of doing business. In particular, their dependency on emerging markets, such as BRIC[6] or Next Eleven,[7] is growing in importance. Yet, most boards do not have sufficiently diverse membership to keep pace with this trend. Table 2 shows that even some of the most significant global companies, whose assets span a broad geographic domain, lack diversity in the nationalities of their board members.

[5] ARGE Consulting research based on Nestlé Annual Report, 2007

[6] BRIC, or the BRICs, is Goldman Sachs investment bank's 2003 designation of Brazil, Russia, India, and China (BRIC) as potentially the four most dominant economies by the year 2050.

[7] Next Eleven, or N-11, are the countries—Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey, and Vietnam—identified by Goldman Sachs investment bank as having high potential of becoming the world's largest economies in the 21st century, along with the BRICs.

Table 2: Insufficient Geographic Diversity on Company Boards[8]

Company Name	Foreign Assets 2008, ($ bn)	% of total assets in foreign countries	No. of Board Mem. Male/ Female		Nationality of Board Members
GE[a]	400	50	13	3	13 American, 2 Canadian, 1 British
Royal Dutch Shell[b]	230	79	12	1	5 British, 3 Dutch, 2 Swiss, 1 Finnish, 1 French, 1 American
Vodafone[c]	200	92	11	1	5 British, 2 French, 1 Italian, 1 New Zealander, 1 Belgian, 1 South African,
BP[d]	188	83	12	2	9 British, 4 American, 1 Swedish,
Toyota[e]	168	57	29	0	All Japanese
Exxon Mobile[f]	162	71	8	2	All American
Total[g]	146	86	13	2	12 French, 1 Swedish, 1 Canadian, 1 British
E.ON[h]	139	65	5	1	5 German, 1 Norwegian
EDF[i]	135	48	16	2	16 French, 1 British, 1 Moroccan
ArcelorMittal[j]	130	96	16	1	4 Luxembourg, 4 French, 3 Indian, 2 American, 2 Spanish, 1 Belgian, 1 Brazilian
Volkswagen[k]	127	53	7	0	5 German, 1 Austrian, 1 Spanish
GDF Suez[l]	122	51	18	3	18 French, 1 Belgian, 1 Canadian, 1 British

a. GE's 2009 Annual Report; b. Royal Dutch Shell 2009 Annual Report; c. Vodafone 2009 Annual Report; d. BP 2009 Annual Reports and Accounting 2009; e. Toyota Annual Report 2009; f. Exxon 2009 Annual Report; g. Total Factbook 2009; h. E.On http://www.eon.com/en/investors/14272.jsp ; i. EDF Annual Performance Report 2009; j. ArcelorMittal. http://boldfuturelive.thoburns.com/boardofdirectors.php; k. Volkswagen 2009 Annual Report; l. GDF Suez http://google.brand.edgar-online.com/EFX_dll/EDGARpro.dll?FetchFilingHTML1?ID=6666424&SessionID=uYwUH6nEJqqdjz7,http://www.gdfsuez.com/en/group/governance/board-of-directors/biographies/biographies/

By broadening the board-member recruitment base to include emerging countries, an organization increases its ability to recruit highly qualified individuals who are generally missed in traditional board membership search processes. Boards of *global* companies in particular need to recruit members from more diverse national backgrounds. A firm that is making a significant investment in a new geography or targeting significant growth in a new emerging market, for instance, can benefit from having board members with relevant[9] experience in that geography.

[8] The first three columns of Table 2 are from The Economist (July 29, 2010), next three columns are based on ARGE Consulting research.

[9] Such as experience in management of mega projects or local consumer trends.

