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## **The Erfurt Meetings**

### Enhancing stakeholder diversity in the Board room

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[http://www.citizenseminars.eu/Downloads/ECS\\_BoardDiversity\\_2008-03.pdf](http://www.citizenseminars.eu/Downloads/ECS_BoardDiversity_2008-03.pdf).

## Enhancing stakeholder diversity in the Board room

*Diversity is a way of enriching and strengthening the capacity of businesses in facing a future of complex, holistic and multi-disciplinary challenges.*

*It is a way of developing capabilities for sustainable progress in a context of global interdependence, interconnectivity and widened business challenges, opportunities, threats and responsibilities.*

### **1 Premises**

With globalization, the world is becoming more and more complex and interconnected. In business, this complexity and interdependence are reflected through increasing importance of different stakeholders, internal and external to the firm (i.e. employees, social and natural environment, consumers, investors, etc.). The sources of competitive advantage and disadvantage are constantly changing and often depend on the incentives for and opposition of the key stakeholder groups to make company-specific investments and contributions. This introduces the need for companies to make decisions and to adopt actions with full understanding of their impact on the values and interests of the various stakeholders' groups. Managers and boards find themselves balancing the interests of key stakeholders and should be able to recognize the importance of the different values and interests for sustainable business progress.

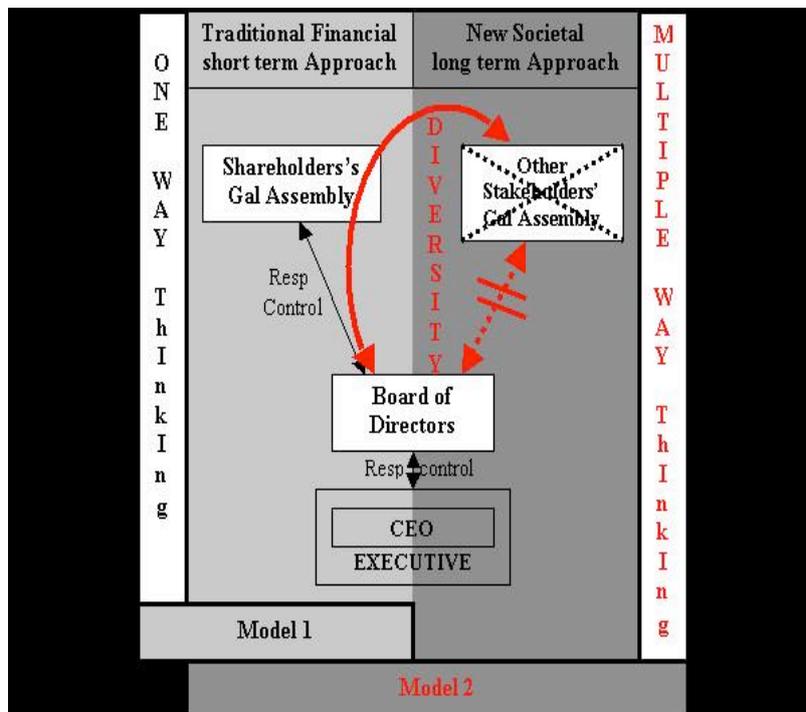
In line with this argumentation, the importance of a more long-term company orientation and a stronger concern for balancing the diverse interests of different stakeholders has been stressed and underlined also within the European Strategy for Sustainable Economic Growth. In particular, the green paper of the Commission (July 2001) explicitly states that "the companies should integrate social and environmental concerns into business operations and in their interaction with various stakeholders on a voluntary basis and be aware of the importance of the responsible behaviour for sustainable business success".

We believe what is stated above requires a new approach to the formulation of business strategy, a so-called 'multiple way thinking' approach. We believe that Board diversity is an important way through 'multiple way thinking', which can be reinforced on the Board and contribute to the strategic development of the corporation. It should lead to a Board composition that enables adopting an active role and responsibility in implementing this way of thinking through a dialogue with the various relevant stakeholders' groups and a sufficient understanding of their interests.

