

MANAGING, TRACKING AND COMMUNICATING BOARD DIVERSITY

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ABSTRACT

Demands for increased board diversity have been mounting over the last ten years. Governance activists, corporate shareholders and government regulators are asking companies to better address these issues and to disclose relevant information about board diversity and the policies they have implemented to support their efforts. Based on an analysis of disclosures made in the proxy circulars of 60 leading Canadian listed companies, our study investigates what are the specific dimensions of board diversity being addressed, and what are the systems implemented to better manage and track those dimensions. Our study particularly focuses on knowledge and competency diversity and the skills matrix boards have been using to disclose its boards' qualifications. Our results help shed some light onto the evolution of diversity practices in the recent years. We also discuss alternative processes that firms can implement to improve the competency profile of their boards.

Keywords: Board of directors, board diversity, skills matrix.

1. INTRODUCTION

Securities markets worldwide have introduced several requirements related to governance and corporate reporting and stakeholders are keeping the pressure on corporate boards to provide strong oversight and ensure that the company is managed to achieve long term success. Accordingly, regulators and investors are now emphasizing that board composition aim at improving board diversity, as diverse groups are said to deliver better decisions. The main argument in favour of diversity is that the heterogeneity of the board as a whole brings about different viewpoints that enrich the decision-making process: Given the different perspectives taken by a variety of board member profiles, a wider range of solutions are examined and considered (Bhat *et al.* 2019; Booth-Bell, 2018; Labelle *et al.*, 2018). These different points of view are particularly valued when dealing with multifaceted companies evolving in complex environments (Anderson *et al.*, 2011). In addition, board diversity is said to reduce groupthink. Groupthink is indeed a significant problem as it can create a situation where coming to a consensus may supersede a thorough examination of the available information (Aggarwal *et al.*, 2019).

Diversity may have negative consequences since potential conflicts can slow down the decision-making process (Van Peteghem, 2018). Also, Zhang (2010) warns against shared information bias where heterogeneous groups tend to discuss only the information that is familiar to every member. Hence, instead of leveraging the knowledge from a rich pool of diverse expertise, the group focuses on limited options leading to inferior decisions. Moreover, Adams *et al.* (2018) find that boards characterized with more commonality in skill sets perform better, underscoring the need for directors to share skills in order to communicate effectively. Inconsistent results about the impact of board diversity certainly underscore the need to examine implementations issues around board diversity. There is therefore a need to examine the specific policies, programs, systems, and measures that have been implemented to address these issues as they can affect both diversity and board performance.

Undoubtedly, making sense of these new requirements and translating these principles into concrete actions is a major challenge for complex modern organizations. This article aims to provide guidance to companies wishing to implement processes to ensure that their boards achieve diversity. Based on disclosures in proxy circulars of 60 leading Canadian companies, we first examine how companies and their board define diversity and whether they have established formal policies and associated assessment mechanisms. Second, we examine how tools such as a skills matrix are used by companies to evaluate