Let me provide an example from the Turkish market. Many Turkish companies are increasing their international presence, especially in Russia, Central Asia, Middle East, and Eastern Europe. According to the Turkish Corporate Governance Association's web site, many companies are getting independent ratings for the ISE (Istanbul Stock Exchange) Corporate Governance Index, a voluntary exercise. Of the companies with the top rankings (8.25–10.00)—Anadolu Efes,[10] Coca Cola Icecek, Dogan Yayin Holding, Hurriyet, TAV, Tupras, and Vestel—all except Tupras[11] and Vestel have international board members. Many of these companies also have significant international operations. It is interesting to note that many of the major Turkish companies that did not get a corporate governance rating—such as Sabanci Holding, Dogus Holding, Ulker,[12] and Eczacibasi Holding—do not have any international board members. From this, there appears to be a correlation between Turkish companies' international ambitions and the presence of international diversity on their boards.

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- ***Functional Experience***

  There have always been certain attributes that all board members need to possess, and that hasn't changed[13]. But as today's corporations face issues that are more and more complex, it is increasingly important that they have board members with specialized knowledge. Expertise in specific areas—such as the legal framework, capital markets, technological developments, and social trends relevant to the corporation—improves the quality and effectiveness of the board.

  A company developing new internet technologies, for instance, would significantly benefit from having a few board members who understand intellectual property protection and who have served on the boards of other high-tech start-ups. For example, a Turkish company, Borusan Telecom (an alternate phone operator), beefed up its board by recruiting a former senior executive from British Telecom, a private equity investor, and a business strategist[14]. This choice of board members proved to be useful in developing a sound company, and in eventually marketing the company to Vodafone.

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[10] The author is a board member of Anadolu Efes, Coca Cola Icecek, and Vestel.

[11] Koc Holding, which controls Tupras and other companies (such as Arcelik, Tofas, Otokar, and Yapı Kredi Bank) with governance ratings between 8.00 and 8.25, has three international members on its board.

[12] Ulker has international members in its Godiva subsidiary.

[13] See, *Boardroom Secrets: Corporate Governance for Quality of Life* (Palgrave Macmillan, 2009). Chapter I, for a description of such common attributes and behaviors for board members.

[14] The author was a member of the Board of Directors for Borusan Telecom.

- ***Stakeholder Experience***

  Stakeholders such as governmental bodies, environmental groups, trade associations, unions, communities, and the public at large are becoming more influential in matters related to the business world. Therefore, an understanding of the concerns and inner workings of these key stakeholders is useful in guiding the corporation during the process of developing strategies, as well as in implementing those strategies. In regulated industries, for example, it is helpful to have a board member who understands the regulatory agency, its mentality, and its processes.

  The increased importance being placed on the interests of all stakeholders, as opposed to a single-minded focus on shareholders, is also apparent in the Turkish governance world. Stakeholder issues are becoming a regular part of board debate. For example, Turkey hosts one of the largest local networks of the UN Global Compact.[15] Furthermore, 12 of the top 20 groups and two of the largest Chambers of Commerce and Industry have become members of the Global Compact.

  Competitive strategy requires an understanding of not only the players of the industry in which a company competes, but also its suppliers, customers, potential substitutes, and new entrants, as well as the shifting trends in technology and in the regulatory environment. Therefore, having people with diverse stakeholder experiences helps improve board decision making. Yet, it is critical that board members not be viewed—either by themselves or by their peers—as representing the relevant stakeholder, but rather as key members of the team that make up the board. This understanding is critical to ensuring that their ties to the stakeholders do not create conflicts of interest with the company.

  Since every individual is involved in numerous relationships, having one—especially a successful one—with a current or potential stakeholder of the company cannot and should not be a justification for removing a candidate from the eligibility list due to a theoretical potential conflict. What is important is how the candidate behaves if and when there is a potential area of conflict, and the best guide is the track record of the individual. Evaluating the independence of individual members is a delicate task that needs to be performed on a regular basis, particularly by the peers, based on the behavior and judgment of the individual under different circumstances.

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[15] United Nations Global Compact is a strategic policy initiative to encourage institutions to align their operations with the universally accepted principles of human rights, labor rights, environment, and anticorruption. By facilitating transparency, dialogue, and the dissemination of best practices, the Global Compact effectively encourages the implementation of good corporate citizenship and sustainability.

