



# A NEW APPROACH TO DIVERSITY

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MAXIMUS

**Gender diversity has a legitimate place in governance and, quite rightly so, it gets a lot of airtime. However, the value of diversity goes beyond addressing under-represented social groups. It makes different types of thinking available to solve complex business problems, optimise boardroom performance, and drive transformational business change. Homogeneous groupthink won't achieve the best outcomes. What you need at the table is a range of opinions, experience, and knowledge, and a willingness to listen to them.**

In recent years, shareholders have become more active and vocal in the area of diversity, demanding executive teams and boards that better reflect the range of an organisation's customers and employees. During the 2010 AGM season, for example, multiple boards and nomination committees were "subjected to increased scrutiny over their membership and selection processes."<sup>1</sup>

Much of this scrutiny is focused on gender equity. Some companies, such as the Big Four banks, have responded by embracing diversity voluntarily. Others have been persuaded by new ASX corporate governance guidelines, which mandate the establishment and reporting of gender equity programs. Since the guidelines were announced in January 2010, the number of women on ASX 200 boards has increased by more than 50 percent. But we can certainly do better — today just 13.8 percent of the ASX 200 board members are women.

In international terms, Australia lags behind a host of other countries, including the US (15.7 percent), South Africa (15.8 percent), Germany (16 percent), France (22 percent)<sup>2</sup>, Finland (24.5 percent) and Sweden (27.3 percent)<sup>3</sup>. Furthermore, one-third of ASX 200 boards have no female directors at all.

## **LINKING DIVERSITY TO BUSINESS RESULTS**

There's no doubt that having a mixture of male and female executives and directors can make a significant contribution to business success. A comprehensive new report from Credit Suisse Research backs this up<sup>4</sup>. Their study of 2,400 companies around the world shows that those with female directors perform better in challenging markets than those with all-male boards. The study was conducted over a six-year period that included the 2008 global financial crisis. The shares of companies with a market cap of more than US\$10 billion performed 26 percent better than comparable businesses when there were women on the board, and their net income growth was 4 percent higher.

According to the report, the mix of leadership strategies, thinking styles, and risk profiles that gender diversity brings to leadership roles are major contributors to stronger corporate performance.

Let's take this argument a step further by proposing an even broader definition of diversity for leadership teams — one that goes beyond affirmative action. At Maximus, we believe that boards and executive teams would benefit from a more strategic mix of skills, expertise, viewpoints, and ideas, and the selection process should take this kind of diversity into account too.

Having a mix of ethnic, social, and gender backgrounds is useful as a starting point for this approach, but few companies address diversity from a broader, outcomes-based perspective. They favour assigning targets and quotas to under-represented social groups so that they can meet the mandated requirements. This does little to drive better business outcomes, can breed resentment with other groups, and does nothing to advance the spirit of diversity.

<sup>1</sup> Anthea McIntyre, "Tomorrow's boards: creating balanced and effective boards", Australian Institute of Company Directors, 2011.

<sup>2</sup> Richard Branson, "Why we need more women in the boardroom", entrepreneur.com, September 2012.

<sup>3</sup> "Tomorrow's boards: creating balanced and effective boards", Australian research note, Deloitte, August 2011.

<sup>4</sup> "Gender diversity and corporate performance", Credit Suisse Research Institute, August 2012.

## THE ADVANTAGES OF REAL DIVERSITY

While there's plenty of data supporting gender equity, there is — to our knowledge — no empirical evidence that a broader approach to diversity has any business merits. However, as a consulting firm in the trillion-dollar professional services sector, we have worked with hundreds of organisations and have seen diversity at work, particularly at the executive and board level. We know that its business value is greater than ticking a moral or regulatory box.

A genuinely diverse leadership team leverages the business value of having access to different outlooks, management styles, communication styles, values, opinions, experiences, and behaviours. Their leadership platform is enriched by having a team of people with different frames of reference, providing a wider range of strategic options to explore when making decisions and a host of other advantages. For example, that includes:

- More ideas. Ideas are at the heart of every business decision, and the more diverse the team, the wider the pool of ideas to choose from. Diverse management teams are better at capitalising on growth opportunities and business improvement ideas, and at managing a more productive organisation. No diversity means stagnation and no new ideas.
- More innovation. Creation, reinvention, and new ways of thinking are vital for business growth. A diverse mix of people with different ideas, opinions, and experience creates a team that's more willing to challenge accepted thinking and be open to experimentation.
- More calculated risk. A diverse team means different attitudes toward change. Some people see the risk in everything while others are infinitely optimistic. New ideas are essential for business growth, especially in challenging market conditions, but they are also inherently risky. With a diverse team of leaders, your organisation is more likely to stay competitive.

Having a diverse team should be an objective for every organisation. Once you do, the next step is figuring out how to manage it.

### HOW TO MANAGE A DIVERSE TEAM

- Set the foundations from the outset: trust, openness, and respect
- Make directors aware of their behaviours
- Close down negative behaviours
- Foster understanding and respect for different opinions and ideas, if not agreement
- Focus everyone on common goals
- Ensure balance — don't allow individuals to dominate
- Allow everyone to express their point of view and acknowledge their contribution
- Encourage honest, open and brave debate
- Set deadlines for decisions and stick to them

## MANAGING A DIVERSE TEAM

There's no legislation or regulation governing how organisations should select directors or executives for the broader definition of diversity that we have outlined. The final mix relies on how leaders select their team members. To be successful, the selection must be strategic, taking into account the impact of every individual on the group dynamic. Throwing a bunch of people into a team and calling it diverse misses the point entirely.

Assembling the optimum team is the first step. In order to get the best out of the opportunities true diversity creates, the team must then be well managed.

Highly diverse teams can be difficult to motivate and manage, especially at a senior level. The ties that bind team members are looser than when everyone is on the same page for everything. There will be more debate and friction, so tensions will arise. Members who aren't used to being challenged can be frustrated or angered by opinions different to their own and can resort to applying stereotypes to other members. They may band together with like-minded members, creating silos of opinion and ideas that block progress.

The good news is that, if managed well, these tensions can be resolved, resulting in a positive, collaborative environment where lively debate is welcomed and fruitful. One of the leading academics in the field of corporate governance, Jeffrey Sonnenfeld, believes that having an extremely contentious board is essential for high-performing companies. He once said, "If a board is truly to fulfil its mission — to monitor performance, advise the CEO and provide connections with a broader world — it must become a robust team — one whose members know how to ferret out the truth, challenge one another and even have a good fight now and then"<sup>5</sup>.

Lack of genuine diversity is a threat to corporate success. Embrace it at the highest level and it could be a game-changer for your organisation.

<sup>5</sup> Jeffrey Sonnenfeld, "What makes great boards great", Harvard Business Review, 2002.

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## ABOUT THE AUTHOR

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Vanessa Gavan is the founder and managing director of Maximus International. For over 15 years, she has consulted to a range of leading Australian and international organisations to enhance business strategies, improve executive leadership capability, redesign organisational structures, and deliver operational performance solutions.

As an entrepreneur and business leader, Vanessa has lived through every business life cycle and has refined her abilities to inspire, deploy, and motivate people to achieve great things.



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