

When is Board Diversity Actually Diverse?

Thinking about private board diversity in a four-dimensional way

BY DENNIS CAGAN

Since private companies can put anyone the owners want on their board, with little or no public exposure or issues, why should they care about ‘diversity’? Why wouldn’t they simply want to seat directors who think like them, look like them, behave like them, and manage like them. After all, that’s what would best represent their interests, right? That’s who would be in the best position to exercise their fiduciary responsibilities on the owner’s behalf, right? Well, in a word, No!

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 activist shareholders, cyber security risks, digital/social media, e-commerce, and more. However none have been in the top ranks of that list longer than *diversity*. Why? Is it just some liberal idea of entitlement or equality? Is it about gender, race or age? You decide.

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 manage-

ment 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 skill sets? 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 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 with 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, expert in? For which of these areas do you actually lack enough direct experience and expertise to give you a competitive ad-



Dennis Cagan is a high-technology industry veteran and entrepreneur, having founded or co-founded over a dozen different companies. He co-founded his first software company in 1968. In 1976 Mr. Cagan founded his fifth company, and in 1980 it was ranked #32 on the first Inc. Magazine ‘Inc. 100.’ His first public board seat was when he took the company public in 1981. Mr. Cagan has served on 51 company fiduciary boards, both private and public, predominantly in early and mid-stage technology companies. Mr. Cagan is a seasoned CEO/Chairman and has been a C-level executive (both public and private companies), venture capitalist, private investor, consultant and professional board member for over 35 years. In 1979 he was the Keynote Speaker at the first COMDEX Show in Las Vegas. In 2011 he was inducted into the IT Hall of Fame - Channel Wing, administered by CompTIA. In 2013 the Dallas Business Journal and NACD selected him as one of 12 North Texas Outstanding Directors. Mr. Cagan consults on forming boards, and augments management as Shadow CEO™.

vantage? No one person or even one 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.

It is worthwhile to note that if you are targeting a management hire clearly you want to weight their skills toward the job description. If you are looking for an advisor or advisory board member then the weighting can be narrow and deep in the specific area of interest. However, if you are looking for a fiduciary board member, you are selecting for a broad level of expertise across multiple boxes if possible, and an added element of seasoning-judgment-collaborative skills, and governance experience.

This matrix is a very simple example that compares ten potential independent directors across 17 categories expertise/diversity that have been identified to be critical to the future success of one particular firm. The directors listed are being proposed to fill multiple vacant seats.

Four-D diversity

I submit that the most progressive organizations are taking their definition and application of *diversity* to a new, more advanced level. Most discussions revolved around a traditional three-dimensional view of diversity—namely race, gender, and age. I prefer a much more comprehensive four-dimensional view—namely professional skills, industry or domain expertise, demographic diversity, and geographic representation. 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 recognition. What better hedge could you have in this area than an expert 4-D diverse board and management team? ■

WHAT'S MISSING?

On one occasion, as a board member of a public company, I was asked to step in and take over as interim president and CEO of a recently acquired subsidiary that was doing about \$20 million in revenue, but was insolvent and losing money. My job was to determine the company's viability and either close it down properly or stabilize it, set it on a path to profitability, and recruit a new CEO. On my first day on the job I convened an all-hands meeting. All 225 employees were there and frankly quite anxious. Most had been there for a long time—many over 10 and even 15 years. They had been through four layoffs under the previous ownership. They had worked under eight CEOs in the last nine years.

I explained what I was there to try to do and opened it up for questions. One man in the back of the room raised his hand and asked, "What qualifications will you be looking for in the new CEO you intend to hire?" I responded, "Someone who has run a public technology company, a person who is decisive and has good leadership and people skills." The man then continued, "Aren't you going to look for someone with experience in the workplace training business?" I quickly asked, "Why would I do that?" This employee answered, "Sir, that's the business we are in!" I then said, "I know that, but I am looking at 225 people who know that business very well. That doesn't seem to be what you have been missing."

KEY EXPERTISE/DIRECTOR CANDIDATES	A	B	C	D	E	F	G	H	I	J
Financial Expert		X					X			X
M&A	X	X			X	X	X	X		X
IPO	X		X		X	X		X	X	
B2C			X		X		X		X	X
Consumer Marketing		X	X				X		X	
Internet/Web Marketing	X	X	X		X		X	X	X	
Technology	X		X		X		X	X	X	
Retail Business		X		X	X		X		X	
Consumer Customer Service		X	X				X		X	X
Call Center Operations	X	X		X			X		X	X
Human Resources	X	X			X					
Regulatory Environment				X						
Board Experience	X	X			X		X	X		X
Board Leadership Expertise	X				X					X
CEO Experience	X	X	X		X	X		X	X	X
Comp Committee Experience		X					X			X
Male/Female	M	F	M	F	F	F	M	M	M	M

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