- ***Experience with Different Business Scales and Stages of Business Life Cycles***

  Businesses continually develop new products and new markets. At their inception stage, these businesses generally are small relative to the size of the corporation. Yet, in many cases they represent the future of the corporation and so should receive sufficient attention. It is helpful to have board members who understand the needs of small or start-up businesses.

  Board members who have experience with relevant stages of the business life cycle can be a real asset, particularly during a transition. A good board at the entrepreneurial stage may not have the necessary skills for a company at maturity. If a company is planning to list its shares on a public exchange, for example, before starting such a process it would be prudent to appoint a few board members who have experience on the boards of publicly listed companies. Similarly, if a company is going to make a significant investment that is much larger than its previous investments, recruiting board members with megaproject experience would be very beneficial.

Diversity of Age Distribution

To be sustainable, corporations need board members of different ages. With today's rapid changes in technology and social trends comes the need to have younger board members who are able to identify potential risks and remedies associated with these changes. For example, understanding technical trading, hedge funds, or option agreements that pose significant risks requires a grasp of mathematical modeling that few older-generation executives have. Also, understanding of the potential of internet marketing is much deeper in the new generation. Hence, companies that recruit younger board members with sufficiently broad and holistic experience are benefiting from their decisions.

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Age diversity also allows for an easier transition when people retire from the board, since having a range of ages makes it less likely that a large proportion of the members will be retiring at once. A mix of ages helps ensure that there will be a sufficient number of experienced board members.

However, for diversity of age distribution to be genuinely beneficial, new or younger members must demonstrate intellectual independence and, when necessary, stand up to the older ones. This level of participation is critical for a balanced board. If all the members cannot be considered as peers, because one or more members enjoy a distinct advantage over others due to sector knowledge or management experience, some members may refrain from expressing their opinions. Such a situation seriously damages the intellectual independence of the whole board.

Diversity of Tenure on the Board

Another area that requires careful balance is diversity of tenure. One of the key responsibilities of boards is to prevent potential conflicts of interest between the management and the shareholders. Clear separation of management rights (taking initiative and implementation) and governance rights (guidance, approval, and oversight) is critical in minimizing potential "agency" risks of the management, such as:

- fraud,
- cronyism (building a personal fiefdom with company resources),
- lethargy (focusing on excuses as opposed to results),
- being too risk-averse (potentially leading to overinvestment), and
- being too risk-prone (betting the company).

A thorough knowledge of the business, as well as of the strengths and weaknesses of the management team, helps address these risks and maintain a healthy balance.

On the other hand, as people become familiar with each other, their tendency to challenge each other diminishes. Therefore, having diversity of tenure on the board, with both relatively new and old members, keeps the board members sharp and helps them address these issues properly.

Ethnic and Gender Diversity[16]

Broadening the ethnic and gender diversity of boards not only helps increase the size of the candidate pool and therefore the quality of potential board members, but it also helps broaden the perspectives and experience of the whole team. Having more than a token female or minority member—and making sure that such members are deemed peers, by recruiting really qualified people—improves the tone of boards significantly.

It is not sufficient just to recruit women and minorities; there also must be a positive environment of candor and openness if minorities and women are to operate as effective board members.

Board dynamics work through conversation, body language, and argument, and all participants need to learn the spoken and unspoken rules of the game. It is not sufficient just to recruit women and minorities; there also must be a positive environment of candor and openness if minorities and women are to operate as effective board members.

[16] Acknowledgement: The author thanks the Women in Business unit of IFC, Brodie Jessica Mcnabb, for the data and information provided for this section.

Women represent a significant part of the work force and of the customer base of most companies. Yet, with a few notable exceptions such as Norway, their representation on boards is lacking. Studies reveal a number of potential benefits of having more women on boards, such as better financial performance, increased focus on risk management, better understanding of consumer markets, stronger organizational performance, and better investor confidence. Let's take a closer look at each of those benefits.

