

THOUGHT LEADERSHIP



# Leveraging Differences in the Boardroom

How multiple perspectives contribute to greater success.

WHITEPAPER



To be convinced that the boards of private clubs have a diversity problem, one only needs to walk their hallways and gaze upon the smiling faces of current and past board members. The pantheon of white, middle-aged and older gentlemen, many of whom likely share similar business and cultural experiences, is not exactly a rainbow coalition.

Boards that are neither representative of the membership nor reflective of their surrounding community risk losing the opportunity both to serve their current members and to attract new members. Paul Polman, the CEO of Unilever, says: **“I would have a hard time even understanding how you can be successful as a business if you cannot mirror the society that you serve in the first place.”** He was talking about business in general, not private clubs, but his words ring true across all organizations.

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## Adjusting the Leadership Profile

We hasten to add that this is not an argument in favor of political correctness, identity politics, gender inequalities, or quotas. It is an argument for adjusting the profile of the club's leadership to better serve and retain current members and attract new members. Each of these objectives is enhanced by directors who bring to the boardroom a common set of values, a variety of perspectives, and a diverse set of skills.

We will examine each of these critical success factors and describe how they affect retention (serving current members by giving the different factions a voice in the boardroom) and admissions (attracting new members by presenting a club governed by a board in touch with the current economy).



## An Outdated Strategy

We didn't reach this point by accident – more by design. Most people join private clubs to be around people like themselves: people who look, talk, and think as they do and who represent a similar socio-economic stratum. As a result, when clubs recruited new board members, the pool of candidates looked appealing precisely because of its familiarity.

In its day, the promote-from-within board strategy was innocent enough, even well-intentioned. But in the brighter light of a changing economic climate, its execution can reduce the board's openness to new ideas and hinder its ability to govern effectively. Directors become beholden to those who invite them into the boardroom and tend to side with their benefactors' views on how the club should be operated and governed. Consistently aligning their decisions with longer-tenured board members can lead to organizational inertia such that the status quo is the default option.

## The Women's Century

Reaching into this pool of similarity to populate boards was not only convenient, but also logical during the golden age of clubs, when their rolls were dominated by white middle-aged and older men. But today's private clubs exist in a world wrapped in a coat of many colors and perspectives. For example, in families that belong to private clubs, women may well be the primary breadwinner and, even if they are not, they often have the final say on whether to join a club.

**Women are the most dynamic and fastest-growing economic force in the world today.** They control more than \$25 trillion dollars in global spending. To put that into context, the economic impact of women today is larger than the European Union and China combined. It's no wonder that many predict that the 21<sup>st</sup> century will be remembered as the "Women's Century."

In this same world, clubs are reaching further into their community to fill membership pipelines and welcoming more minorities and candidates from differing social strata. In this atmosphere, a lack of gender, racial, and cultural diversity can be blatantly out of touch.



## Consequences of Sameness

To evaluate the consequences of board homogeneity further, consider the breadth of the board's purview. Its responsibilities may vary from club to club, but they generally consist of identifying and evaluating significant opportunities and risks, serving as informed counsel for major strategic decisions, and assessing management's performance. Effectively performing these duties requires individuals who are experienced in one of more aspects of club operations, e.g., governance, finance, management, marketing, procurement, real estate, and agronomy. It also helps when the environment inside the boardroom encourages open and honest discussions and challenges to different points of view.



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## Threat to Health, Longevity

Unfortunately, in our experience, we find that clubs are not intentional about ensuring that their board members span multiple skill sets and experience. We often see board members with similar professional, cultural, and ideological backgrounds and perspectives. These boards forgo the opportunity to benefit from the value of applying different perspectives to decisions and policymaking.

Underrepresentation of skill sets on the board potentially threatens a club's health and longevity by limiting the range of new ideas for growth and solutions for complex problems that confront clubs in today's economy.

## Benefits of Board Diversity

In contrast, the benefits a diversified board bring to a club are significant and wide-ranging, including:

- Directors with a breadth of experience in dealing with opportunities not only reduce the risks brought on by unforeseen and unpredictable threats, but also improve the likelihood of realizing opportunities as they arise.
- Similarly, a diverse board allows for the group to better anticipate and consider the concerns and perspectives of all key constituencies, which includes not only members, but also employees and the community at-large.
- A diverse board introduces the philosophy that different is something to be embraced, not avoided. It's the notion that collaborative tension is the essence of good governance, and that constructively challenging the status quo is healthy. Both lead to cross-pollination of ideas and encourage decisions that enjoy wide support.
- Just as investors, customers, media, regulators, and others are scrutinizing corporate boards, so are members evaluating their club's board. Their confidence increases when they believe the club's membership profile is reflected in the board.