## 2 Why diversity?

The traditional model that dominates today can be described as a 'one-way thinking' model (see Graph 1 below) in the sense that it mainly focuses on the financial objectives and evaluation of businesses and corporations. The trend that some corporations have started to follow is to adopt other, broader perspectives, taking into account multiple aspects, namely social, environmental or ethical impacts and consequences of their operations. This is what we call a societal long term approach.

Graph 1: Model for the issue of representation of stakeholders' interests on Boards



The graph above illustrates the traditional model of representation of the shareholders' interests on the Board of directors of the corporation - called model 1 (light grey area). Model 2 (light and dark grey areas) is a way of incorporating the interests of other stakeholders in the Board room. There are more and more stakeholders that influence, and whose values and interests are affected by the corporations. However, since it is not really possible to have a 'other stakeholders' general assembly' (see model 2) equivalent to the shareholders' assembly (see model 1), the interests of the various key stakeholders should be taken into account through a diversified representation on the Board. This diversity on Board would make it able to master the wider societal arena, the increasing complexity and interdependencies in the business environment. Therefore, rather than the representation of other stakeholders through a general assembly, we propose ways for increasing awareness and accountability in the Board room towards the stakeholders that are important for the corporation.

We believe diversity can promote and bring to the Board the necessary capabilities, creativity, openness and flexibility that today's strategic challenges demand. In fact, we see diversity as a source of diversified values (for identification of issues), of diversified points of views (for analysis), of diversified set of competences (for solutions) and of diversified set of finalities (for evaluation and priorities). In short: diversity will promote, if not being a guarantee for, a 'multiple-way thinking and acting'.

Diversity of members can be determined by four variables:

- 1) the **challenges** the company is facing or most probably will face in the future;
- 2) the scarce and valuable **resources** the company will need in the future;
- 3) the **capacities** that the company needs to develop;
- 4) the **externalities** the company will create, i.e., the effects of its operations on the external stakeholders that should be endorsed as a citizen / responsible corporation.

### **3 How to enhance diversity?**

In general, introducing diversity in corporate boards could be materialized by:

- legislative requirements (law);
- recommendations and calls for good practice (soft law);
- self regulation through internal / voluntary initiatives (internal codes of corporations or industrial sectors, board members associations, etc....);
- increased awareness among the shareholders of the necessity and value related to enhanced board diversity.

It must be noted that the last three points can be promoted by political initiatives at European and national levels as well as by advocacy by other parties.

We believe the method through which the Board diversity should be promoted largely depends on the:

- shareholders' and corporate culture and conviction about the importance of the diversity and the value it adds to the corporation;
- the pressure of stakeholders and specific cases of bad governance or events (occurrence) calling for action;
- performance of progressive implementation and rewarding experience;
- the level of company's and Board members' awareness of responsible behaviour.

There is no single way to achieve this diversity. There are situations where diversity will be promoted by inviting to the Board experts from specific fields or areas that relate to current or future problems, challenges, opportunities or threats that a company faces (e.g. financial issues, marketing, communication, environmental issues, human rights, human resource development, geographic areas, new products, or in new applications of existing products,...).

We recommend that the Board tries to achieve diversity of members, not only in the traditional areas of the company, but especially in areas reflecting new pressures, demands and expectations of the society such as issues related to the company's operations in emerging countries, inequality, environment, creation and transmission of knowledge, human rights, etc. Obviously, this does not imply that each of these issues should have its own steward and consequently that companies should have very large boards. A member may assume, so to say, the representation of a variety of interests; it may well be a generalist with a global mind-set, able to anticipate the broad vision of the society, its trends and tendencies. It must also be noted that, while introducing diversity, the Board should find a right balance between the difference in the interests and values of the Board members and the Board's ability to arrive to a consensus (efficient decision-making).

The members representing diversity should share characteristics like:

- courage to challenge 'one-way thinking';
- open-mindedness (capacity of 'multiple way of thinking');
- integrity;
- capacity and purpose to add value to the company and to the stakeholders;
- responsibility (towards the company and towards stakeholders);
- engagement;
- accountability.

