

The Need for Board Diversity

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The board of directors is critical to the success of a cooperative. Board members are an important part of the cooperative's human capital, bringing their skills, perspectives and experiences to bear on the decisions facing the firm. Cooperatives have long recognized the importance of the competency the board of directors. In recent years the composition of the board has become to be viewed as equally important as competency of individual members. An important element of board composition is board diversity.

The basic argument for board diversity is that a board with a broader range of skills and backgrounds and one representing a broader range of stakeholders is better able to address the decisions facing the firm. Board diversity relates to the simple question of whether the board has an appropriate balance of skills and perspectives. There are many dimension of diversity but the areas of opportunity for agricultural cooperatives are gender diversity and age diversity.

A straightforward benefit from diversity is access to a wider range of knowledge, resources and contacts. A director who is a livestock producer is likely to have more contacts in the feed industry relative to a grain producer director. A director with political connections might be better able to guide the firm through regulatory issues. Diverse perspectives can produce a wider range of solutions and decision criteria for strategic decisions. Another potential benefit, is increased creativity. Individuals with diverse backgrounds and life experiences approach problems differently. Diverse groups tend to be more creative and identify a wider range of potential solutions. Groups with heterogeneous members are less likely to suffer from "group think" and tend to gather information from a wider range of sources. Studies of S&P 500 corporations found that the "questioning culture" of the board was improved by gender diversity. Boards with greater gender and age diversity appear to make better decisions, particularly when dealing with strategic issues or organizational change.

Other benefits of diversity relate to the board's role as a symbol of the organization and its insights into customer needs. Stakeholders may perceive the board as more legitimate and relevant when its composition is similar to their demographics. For example, female employees might perceive a better career path in a cooperative when the board has gender balance. Similarly, younger producers might be more likely to become involved in a cooperative when there are young producers on the board. This dimension becomes intertwined with the more diverse skill set. Female directors might have new insights into human resource management or customer preferences as well as being perceived differently by those stakeholder groups. This rationale explains why consumer product corporations were early pioneers in the quest for greater board diversity.

In my next newsletter I'll discuss the possible pitfalls of board diversity.

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