



THE ROLE OF BOARD **DIVERSITY IN ENHANCING GOOD CORPORATE GOVERNANCE**



2 LAGOS | ABUJA | CALABAR









Corporate Governance is the system of rules, structures, practices, processes, and policies by which an organization is managed to keep it as a going concern, maximize its profitability, and protect the interest of its stakeholders. Good corporate governance remains the bedrock of every successful organization as it provides the immunity that every organization needs to address internal and external threats to its growth and continued existence. Good Corporate Governance attracts investors to an organization demonstrates the ลร it organization's commitment to fostering accountability, integrity, and long-term sustainability. Good corporate governance also aids brand building and enhances an organization's reputation which will ultimately attract investors, and other stakeholders to the organization.

Board diversity is the composition of the Board of an organization with Directors of different experience, gender, race, age, and culture to enhance the Board's decision-making process. Board diversity has moved beyond being an item on a organization's compliance checklist to being a major strategy for ensuring an effective Board and fostering good corporate governance. The Nigerian Code of Corporate Governance 2018 ("NCCG") provides that the Board and its Committees can effectively discharge their responsibilities when a balance of skills and

diverse representation (including experience and gender) is achieved, without compromising competence, independence, and integrity. 1 It is a recommended corporate governance practice that the Board be responsible for determining its composition, and establishing the process to achieve a balanced mix of knowledge, skills, experience, diversity, and independence for effective governance.² The Board is required to approve the criteria for appointing new directors as recommended by the Committee charged with nominations and function, governance considering existing Board strengths and weaknesses, integrity, competence, skills, knowledge, experience, capacity, and diversity (including gender).3 Board evaluation should assess the Board's diversity and make recommendations on the Board's composition.4 The NCCG also recommends that the Board should have a Diversity Policy to govern the diversity process and establish measurable objectives for achieving diversity in gender and other areas.5

A diverse Board enhances an organization's performance and fosters innovation problem-solving for Boards as various perspectives are being put forward by Board members for effective decision-making. The Board composition can also determine public trust in a company and lack of diversity may signal biased decision making and poor corporate governance. It reflects an organization's values and at a glance helps a third party decide whether or not an organization is committed to corporate governance. A characterized by homogeneity, regardless of the individual brilliance of its members, inherently operates within a limited frame of reference. Conversely, a Board enriched by diverse backgrounds, experiences, and perspectives cultivates more dynamic and insightful decision-

¹ Principle 2, Nigerian Code of Corporate Governance 2018

 $^{^{\}rm 2}$ ibid

³ Principle 12

⁴ Principle 14.3

⁵ Principle 28.2 (b)



making. By actively embracing Board diversity, organizations not only tap into a deeper reservoir of talent but also gain a better understanding of the increasingly complex and interconnected markets they navigate.

Contrary to popular opinion on Board diversity, the concept goes beyond gender and race mix on a Board. It refers to a deliberate effort to compose a Board with individuals with diverse professional backgrounds, spanning finance, technology, law, marketing, and other relevant fields. There are four major dimensions of Board diversity namely demographic cognitive diversity, experiential diversity, and identity diversity. 6 Demographic diversity entails composing a board with directors of different genders, races, ethnicities, ages, and disability statuses. Cognitive diversity refers to a composition based on the diverse backgrounds, experiences, perspectives, expertise, problem-solving styles of individual directors.

Experiential diversity covers the industry experience, functional expertise, international exposure, and leadership roles of directors. Identity diversity encompasses the consideration of the social economic, religious, personality type, and sexual orientation of the directors. The creation of a truly diverse Board hinges on the holistic consideration of these different dimensions during the director recruitment process. Recognizing intersectionality is essential to understanding how individuals' diverse identities interact and influence their perspectives, ultimately enriching the Board's collective intelligence. Boards should prioritize candidates with diverse backgrounds across the identified dimensions to encourage constructive debate, unique insights, and the challenges of conventional wisdom in the course of Board deliberations. Ultimately, a diverse Board reflects the multifaceted nature of the stakeholders it serves and possesses the collective intelligence to navigate the complexities of the modem business environment.

