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Leadership
centre

Getting on board with diversity

A guide to getting diverse talent on boards

Change is constant. We live in a dynamic and complex world with globalisation and technology reshaping the business landscape. It is ever more critical that the best talent is sourced for our boards.

Boards are at their best when they are distinguished by diversity of thought and capability.

The Institute of Directors in New Zealand (IoD) has long held that diversity of thought and perspective in the boardroom improves business performance and innovation.

We know diversity is important to boards – over 60% of directors told us diversity was a key consideration in making appointments in 2014 and 2015.

To date the focus on board diversity has mainly been on women but diversity encompasses a wide range of dimensions such as ethnicity, Māori whakapapa, LGBTI affinity, age, culture, disability, background and experience. New Zealand has over 213 ethnicities making us one of the most diverse countries in the world.

This guide provides practical steps and tips to help boards improve board capability. It will help them attract and retain the best talent onto the board and to lead an inclusive culture that enables diverse thinking to thrive in the boardroom.

Embracing diversity does not mean compromising on the skills, experience and professional qualifications of board members. It's about appointing people on merit who also bring diversity of thought and perspective to enhance board decision-making. This will help drive better outcomes, and long-term success.

“Diversity on a board is vital but should always be approached through the lens of demonstrated competence.”

THE FOUR PILLARS OF GOVERNANCE BEST PRACTICE, IoD

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Five steps for getting on board with diversity

Get on board with diversity by taking an active, conscious and thoughtful approach to how you support diversity in your boardroom and organisation.

Recognise and address unconscious bias

Increase objectivity by reducing biased decision-making.

Identify and appoint diverse talent

Cast a wide net to find the best people for the board.



Create an inclusive culture

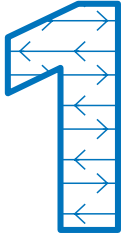
Take active steps to make a diverse mix of people, with all their similarities and differences, work.

Review board composition

Get the right mix of people so that 'the whole is greater than the sum of its parts.'

Set targets and measure progress

Go beyond compliance and measure what matters.



Create an inclusive culture

Take active steps to make a diverse mix of people, with all their similarities and differences, work.

Leading an effective culture is fundamental to how a board adds value. Board composition and a commitment to a high performance culture focused on engaged, quality governance underpins an effective culture. An effective board champions debate, diversity, thoughtful challenge and dissent.

The board also sets the tone for the culture of the organisation. The importance and value of diversity needs to be integrated and embedded into the culture of both the board and the organisation.

International research, including work by Tomorrow's Company, McKinsey & Co and Deloitte, maintains that to achieve greater diversity we need to focus on creating a merit-based culture that supports inclusion and diversity. It's about accessing and optimising diverse talent to enhance individual and collective capability.

Central to this is recognising and addressing biases, assumptions and language that underpin the existing culture. For example, unconscious bias (see Step 2) can be embedded in organisational structures and processes, such as recruitment, performance management and talent selection, and can undermine the achievement of meritocracy.

There are big challenges in re-shaping a culture. It is not about a 'bad' culture becoming 'good' but instead it's lifting the game to get the best out of everyone. Inclusion is about making a diverse mix of people, with all their similarities and differences, work.

The chair has a pivotal role in leading the board but every board member contributes to the culture of the board. Individual board members can have different degrees of influence and power within a board and actively avoiding a 'pecking order' will help foster inclusion.

All board members have a responsibility for creating an inclusive culture that enables contribution with respect.

"Companies should build an ecosystem that nurtures all kinds of people, but that also changes the culture itself."

**HELENA MORRISSEY, UK 30% CLUB FOUNDER,
WWW.HRMAGAZINE.CO.UK (FEBRUARY 2015)**

Tips for creating an inclusive culture:

- Put a stake in the ground. Be explicit that diversity matters: be vocal and be prepared to measure yourself
- Have an open mind-set that values diversity of thought and facilitates full participation of all members
- Address expectations about board inclusiveness in the interview and orientation process
- Respect and treat people fairly based on abilities
- Put diversity on the agenda for regular discussion, eg annually, as part of strategy, board evaluation and succession planning discussions
- Encourage diversity throughout the organisation – especially in middle and senior management – the executive and governance pipeline

“True diversity is about having different perspectives through a balance of expertise, knowledge, gender, ethnicity, age and background. We encourage boards to think about how they can improve diversity for their organisation, and get the best mix of talent, diverse thinking and capability.”

