4. Board of Directors' diversity

Do you see diversity in the room when you sit with your Board of Directors? Did you seek to fulfil numerical quotas, or have you strived to build a board bringing diverse perspectives, skills and networks to drive innovation and strategic growth? What role does board diversity play in shaping your corporate culture and reputation?

What do we mean by Board of Directors' diversity?

Board diversity refers to the deliberate and conscious effort made by organizations to ensure equal representation and inclusion of all genders in their board. Nowadays, 23% of board members are women worldwide [1]. Board diversity ensures that different viewpoints are taken into account in governance processes. It goes beyond fulfilling mere numerical targets, and is about embracing diversity in terms of gender, race, age, professional backgrounds and personality traits to foster richer and more inclusive decision-making and advisory processes.

Why do non-gender-diverse boards happen?

[1] https://phys.org/news/2019-03-women-percent-hiring-men.html

Among smaller organizations, Board of Directors are often constituted in an incremental and opportunistic manner, as they fail to see this body as an essential resource for growth and success. New board members can be selected from within the C-suite team or be recommended by it. This hinders massively the possibility of appointing a woman, given that executive teams are globally dominated by men (67%) [2], who are themselves connected mostly with other men. Also, when selecting a non-executive Board member, key considerations typically go to a candidate's level of reputation and visibility, rather than giving weight to the diversity of experiences and points of view. Lastly, women may be less available or keen on sitting on boards, given their other unpaid responsibilities (women tend to do at least two and a half times more unpaid care and domestic work than men) [3], and have therefore less bandwidth to network and advise others.

Why is board diversity important?

Smplementing gender-balanced and inclusive boards can drive better outcomes for a company. There is evidence showing that companies with boards exhibiting higher levels of gender diversity have better future financial outcomes and stock returns [4]: a 2020 study revealed that companies in the top quartile for gender diversity on their boards were 25% more likely to deliver above-average profitability than companies in the bottom quartile [5].

Furthermore, gender-balanced boards use more dynamic, consensus-driven and collaborative decision-making, fostering more cohesive and participative management as well as shareholder support. In fact, research shows that companies whose boards have well-integrated women directors experience 10% higher stock return, and their shareholders are 8% less likely to formally dissent to board decisions [6].

Lastly, diverse boards contribute to enhanced organizational reputation and culture, signalling progressiveness and equality both internally and externally.

How does one set up a diverse board?

One of the easiest ways to rebalance one's board composition is to apply gender-inclusive board member selection, including:

1. **Conduct a comprehensive diversity audit:** Assess the current composition of your board to identify gaps across a whole range of dimensions, such as gender, demographics, background, skills, experiences, perspectives and ways of working. Using a matrix to visualize those gaps can be a useful tool.
2. **Formalize commitment to diversity:** Formalize your commitment to board diversity through public documents and an action plan with set measurable objectives.
3. **Gap-based recruitment:** Recruit candidates based on the gaps identified in the audit. Here, a common pitfall is tokenism and superficial representation, which prioritizes optics over meaningful inclusion. Therefore, establish a structured evaluation process with standardized questions and evaluation criteria, as well as a broad decision team, to ensure fairness in in candidate assessments. Moreover, strive to identify candidates beyond the

[2] https://www.aeaweb.org/articles?id=10.1257/aer.90.4.715
[3] https://blogs.worldbank.org/en/jobs/how-achieve-gender-parity-boardrooms.
[4] https://www.thecorporategovernanceinstitute.com/insights/news-analysis/board-diversity-leads-to-better-profits/
[5] https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters
[6] https://hbr.org/2022/09/is-your-board-inclusive-or-just-diverse

the members of the C-suite, expand your network and cultivate long-term relationships with prospective candidates [7].

4. **Cultivate inclusive boardroom practices:** Hierarchical communication patterns often dominate boardrooms, impeding the effective assimilation of diverse viewpoints, while resistance to change and the perception of new members as being disruptive further exacerbate this challenge [8]. To address this, strive towards an inclusive boardroom environment where all members feel valued, respected, and empowered to contribute, by establishing clear and inclusive rules for agenda setting, discussions, decision making, minute taking, etc. As a matter of example, share information openly, avoid "back channelling" or outside meetings to address or raise concerns [9]. Also, emphasize the importance of open dialogue, active listening, collaboration, transparency and accountability.
5. **Provide additional support to board members:** Offer training sessions and resources to board members to raise awareness about unconscious bias and inclusive leadership.

How to measure progress and success?

Through our own, LeFil's research, we identified a number of metrics that can be improved through gender-focused initiatives, and which are meaningful to track as you progress with the implementation of your efforts. For some of these metrics, we provide a benchmark value, which is the average that close to 100 ventures like yours recorded after having worked on this topic. These metrics are:

Metric	Benchmark
Board member satisfaction	100%
Annual growth rate in earned revenue	71%
Proportion of women on the Board	N/A

[7] https://www.mckinsey.com/featured-insights/leadership/how-to-accelerate-gender-diversity-on-boards
[8] https://hbr.org/2019/03/when-and-why-diversity-improves-your-boards-performance
[9] https://www.mckinsey.com/featured-insights/leadership/how-to-accelerate-gender-diversity-on-boards

Case studies

Forming a gender-balanced board by Altitud

Altitud formed a gender-balanced board to improve its strategy-setting and decision-making processes, and to be able to expand its operations to other Mexican states.

Altitud is a social enterprise that seeks to advance economic opportunities for people living in semi-urban areas in Northern Mexico, especially women, and help them earn a dignified income without having to leave their homes, so that they can more easily reconcile work with their family caregiving roles. Altitud provides women and men with loans to buy sewing machines, so that they can start a home-based tailoring business. It also offers training workshops to help them improve their sewing skills. Altitud also connects its beneficiaries to designers and textile businesses to increase their work opportunities.

Altitud's team took part in our Gender Mainstreaming Workshop, and realized that the company was missing an Advisory Board; as a result, many strategic decisions were not discussed or put on the table in a structured fashion, using the views and experience of a diverse group of seasoned professionals. This resulted in a lack of clarity on the vision, but also little broader ecosystem support to help the team grow and overcome key obstacles to the venture's expansion. Thus, Altitud formed a gender-balanced advisory board to strengthen and professionalize its decision-making process, and generate more partnerships and business development opportunities. To do so, Altitud:

- made a selection of potential directors of organisations, social enterprises or members of local government who could bring both a diversity of expertise and perspective, as well as help Altitud expand and grow
- made sure that the final selection was gender-balanced.

Altitud now has an advisory board with 5 official members (3 women and 2 men). It has had two introductory sessions with the board so far to align, establish a structure, and plan the strategic objectives of the year ahead, with the goal to improve Altitud's inclusive impact and outreach. Whilst it is still a bit early for Altitud to quantify the impact that its new board will have, the team aims to work with these advisors to increase the proportion of men or couple-run workshops (e.g. by diversifying away from sewing workshops, or offering the chance to both heads of household to launch a business together), and expand to other Mexican states.