CHALLENGES ASSOCIATED WITH BOARD DIVERSITY



While the benefits of Board diversity are welldocumented, achieving and leveraging it effectively to enhance good corporate governance and organizational performance has its associated challenges. The Board and members of an organization have to overcome conscious and unconscious underlying biases capable of influencing the director recruitment process, Board dynamics, and how diverse perspectives are received. Where these biases are not managed, they may forestall the appointment of qualified candidates from underrepresented groups or undervalue their contributions if they are appointed to the Board.

Another challenge stems from the potential for increased complexity in Board dynamics. The very strength of varied perspectives can, if not managed effectively, manifest as disagreements and even conflict. Successfully navigating this terrain demands astute leadership capable of fostering open communication and embedding inclusivity into the decision-making process. Without such deliberate cultivation of a collaborative environment, the potential advantages of diverse thought can be

(2023) Corporate Social Responsibility and Environmental Management

⁶ Hendrik Behlau, Janice Wobstand Rainer Lueg, 'Measuring Board Diversity: A Systematic Literature Review of Data Sources, Constructs, Pitfalls, and Suggestions for Future Research'



squandered amidst unproductive clashes or, worse, fractured relationships among directors. Consequently, Boards should proactively invest in equipping their members with the skills necessary to thrive in a diverse setting, including training focused on conflict resolution, active listening, and inclusive leadership practices. This investment in human capital is essential to transform the potential for conflict into a catalyst for innovation and improved governance.

Furthermore, simply assembling a diverse Board is not sufficient to enhance a Board's performance. Cultivating a genuinely inclusive environment, where every director feels valued and empowered to contribute their unique insights, is paramount. This necessitates a fundamental shift in organizational culture, often originating at the highest levels of leadership. Board chairs and other leaders must actively champion a climate of respect, ensuring that diverse voices are not just acknowledged but authentically integrated into deliberations. This can involve proactively challenging established norms, soliciting input from every member, and guaranteeing that diverse perspectives demonstrably shape Board decisions. Absent this unwavering commitment to inclusivity, even a demographically diverse Board can fail to realize its full potential, becoming a collection of individuals rather than a cohesive and effective governing body.

Assessing the true impact of Board diversity presents another layer of complexity. While metrics like representation quotas offer a readily quantifiable snapshot, the more nuanced influence of diverse perspectives on strategic decision-making is far less tangible. Boards, therefore, must develop sophisticated evaluation frameworks that transcend mere representation and delve into the real impact of diversity on Board performance, strategic outcomes, and the broader organizational culture. This necessitates a deep understanding of the multifaceted nature

of diversity and how its various dimensions intersect and interact to influence the Board's overall effectiveness. Such a nuanced approach to evaluation is crucial for demonstrating the value of Board diversity and driving continuous improvement in Board composition and governance practices.

CONCLUSION

In conclusion, board diversity, encompassing cognitive, experiential, demographic, identity dimensions, plays a crucial role in enhancing good corporate governance and driving organizational performance. While challenges such as unconscious bias, potential conflicts, and the need for inclusive leadership must be addressed, the benefits of diverse Boards are substantial. Diverse Boards foster better decision-making, increased innovation, stronger stakeholder engagement, and improved financial performance. By prioritizing a holistic approach to Board diversity, organizations can unlock a wider range of perspectives, better navigate complex markets, and ultimately achieve greater success in today's dynamic business environment. Moving beyond mere representation to cultivate true inclusion is essential for realizing the full potential of Board diversity and ensuring long-term sustainability. Finally, developing a diverse and effective Board is an evolution, not a revolution, requiring longterm dedication from the company's leadership.

CONTACTS



GRACE EREWELE grace.erewele@advocaat-law.com



TEMITUOPE KEKEMA temituope.kekema@advocaat-law.com