#### **4. Conclusions and recommendations**

Diversity should not be understood as an imposition of the society but as a proof of the responsibility of the company towards its internal and external stakeholders;

Diversity is not an end but a means for the harmonization of interests for the long term benefit of the company and the society;

Diversity should be promoted mainly not by law but by conviction, agreement and transparency, although law and recommendations could help;

With regard to a more socially responsible behaviour of the corporations, the emphasis should primarily be put on the diversity of Directors rather than on their independence;

We recommend to promote a discussion inside the Board, between the Board and the shareholders as well as between the Board and other stakeholders to understand the reasons/motivations for and the benefits of Board diversity;

We suggest to focus the above mentioned discussion on the issues of societal responsibility and business ethics; the Board is the ultimate instance in the discussion of these issues;

The diversity should be sought mainly to face the current and future challenges of the company, the resources needed, the capacities that a company has to develop and the externalities it creates;

We propose for Boards to pilot and make the experience of diversity and to report on it;

The dissemination of the experience of Board diversity that is already implemented in the business practice should be promoted by relevant institutions such as Board associations, business associations, academics, etc.

We do not recommend enhancing diversity by imposing quotas; it is about balance;

The Board must be innovative and open when implementing diversity. It should search for a right balance of gender, ethnic background, vision, experience, areas of expertise, geographic areas, crucial issues, etc.

Board accountability for diversity can be attained by requiring the Board to report on the implementation of diversity and multiple way thinking in the annual report on a comply-or-explain basis.

A policy proposal in the sense of diversity in corporate Boards should focus on initiatives and motivations more than on obligations. In other words, it should promote self-regulation and co-regulation more than regulation. In regard to diversity, the Board composition should be an expression of the understanding and practicing of corporate responsibility in a global context.

*Erfurt (Germany), 18<sup>th</sup> March 2008*

*This document is the output of the common work of a group of 11 European professionals, gathered in Erfurt (Germany) from 15<sup>th</sup> to 18<sup>th</sup> March 2008. The group members originate from 10 different European Union Member States (Belgium, Denmark, Finland, Hungary, Italy, the Netherlands, Poland, Slovenia, Spain, Sweden). They have an extensive experience in the issues of corporate governance, gained in positions of general management of corporations, in Boards of Directors and in Supervisory Boards, in executive search, in trade unions and as researchers and professors in business schools.*

*The facilitators of the debates during the seminar were Jan Beddeleem and Agnieszka Tatera, members of the "European Citizens' Seminars e.V." association.*

## **Call for comments**

The "European Citizens' Seminars e.V." considers publishing a more complete work on the issue of "Enhancing stakeholder diversity in the Board room", at the earliest in October 2008. This document will contain the present text and those comments that have been approved by the group of participants. This further work will be regulated by the same copyright regime of Creative Commons "Attribution No Derivatives" license.

**Comments** to this document are therefore welcome.

Comments intended for potential publication should be sent to the group of participants for approval, at the following e-mail address:

[March2008.Participants@CitizenSeminars.eu](mailto:March2008.Participants@CitizenSeminars.eu)

Other comments should be posted on our blogs

<http://CitizenSeminars.Blogactiv.eu>

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The fully independent "European Citizens' Seminars e.V." <http://www.CitizenSeminars.eu> association was founded by 7 citizens from 6 European Union Member States (Bulgaria, France, Germany, Hungary, Italy, Portugal), in Erfurt (Germany) in May 2006, and officially registered under the number VR 2345. Erfurt, in the Eastern part of Germany was chosen because of its situation at the heart of Europe, both East and West of the continent. The association's network of active members now covers 10 European countries.

The purpose of the association is to contribute to the design of technically sound and politically legitimate European public policies. To that end, it gathers very diverse European professionals in intensive workshops and publishes the result of their common work in "The Erfurt Meetings" series.

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