KIRSTEN PATTERSON, CHIEF EXECUTIVE, IoD

Role of the chair

The chair is uniquely placed to lead an inclusive culture and promote diversity on the board and in executive management.

Effective leadership from the chair can make the difference between a high or low functioning board. The chair frames and stimulates debate on issues while supervising the conduct of the meeting. Good chairs draw out the views of more reticent board members and manage the more zealous contributors. They help create a culture where directors can bring a robust, independent view to the table, and where appropriate dissent is valued.

Recent research highlights the need for inclusive leaders to adapt to different contexts and this includes diversity of thinking. Leading a diverse group is more challenging than leading people who are similar. Courage and self-awareness are key enablers.

Tips for chairs:

- Champion diversity and lead by example – set the tone from the top
- Demonstrate a commitment to inclusive behaviour
- Take an active view on diversity in appointment and selection processes
- Seek and welcome different and contrary views into discussion
- Dig for value: See that dissent and different perspectives have value and manage them appropriately
- Recognise differing boardroom styles to take the best from each director

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Recognise and address unconscious bias

Increase objectivity by reducing biased decision-making.

Bias can come in different forms. It includes using stereotypes and the tendency to gravitate toward those we immediately recognise as familiar (think about who you choose to sit next to on the bus). Bias is a human trait, used to make quick decisions about our personal safety and who we surround ourselves with. We use biases every day to make decisions from what bread to buy to how we travel to work.

The downside of bias is that we can make quick and final judgments about others. It provides a fast track for decision-making that leads us toward the familiar. In board composition terms, we can end up surrounding ourselves with similar people.

There are many types of biases. For example, *confirmation* bias is when one actively seeks information and interpretation which affirms established beliefs while missing information that contradicts established beliefs.

Unconscious bias is the product of unconscious knowledge (what we know) and unconscious thinking processes (how we think) and can happen automatically or quickly (fast thinking).¹

“I learned that even when a woman earns a seat at the table, the men can put you in a soundproof booth.”

LIZ DOLAN, FORMER DIRECTOR OF QUIKSILVER BOARD, FORTUNE MAGAZINE (JUNE 2015)

This may seem more efficient but if relevant information isn't considered, then decision-making, for example on appointments, may not be optimal.

Unconscious bias can be overcome in recruitment by ensuring there is a merit-based appointment process. For example, in the late 1970s the top five orchestras in the USA had fewer than 5% women members. Blind auditions were introduced – with auditioning candidates behind screens in the early rounds. Women now make up over 30% of members.

A lack of board diversity can indicate unconscious bias influencing decision-making about board appointments. This could mean the composition of the board may not be based on what the company needs and therefore not as effective as it could be.

¹ Ministry of Women's Affairs, *Realising the opportunity: Addressing New Zealand's leadership pipeline by attracting and retaining talented women* (2013)

The thing about unconscious biases is that we are not aware of them. Even if you support diversity there will be biases that have shaped your world and continue to do so. The challenge is to be aware of, and overcome biases, both conscious and unconscious. Online tools and tests can provide a good starting point for identifying individual biases.

In 2017 only 19% of directors of NZX listed boards were women, compared to 26% in Australia and 27.9% in the United Kingdom. Internationally we are lagging rather than leading on listed boards.

“The root causes of bias include one difficult truth: no one is immune. Concerted, consistent and continuous action is required.”

**PROFESSOR IRIS BOHNET, BEHAVIOURAL
ECONOMIST, HARVARD UNIVERSITY**

Tips for recognising and addressing unconscious bias:

- Acknowledge that unconscious bias exists
- Question assumptions and build awareness of biases – try one of the online tests to identify your biases
- Take time to consider and evaluate decisions, eg seek an independent/peer review
- Ensure there is an objective competency and merit-based appointment process, eg remove personal information from CVs
- Give appropriate weight to intrinsic competencies and capabilities, rather than over-valuing certain kinds of experience



Review board composition

Get the right mix of people so that 'the whole is greater than the sum of its parts'.