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## Recognizing Resistance from the Status Quo

Though we believe there is strong evidence for the benefits of diversity on a board, we also recognize the resistance that often accompanies an effort to make it happen. Unfortunately, there are always those who are grounded in the status quo, i.e., *“That’s the way we’ve always done it.”*

To a greater or a lesser degree, we all like to stay within our comfort zones. Boards are no exception and tend to resist change rather than disrupt the status quo. As we noted earlier, being around people who look, sound, and think like we do is a reason many choose to join a club in the first place and the reason many choose one club over another.

But it’s not just institutional inertia that resists change in the profile of the board. Sometimes it’s a differing set of assumptions. For example, with respect to women serving on boards, there is a clear gap in assumptions.



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## Supply or Demand?

In a recent study, men and women board members were asked: *“What is the primary reason that the number of women on boards is not increasing?”* The number one response of men aged 56 to 65 was “lack of qualified female candidates.” Not surprisingly, women board members saw things a little differently: nearly 70 percent of women aged 56 to 60 cited boards’ unwillingness to make diversity a priority. In other words, men in the baby boomer generation seem more likely to see the lack of women on boards as a supply problem while their female counterparts see it as a lack of demand.



## Not Simply a Numbers Game

Making your board more diverse by adding to its gender, age, race, ethnic, and experience makeup is a start, but only that. Do not view it as an exercise in filling quotas, i.e., *if we have 10 board members, three of them must be women*. Boards can increase their representation in each of these areas and still fall short of what diversity really means. That's because diversity without inclusion is a numbers game: it puts a check mark in boxes but leaves one very important box empty.

## Ensuring Every Voice Is Heard

We define inclusion as every board member not only having a place at the table, but also feeling free to bring his/her whole self to the table, completely and without constraint. Inclusion ensures every voice is heard, and it occurs when everyone has an opportunity to fully participate in the process of fair and equitable club governance. When each person is participating in the conversation, and when the sum of all contributions is aggregated, the board's value to the club is magnified.



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## Building a Diverse Board

Clubs intent on increasing diversity among their board members take a holistic, multi-dimensional approach to its creation. Forward thinking boards understand that it is the breadth of perspective, not the mere inclusion of various diverse traits, that benefits the organization. **In addition to social diversity, professional and experiential diversity are also important in increasing the range of perspectives represented on the board.**

The job of creating a diverse board – one composed of directors with a broad range of backgrounds and perspectives – falls initially to the nominating committee. But often the committee's default is to turn in the direction of their own networks, instead of casting a wider net. Obviously, this is a limiting approach and one that gives rise to self-reinforcing homogeneity.



**Egon Zehnder, a global management consulting and executive search firm, says boards must look beyond the candidate with the perfect résumé.** “In addition to CVs, they should look for the potential for great leadership by examining four traits: curiosity, insight, determination and engagement. This approach will yield both more and better diverse board candidates.”

The flaw in falling in love with the perfect resume is akin to the practice of hiring the best athlete – someone who can play a variety of positions, but who may have limited experience in any of them. A better approach is to map your current board members against the skill sets that you would ideally want on the board and recruit to fill in the gaps.

In other words, if there's a surfeit of general business experience already represented on the board, you don't need more business generalists. But you might need someone who is an expert in real estate taxation or finance. Once the specific need has been identified, there's an opportunity to recruit for diversity in parallel with a needs-based search.

## Be Intentional – Define Your Team

We suggest the search for new board members recognizes three categories of criteria: required characteristics, desirable characteristics, and desirable experience and skills.

Required characteristics are criteria that are stipulated in the club's bylaws, such as being a member for a certain amount of time. We advise boards to expand their definition of requisites to cover such things as a candidate being known as a person of integrity and a team player. While these traits are difficult to quantify, a candidate's reputation for integrity and team play usually precedes him or her, making their qualification along these lines easy for the nominating committee.

**Desirable characteristics, experience and skill sets are the areas where the board's commitment to diversity comes face to face with its actions.** First, determine the set of perspectives that the board would like to reflect, making sure that different age groups, racial and ethnic backgrounds, and specific business and club experience are written into the search criteria.

To make sure none of these desirable characteristics and experiences are overlooked, you may want to conduct a gap analysis of the board that maps candidates against specific experience and skills that have been identified as lacking.



## A Commitment to Diversity

If you don't define what you want your board to be, you won't achieve it. Decide what your ideal board looks like, write it down, select a nominating committee that will honor the desired board profile and watch as your board takes on a new look, one that positions the club for new growth and vibrancy in a new world order.



If you would like to learn more about developing a more diverse board at your club, get in touch with a member of our governance team. Contact information detailed on the following page.



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