

# Bending the Board Diversity Scale: Meeting the Challenges of Disruption

By  
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In 2015 I published an article titled ‘When is Board Diversity Actually Diverse?’. It occurs to me that now in 2020 there is an area that demands some additional perspective.

*In 2015 I wrote in Private Company Director Magazine, “The primary objective of diversity is to benefit the company with the widest and deepest perspectives on the issues that are the most critical to the enterprise. In today’s fast-moving and exceptionally nuanced business environment, the more detailed information management has the better. To effectively accomplish this, the best technique is to map the preferred expertise and track those qualifications you have satisfied, and those that need strengthening. Keep in mind that diversity includes the traditional race and gender, but should be expanded to add professional skills, industry or domain expertise, which most boards now understand, as well as demographic diversity, and geographic representation.*

Since that time, I have observed the critical absence of some important skill sets in most of the boards that I have observed. Given the current concerns about cybersecurity and ESG – environmental, social and governance; and the continuing disruption of industry after industry, I am taking the liberty of actually re-writing the original article to add what I believe are some important insights gained over the last five years.

## The Article

There are several topics that are mandatorily on the top of every board’s list for discussion and action. The hottest ones right now include business disruption, ESG, cybersecurity, activist shareholders, digital/social media, e-commerce, and more. However, none have been in the top ranks of that list longer than diversity.

To get what I consider to be a complete perspective on diversity it is worthwhile to start with some questions.

- *What industry is your company in?*
- *What part of the country or of the world are you considering expansion into?*
- *What management skill set(s) have you had a real problem attracting and retaining?*
- *What skills or business experience might complement the core expertise of your management team?*
- *Who are your customers?*
- *What is their demographic mix?*
- *Who are your employees?*
- *Where are they, and what are their demographics and range of skillsets?*
- *Who are your competitors?*
- *Do they generally do things the same way as you do?*
- *Do they make virtually the same products?*

- *Do they provide the same services, in the same way; or, are they somewhat different?*
- *Do you deal with consumers, government agencies; value-added resellers, agents, distributors, and joint venture/strategic partners?*
- *Do they use better technology or have a higher level of automation?*
- *Is their marketing and branding more recognized or respected than yours?*
- *Do you sell a product targeted at wealthy consumers, middle class, corporate clients, etc.?*
- *Do you have important issues related to intellectual property, patents, government regulatory authorities, or unions?*

The list goes on. If your definition of diversity is limited to race and gender, then I submit that is very shortsighted and missing the point and opportunity.

### **Accessing Expertise - a Diversity Matrix**

When looking at all the above questions, have you seriously reflected on – or even developed a matrix of – these considerations. Which of these areas is your management team, combined with your board of directors, already expert in? For which of these areas do you lack sufficient direct experience and expertise to give you a competitive advantage? These are the highest priority for adding to the board.

No one person or company has all the knowledge or answers; and even if they did, things change. But, by the same token, only a few companies can afford to hire all the experts they would like. Small, mid-size and especially private companies need to be more strategic and creative in accessing what incremental deeper expanded expertise and experience would provide a significant strategic advantage in their business.

One of the best and often underutilized methods to add critical best-of-class expertise to a company is with a board member. Pound for pound you cannot get more value for your compensation dollar than acquiring key human capital in the person of an additional or replacement director.

#### **Anecdote: Growth Goal**

A few years ago, I was asked to speak briefly to the Board of a private university. The Board progressively consisted of about 14 men and 10 women, representing a fairly good diversity of skills and experience.

Before my talk I met with the President and the Chairman of the university. They proudly showed me a matrix detailing the various skills and qualifications they felt were essential to their success. Each Board member had been carefully entered into this spreadsheet with their contributions duly noted. They had green, yellow and red highlighting to show the diversity needs that had been met, somewhat met, and vacant.

I asked them what the primary goal for the university was, to which they answered – growth. I studied their eye chart once more and pointed out a discrepancy that was obvious to me.

