Lack of diversity: The elephant in the boardroom

Internationally, major contributors to the governance discussion use the same tone about gender and ethnics diversity in boardrooms. They highlight the lack of diversity - even though progress has been made in recent years - and find a correlation between board performance and diversity in terms of growth, performance and value creation.

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In the January 2018 report *How and Where Diversity Drives Financial Performance*, the Boston Consulting Group Henderson Institute (BCG's internal think-tank) analysed more than 1,700 companies covering eight countries. They measured both innovation (in terms of revenue generated by innovations or products with less than three years) and the earnings before interest and taxes (EBIT) margin to compare diversity at management level (considering the six dimensions of diversity, namely migration, industry, career path, gender, education and age).

The report found a statistically significant relationship between diversity and both innovation outcomes and the EBIT margin, stating companies with above-average total diversity had both 19 percentage points higher innovation revenues (for projects on the market for less than five years) and nine percentage points higher EBIT margins, on average.

These results hold true for companies in developed and developing countries with the research conducted in countries including China, Brazil and India.

Boardroom diversity in Africa is low

Behind the discussions and headlines is the reality that diversity remains low. The Businesswomen's Association of South Africa's (BWASA's) *South African Women in Business Census 2017* reflects women represent only 19.1% of the directorships for JSE-listed company boards. The *Grant Thornton International Business Report 2016: Turning Promise into Practice* on mid-market companies found women in South Africa hold 23% of the senior roles against 27% for Botswana, Nigeria and South Africa combined. However, 39% of the companies in the survey did not even have women in senior management against a quarter for the same group of countries.

However, Africa is showing a clear diversity focus. Effective January 2017, all JSE-listed entities must have a formalised policy on the promotion of gender diversity at board level, as well as disclose how they are performing against this policy. Many African Code of Corporate Governance reports emphasize boards should aim toward a greater diversity. The Nigerian National Code of Corporate Governance compels companies to establish and disclose a diversity policy. This includes board requirements for setting out measurable objectives to achieve gender diversity that can be annually assessed in terms of the objectives and the progress in achieving them.

The research reinforces this perspective and dovetails with the latest BWASA census on women in leadership. That census states women account for 22% of board directors, while the survey pins this figure at 21.76%. However, one major concern is that 27.9% of the boards with independent directors have no women among their members.

Racial diversity in the dataset

Although gender is often the foremost issue for workplace diversity, boards must appreciate other factors. Racial diversity is particularly critical for companies wanting to embrace different viewpoints and better foster sustainable growth.

However, defining an ethnic minority is thorny when addressing the group's economic power. The notion is linked to every country's history and racial diversity and one group might be an ethnic minority in terms of the population, but prevail economically. This same group might be a significantly larger part of the population elsewhere without dominating the economic power. The myriad of ethnicities across Africa compounds this issue when considering the continent's wealth.

Despite the complexities, African boards are far from being diverse with 40.4% of the dataset having only one racial representation - in other words they have no racial diversity.

Moreover, ethnic minorities (in terms of economic power) are typically underrepresented compared to their percentage of the population. While whites constitute a minority in Africa, white directors average 48.9% of the directors on each board of the dataset. This rises to 71.3% when only considering South Africa.

In Kenya, despite only constituting 2% of the populations, Indians have a significant economic influence over the economy and therefore, unsurprisingly, Kenya's 44th tribe represents 52.5% of the directors of the Kenyan boards in the survey. In this context, remember the survey focused on boards of privately-held companies and family businesses.

Impact of diversity on performance: a focus for the 2019 research

Diversity is a complex element to measure, as it must consider gender and racial diversity among others. Complicating the analysis in this research was the diversity of the countries and economies studied. Hence, the dataset could not effectively evidence a correlation between board's performance and diversity and this will be a key objective for the 2019 research. Yet, it does not mean boards' performances are not influenced by diversity with significant global research showing a correlation and we believe this correlation exists in African boards.

The Sirdar Group believes diversity should not be considered a trendy new KPI followed to vamp up boards to attract investors. Mirroring the diversity among clients, employees and the community is rather a means to better serve stakeholders and ensure long-term sustained performance.

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