Board composition is about culture as well as structure and it's a direct contributor to board performance. It's not just about pulling together a group of high performing individuals, it's also about getting the right mix of people.

There are common attributes that all directors need such as intelligence, diligence, honesty, independent thought and sound business judgment. Other attributes such as skills, knowledge, expertise, experience, communication styles and interpersonal skills can differ. They all contribute to an effective board by having a diverse range of perspectives and insights that enhance board decision-making.

Diversity is about looking at the whole board and its strategic needs, rather than individual appointments. Tenure should also be considered this way – so that the board as a whole has a balance of the new and the old. Good diversity means experience and wisdom combine with fresh ideas, appropriate to the needs of the organisation.

Key mechanisms that contribute to continuous improvement in board composition are:

- assessment of board skill and attribute needs (eg using a board skills matrix)
- succession planning, and
- formal evaluation of board performance.

Consideration of board diversity needs should be embedded in all of these processes.

When assessing board diversity, avoid a compliance or tick-box approach. It's about building a board that considers diverse perspectives in discussion and decision-making to add greater value to the business.

It can be a lonely and difficult job for the one woman or one person from a different ethnic background to bring different views to the discussion, if everyone else around the board table is from one homogeneous group.

Tips for reviewing board composition:

- Understand the mix of attributes, including experience, skills and diversity around the table
- Assess the composition of the board and the aspects of diversity it has, or needs, including how they relate to:
 - the business and sector it operates in
 - customers, strategy and future needs
- Diversity is not about finding minority board members for cosmetic effect: avoid a compliance or tick-box approach to board diversity
- Ensure the composition of the nomination committee demonstrates a commitment to diversity

Succession planning

Board composition will not, and should not, be transformed overnight.

Succession planning is about taking a strategic approach to refreshing the board. It's having a formal process and plan to ensure the board has the skills and attributes it needs now and for the future – to ensure quality, continuity and a balanced mix.

Look to the medium-term for succession planning

Develop medium-term succession plans that identify the balance of experience and skills the board will need to recruit for over the next two to three years. Thinking longer term allows the whole board to plan and does not concentrate on individual hires.

Tips on succession planning:

- Develop succession plans that identify the balance of experience and skills the board will need over the next two to three years that strengthens board diversity and maximises board effectiveness
- Integrate board diversity targets into succession planning

“Diversity: the art of thinking independently together.”

**MALCOLM FORBES, PUBLISHER,
FORBES MAGAZINE**

Board evaluation

Board and individual director evaluations are important to hold the board accountable and as part of continuous improvement.

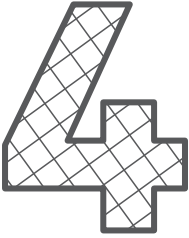
Over half (55%) of boards formally evaluate their performance on a regular basis.² Regular board evaluation provides a key opportunity to ensure the board has the skills and capability it needs now and for the future – and that it has sufficient diversity.

Individual self-evaluations enable board members to assess personal performance, to see if they have the skills and attributes the board needs for future success – and, if not, to consider stepping down. This can be difficult for both individuals and the board as a whole. Courage may be needed to combat ‘vested interests.’

Evaluation can be formal or informal, simple or comprehensive, unstructured or highly structured, verbal or written – or a mix of all of these over time.

Tips on board evaluation:

- Undertake regular and formal board evaluation, and consider including diversity questions
- Undertake regular, individual self-evaluations to ensure current board members have the skills and attributes the board needs
- Ensure there are follow-up actions regarding evaluation findings



Identify and appoint diverse talent

Cast a wide net to find the best people for the board.

Board appointments must be based on merit, the needs of the board as a collective and its strategic objectives. A robust and objective process will enable the best talent to be put forward for consideration.

Director candidates are often identified through personal networking or word of mouth. By focusing on ‘who we know’ and shoulder-tapping, potential candidates may come from similar social circles or professional relationships which can perpetuate the status quo in board composition.³ There needs to be clarity about what skills are required rather than who the board may know. Formal and transparent appointment processes will help ensure appointments are based on merit.

Diversity is not about throwing the baby out with the bath water. We need to retain the wealth of knowledge and experience of senior directors and ensure they are champions for diversity.

It’s important to also look beyond traditional sources of potential directors (such as chief executives, senior managers, lawyers and accountants) for candidates that have business acumen and core director capabilities but who also have diverse skills, experience and attributes.