- ***Superior Financial Performance***

  Research indicates that companies with women on their boards are more profitable than their peers. Companies with at least three women on their boards experience greater *total return to shareholders*, *return on invested capital*, and *return on equity*. In 2007, Fortune 500 companies in the top 25 percent of female representation reported[17]:

  - 66 percent higher return on invested capital
  - 42 percent greater return on sales
  - 53 percent higher return on equity

- ***Increased Focus on Risk Management***

  Likewise, companies with women board members deal more effectively with risk. For example:

  - Boards with more women focus on risk management by addressing the issues and concerns of their customers, employees, shareholders, and local community.
  - Boards with women focus on the direction and long-term priorities of a company; hence, mitigating and controlling risk.

- ***Greater Understanding of the Consumer Market***

  Companies with women on boards are better equipped to develop products and services that appeal to all of their customers. Reasons include the following:

  - Women currently drive 70 percent of purchasing decisions in the European Union and 80 percent in the United States.
  - Women now represent a growing proportion of the consumer base, even in industries where buyers traditionally are male.[18]
  - Women are in tune with the needs of other women, which can help foster innovation and differentiate companies from their competitors.

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[17] Lois Joy, Nancy Carter, Harvey M. Wagner, and Sriram Narayanan, "The Bottom Line: Corporate Performance and Women's Representation on Boards," *Catalyst* (2007). http://www.catalyst.org/file/139/bottom%20line%202.pdf

[18] McKinsey & Company, Inc., *Women Matter: Gender diversity, a corporate performance driver* (2007).

- Women address global trends that organizations have ranked as most important in the future:
  1) faster pace of technological innovation;
  2) increasing availability of knowledge; and
  3) greater competition for talent[19].

- ***Stronger Organizational Performance***

  Research indicates a positive link between women on boards and stronger organizational performance. For example:

  - A woman on a board signals that a company takes seriously the views of its diverse stakeholders.
  - Female directors serve as role models for other women in their companies, and thereby improve the performance of female employees, boost the company's brand image, and strengthen customer and employee satisfaction.
  - Women practice collaborative and open leadership styles at board meetings, which leads to informed decisions and innovation[20].

- ***Greater Investor Confidence***

  Evidence suggests that investor confidence improves with the addition of women to a company's board. For instance:

  - More investment fund companies, such as CalPERS and PAX World Funds, are including gender diversity indicators among their criteria.
  - It is likely that the rising number of female investors will want to invest with companies that promote gender representation as a part of board diversity.
  - Rating agencies are adding gender diversity criteria to evaluate a company's strategies and corporate governance, because they view gender representation as a source of organizational excellence and performance.[21]

More investment fund companies, such as CalPERS and PAX World Funds, are including gender diversity indicators among their criteria.

19 Ibid.

20 David A.H. Brown, Debra L. Brown, and Vanessa Anastasopoulos, *Women on Boards: Not Just the Right Thing...But the "Bright" Thing*, The Conference Board of Canada (May 2002). http://www.europeanpwn.net/files/women_on_boards_canada.pdf

21 New Zealand Ministry of *Women's Affairs, Women on Boards: Why women on boards are good for business* (May 2009). http://www.mwa.govt.nz/women-on-boards/women-on-boards-why-women-on-company-boards-are-good-for-business-1

MANAGING DIVERSITY

While diversity improves governance, building a well-functioning team from individuals with diverse skills and experience requires that the board be properly managed—a key role for the chairman, who needs to pay attention to the following points:

While diversity improves governance, building a well-functioning team from individuals with diverse skills and experience requires that the board be properly managed