I said, “As far as I know there is only one way to grow a university. You must add students. I can only think of two basic ways to add students, the first is to attract more to enroll, the second is to buy or merge with another university.” I looked at them more closely and noted, “Those methods of adding students require two skill sets that are actually nowhere to be found on your board matrix. You need great marketing to attract more students, and some expertise in M&A would be very helpful in strategizing acquisitions. Neither of those were on their matrix.

You already know that if you are targeting a management hire, clearly you will want to weigh their skills directly toward the job description. However, if you are looking for a board director, you are selecting for a broader level of expertise across multiple matrix categories, if possible, and the added element of judgment-seasoning-collaborative skills, and hopefully some governance experience.

### Current Diversity Practices

I believe that the most progressive organizations are taking their definition and application of *diversity* to a new and more advanced level. Most discussions previously revolved around a traditional two-dimensional view of diversity - namely race and gender. In tomorrow's business will favor a much more comprehensive multi-dimensional view - namely professional skills, industry or domain expertise, demographic diversity, and geographic representation.

Case in point: it is my personal observation that business today has evolved to the point that for most products and services it is very difficult to differentiate one's company from competitors. Many of the traditional methods of differentiation are now commonplace. Most companies' products and services are very similar to their competitors. As the basics of a product or service become, in essence, the lowest common denominator.

What is left to differentiate competitors? Or, if your industry has not been massively disrupted by a new player – an Amazon or Uber, so-to-speak, how do you deal with that? It is easily argued that today, the two most important differentiators in business are a company's use of technology and their branding and strategic marketing. These two areas offer the most potential for separating any business from their competition.

How do these translate into targeting a new or replacing a board member? When I survey board members across many types and sizes of companies, I certainly see an increase in female and minority directors. That is great, but what targeted and valuable skills to those directors possess? This same survey leads me to a disturbing conclusion. I suggest that the most under-represented individuals on boards of directors today are not people in the well-recognized categories, but rather experts in technology and marketing, and people who have previously worked in industries that have already suffered significant disruption.

It is important to recognize that there is a commonly accepted 'new normal' in corporate governance. This concept encompasses a variety of more contemporary considerations for boards. Diversity is certainly among them, however even more important to the survival and prospering of an enterprise is recognizing and mitigating risk. The first step in the risk mitigation cycle is

Key Expertise/Director Candidates	A	B	C	D	E	F	G	H	I	J
<i>Financial Expert</i>		X					X			X
<i>M&amp;A</i>	X	X			X	X	X	X		X
<i>IPO</i>	X		X		X	X		X	X	
<i>B2C</i>			X		X		X		X	X
<i>Consumer Marketing</i>		X	X				X		X	
<i>Strategic Marketing</i>	X	X	X		X		X	X	X	
<i>Technology</i>	X		X		X		X	X	X	
<i>Retail Business</i>		X		X	X		X		X	
<i>Consumer Customer Service</i>		X	X				X		X	X
<i>Call Center Operations</i>	X	X		X			X		X	X
<i>Human Resources</i>	X	X			X					
<i>Regulatory Environment</i>				X						
<i>Board Experience</i>	X	X			X		X	X		X
<i>Board Leadership Expertise</i>	X				X					X
<i>CEO Experience</i>	X	X	X		X	X		X	X	X
<i>Comp Committee Experience</i>		X					X			X
<i>Male/Female</i>	M	F	M	F	F	F	M	M	M	M

recognition. What better hedge could you have in this area than an expert and diverse board and management team?

## **Summary**

The primary objective of diversity in a board is to benefit the company with the widest and deepest perspectives on the issues that are the most critical to the success of the enterprise. In today's fast-moving and exceptionally nuanced business environment, the more detailed information and experienced insights management have, the better. To effectively accomplish this, the best technique is to map the preferred expertise and track those qualifications you have already satisfied within management and the board, and those that need strengthening. Keep in mind that diversity includes the traditional race and gender but should be further expanded to add professional skills, and industry and domain expertise – like technology, marketing and dealing with disruption, in addition to categories that they already understand.