Tips for identifying and appointing diverse talent:

- Skills first: recruit on the basis of merit and capability
- Establish a proper process for appointments and benchmark all candidates
- Ensure nomination committees and interview panels have at least one woman on them
- Ensure transparency in board selection and appointment processes
- Ask for CVs without names, gender, age, ethnicity, residential addresses and other personal identifying information to help reduce bias
- Do not accept short-lists with a lack of diverse candidates, have a process for returning to the market for further candidates
- Periodically advertise board positions to encourage greater diversity in applications
- Provide appropriate support for the candidates
- Seek the advice of search firms and ensure they have a commitment to diversity

Using a range of methods to identify candidates, such as search firms, databases and advertising will ensure the short list has a diverse range of candidates with the required skills and competencies.

Executive search firms provide services to identify and appoint board members, as do a number of other specialist services such as the IoD's *directorSearch*.

Several government agencies provide diversity nomination services for their respective areas, these include:

- Ministry for Women
- Te Puni Kokiri
- Office of Ethnic Communities
- Treasury

Reducing the risk of groupthink

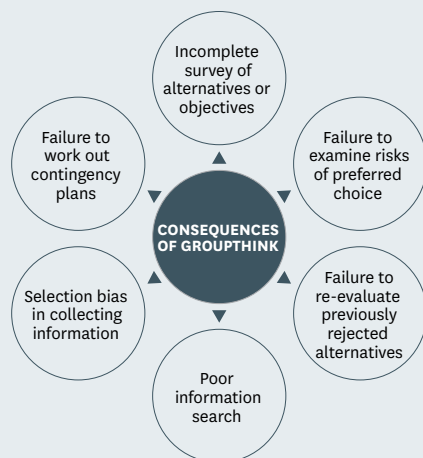
Board diversity is not an end in itself but a means to improve board effectiveness and company performance. When presented with options, a board with a variety of perspectives is likely to ask a wider range of questions. Whereas overly homogeneous boards run the risk of groupthink and can struggle with change.

Groupthink can occur when boards become deeply cohesive and of one mind. Members try to minimise conflict and reach consensus without considering alternatives. They can fail to weigh decisions against strategic objectives and assess risks of the preferred option. Irving Janis (1918-1990), a research psychologist who coined the phrase groupthink, identified eight symptoms that can indicate a groupthink problem exists.

Deloitte partner Juliet Bourke's⁴ diversity research suggests that leadership groups are often dominated by people who tend to focus on outcomes and options. There is a need to widen the kinds of thinking we typically see at New Zealand board tables. Thought leadership tends to be broader and deeper if the group

has a balance of problem solving approaches, including through discipline and functional/role diversity, gender and racial/cultural diversity.

Consequences of groupthink



"I think diverse boards avoid the problem of groupthink."

ELIZABETH PROUST, CHAIR, AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS



Set targets and measure progress

Go beyond compliance and measure what matters.

Ultimately, what gets measured gets done. In corporate New Zealand, employers need to understand their employee pipeline. That includes diversity at all stages in the hiring process, promotion rates, performance ratings and allocation of stretch and high-visibility assignments, compensation and reasons for exit at all levels.

Targets and disclosure policies can and do make a difference. In New Zealand there has been some improvement at a macro level on gender diversity. Women make up 43% of people on state sector boards which is getting close to the government's 45% target. Women made up 17% of directors on NZX listed companies in 2015. This is up from 12% in 2013, when NZX introduced requirements⁵ for issuers listed on the main board to report on the gender breakdown of directors and officers in their annual reports.

However, this is still slow progress and the proportion of women on NZX listed companies lags behind other countries.

At the entity level, boards need to lead the way in changing culture and making diversity a priority. This includes setting diversity objectives aligned to board review findings, and ensuring the board has the skills and experience it needs now and for the future.

“Diversity in the boardroom helps improve the quality of decisions by getting a broader range of views around the table. This helps boards avoid blind spots and ultimately achieve better outcomes.”

LIZ COUTTS, PRESIDENT, IoD

It also includes holding management to account for leading and embedding diversity in the organisation.