- **Trust.** A high level of mutual respect, trust, and candor must exist among all board members. A culture of transparency and openness—and the discipline to prepare sufficiently for meetings—is essential to creating an environment of trust. Members should be able to trust each other with the unity of their values and goals, as well as with their ability to contribute to the business of the corporation.
- **Vision.** The board should invest sufficient time up front to ensure agreement on a common vision. Also, a comprehensive orientation program for board members is an effective way to make sure they understand the environment and the competencies of the company.
- **Teamwork.** The board has to work as a unified team, not as individual stars. The differentiation of members based on their background, and especially the creation of a feeling of "insiders" (say, family members) and "the rest" is harmful to team spirit. The board should focus on value creation for the company and act as a team, not just as individuals.
- **Communication.** Even if each team member is a competent and senior individual, establishing an environment of trust requires spending time together and exchanging ideas and views. The most important tool for developing communication and team spirit is ensuring access to relevant and meaningful information in a timely and synchronous fashion. If the management treats different board members differently regarding the provision of information, it will damage the climate of trust.
- **Incentives.** Corporate incentive systems should be set up so as to increase team performance. From this perspective, board remuneration should also be team-based.
- **Rotating responsibilities.** Planned changes are necessary to ensure lasting team success. From time to time, responsibilities within the board need to be changed; team performance can be enhanced through the introduction of new team members.

STEPS TOWARD DIVERSITY

Diversity in the boardroom strengthens the capacity to strike the right balance on numerous dimensions that the board must consider for the sustainability of the organization. To improve diversity on the board, we need to take certain steps:

1. **Identify challenges**: Identify the top few challenges that the firm is expected to face over the next few years, and question whether the board collectively has sufficient experience to adequately assess the risks associated with these challenges.
2. **Identify a broad pool of candidates**: Focus on preparing the best pool of potential candidates to fill the gaps identified during the first step. Traditionally, members of boards of directors are picked by the largest shareholder, the chairman, or the CEO. The personal connections of the largest shareholder or CEO may in fact be useful in attracting valuable members to the board, but it also increases the risk of a board composed of "acquaintances" who may hesitate to challenge the CEO. Also, not having a specific process to establish a wide enough pool of potential candidates may discourage accomplished individuals from joining the board, and thus limit the diversity of experience.

   Boards must actively seek out skilled and competent candidates and ensure that sufficient diversity of experience is brought to the board. Since it is difficult for the full board to conduct such a search, this process is generally the responsibility of the corporate governance committee. However, the final decision should be made by the full board, with the benefit of the committee's work. It may also be helpful to rely on the expertise of specialists in this area when seeking out new independent board members.

   The search process should provide for an open-minded approach to reach a wide pool of candidates. Evaluation of candidates should be based on their competencies as board members, as well as their fit to the team, their potential to help with the issues facing the company, and their contribution to the diversity of the board. One other consideration is the ability of the candidates to provide sufficient time and attention to the board. For example, a member who is a CEO of another corporation should not be expected to take on more than two or three independent board membership positions.

Evaluation of candidates should be based on their competencies as board members, as well as their fit to the team, their potential to help with the issues facing the company, and their contribution to the diversity of the board.

3. **Establish a diversity culture:** Make good use of the diversity. To prevent complacency and groupthink on the board, maintain a climate of candor and openness, and encourage members to voice different opinions. Use team-building exercises to make sure the board members spend time together and have an opportunity to appreciate each others' perspectives and wisdom. To provide appropriate guidance and oversight, focus not only on business results but also on sustainability issues and risk management techniques, such as scenario planning.
4. **Conduct regular reviews to learn and improve:** Conduct self-appraisals on a regular basis, and take appropriate measures when deficiencies are identified, either to modify behavior or to change the composition of the board.

Challenges that companies face are becoming more complex—geographically, technologically, and socially. If our boards are going to be able to provide the right kind of guidance and oversight in this rapidly diversifying climate, we have to make sure that we increase the diversity at the head table.

Unity in goals and values, plus diversity in perspectives and experience, enriches the quality of decision making.

Last word: Unity in goals and values, plus diversity in perspectives and experience, enriches the quality of decision making.

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Global Corporate Governance Forum

2121 Pennsylvania Avenue, NW
Washington, DC 20433 U.S.A.

Telephone: +1 (202) 458 8097
Facsimile: +1 (202) 522 7588

cgsecretariat@ifc.org
www.gcgf.org