Increasing board diversity should not be about compliance, but about improving board effectiveness. One woman or one Māori member on the board does not mean there is board diversity. There needs to be a critical mass for diversity of thought and perspective to flourish. For example 30% representation is regarded as a level at which minority voices can be heard.

Setting targets and measuring progress will provide boards with the information they need to track progress and achieve diversity goals. Reporting on progress in an open and meaningful way that goes beyond compliance, is simply good governance.

⁵ NZX Listing Rule 10.4.5(j)

Tips for setting targets and measuring progress:

- Develop and implement diversity policies and establish measurable diversity objectives for the board and the organisation
- Tailor targets to the board's needs and strategic objectives
- Ensure there is sufficient and transparent disclosure about board diversity processes, eg board evaluation and appointments, and progress in achieving objectives
- Consider setting targets for short lists, such as a gender balance of between 30% and 50%
- Hold management to account for leading and embedding diversity in the organisation

“More diverse leadership in organisations results in better decision making, better organisational resilience and better performance. It also opens up more opportunities for women to succeed and contributes to a more inclusive and fairer society.”

JULIE ANNE GENTER, MINISTER FOR WOMEN

“You can't solve a problem that you can't measure and see.”

**TINA TCHEN, FORMER ASSISTANT
TO BARAK OBAMA, CHIEF OF STAFF
TO MICHELLE OBAMA**

A final word

Organisations and boards need to harness all our talent for future success and long-term business sustainability. Diversity of thought, experience and perspective is essential if we are to keep pace in our ever-changing world.

There is no one-size-fits-all solution, and making a difference can take longer than we think, and will require commitment and leadership.

Better gender balance, ethnic, cultural, skill, experience and age diversity on the board requires a shift in board composition and culture. An inclusive culture underpins diversity of perspective and thought on the board, and enables better decision-making and long-term business sustainability.

We need to take up the diversity challenge. Real change will take a cultural shift and a multi-pronged approach.

There are many organisations and initiatives focused on supporting diversity, such as Global Women and Champions of Change, NZ Asian Leaders and the Ministry for Women. IoD initiatives include Mentoring for Diversity and the Future Directors programme.

This guide aims to complement these initiatives to help boards get on board with diversity and access the best talent to help drive success and business sustainability. Ultimately, however, it is up to boards and chairs to commit to making diversity and inclusion a priority.

Acknowledgement

There is an abundance of information on women on boards, diversity and inclusion. In developing this guide we want to particularly acknowledge the work of the National Association of Corporate Directors (US), Australian Institute of Company Directors, Juliet Bourke and Deloitte, Catalyst, Credit Suisse, McKinsey & Company, Tomorrow's Company, Korn Ferry Institute, and the Ministry for Women.

Governance Leadership Centre

Further information and resources are available at www.iod.org.nz

What the IoD is doing

The IoD has long held that diversity of thought and perspective add value to boards and board decision-making. We are advocating for greater board diversity through media commentary and a range of programmes and initiatives.

Mentoring for Diversity

The IoD Mentoring for Diversity programme started in 2012. Initially focused on women, the programme was expanded in 2015 to consider mentees in terms of ethnicity, age, skillset and background, in addition to gender. The programme targets top performers and pairs them with a leading New Zealand director or chair for a 12 month period.

Future Directors

Founded by Sir Stephen Tindall, Michael Stiassny and Des Hunt, Future Directors helps develop the next generation of directors by providing the opportunity for successful candidates to gain board experience by participating on a board of a large New Zealand organisation for a year.

Supporting aspiring and emerging directors

Informal and formal initiatives, including awards and scholarships, offered by IoD branches around the country to foster upcoming talent in governance through mentoring, formal training and access to leading speakers at branch events.

Branch networks

IoD has a regional network of eight branches throughout New Zealand, five in the North Island and three in the South Island with a sub-branch on the East Coast. Branches provide networking opportunities through regular events. Some branches, such as Waikato have established women's networks.

DirectorSearch

DirectorSearch is an impartial and professional service, helping organisations find the right director for their board. We search our database with diversity top of mind. It's not just about finding the right person but also about ensuring they add balance to the board as a whole. Our searches focus on candidates' skills and sector experience and we include a mix of diverse candidates in each long list, ensuring our clients have a wide pool of potential candidates from varying backgrounds.

For further information

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