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Risk-averse directors are stifling growth



According to a new report, boards need less directors with accounting and legal skills and more with international or executive experience and social media and technology skills. Photo: Louise Kennerley



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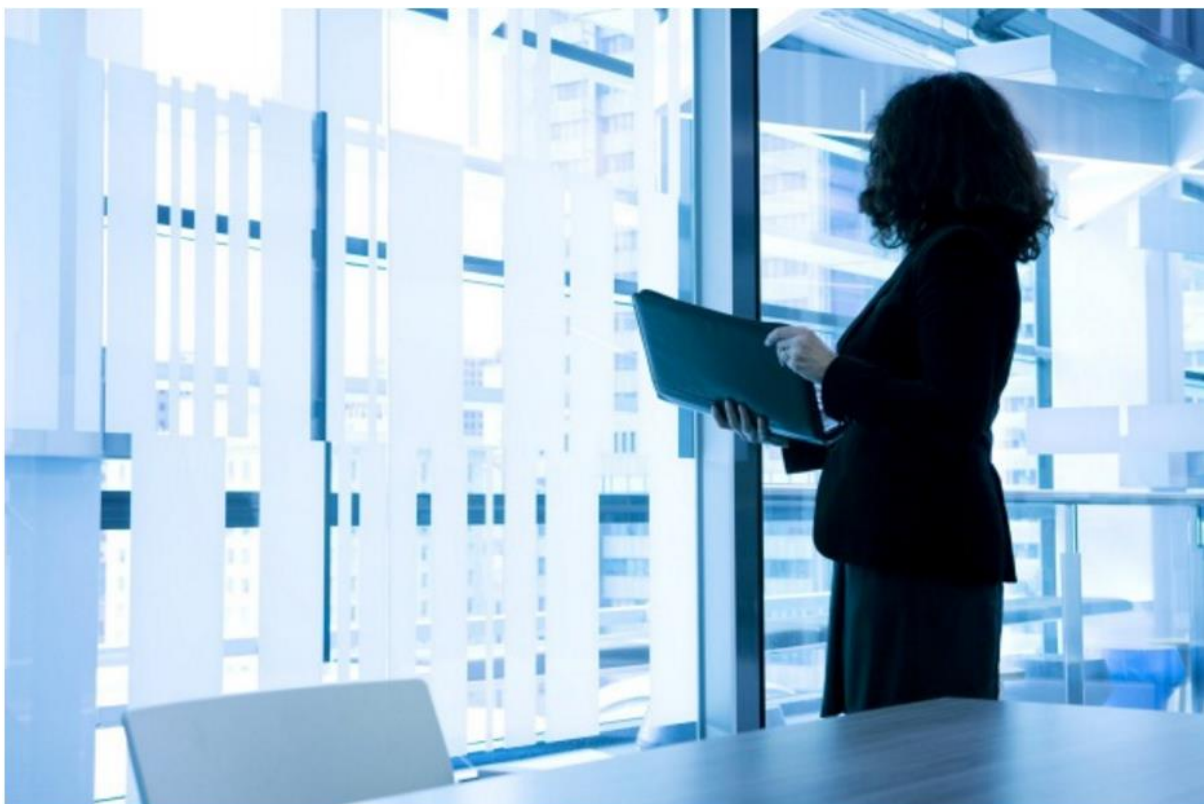
A lack of genuine diversity on corporate boards and the emergence of "career directors" may be draining listed Australian companies of their appetite for the sort of risks needed to generate growth in their businesses amid increased technological disruption, according to a major study of chairmen, directors and chief executives.

A lack of genuine diversity on corporate boards and the emergence of "career directors" may be draining listed Australian companies of their appetite for the sort of risks needed to generate growth in their businesses amid increased technological disruption, according to a major study of chairmen, directors and chief executives. Recruitment firm Blenheim Partners' Gregory Robinson and Dr Brett Wright, and Macquarie University Graduate School of Management's Professor Charles Areni interviewed

more than 80 chairmen, directors and chief executives of private and public companies about why boards were wary of growing their businesses.

Among the areas of concern the study identified are: the failure to consider diversity beyond getting more female executives and board directors; concerns that "professional directors" reliant on directors' fees for their income would not want to risk blotting their career prospects in the small Australian market with failure; excessive scrutiny from investors, proxy advisers, regulators and the media; an excess focus on compliance and box ticking over genuine growth strategies; and too many lawyers and accountants on boards compared with other areas of expertise.

Mr Robinson – who says using unattributed, verbatim responses allowed a rare insight into corporate Australia – also raised concerns about how narrowly boards examined diversity, mainly from a gender perspective.



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The report suggests that "the current diversity lens may not in fact be achieving diversity in thought and contribution" because directors tended to have common backgrounds, education and experiences.

While board chairmen seem to have an intuitive understanding of the benefits of having a critical mass of female directors, one director claimed that an "overemphasis on gender balance can lead boards away from what really matters in terms of diversity".

LACK OF INTERNATIONAL EXPERIENCE

The report highlighted the lack of internationally-experienced executives, former politicians, trade union leaders, scientists, academics and human resources directors at the board level of the sharemarket's largest 100 companies.

Some chairmen, directors and executives suggested that the drive for gender diversity may be contributing to a new class of young female professional directors as a way of meeting implicit or explicit quotas.

Others noted that males were also part of an emerging directors class of non-executive directors, more so than in the US or Europe, who did not have chief executive-level experience and who needed multiple board seats for income.

While some argued that younger directors may bring more understanding of digital technologies and social media, one participant suggested: "the day we went to career politicians, it became a problem, and the same applies to directors".

"There is a lack of C-level experience in the boardroom," another participant said. "I am seeing the development of the professional young NED and question what they necessarily bring to the table. Do they have industry experience? No, or limited."

Other participants suggested that boardrooms were becoming obsessed with reducing risk.

"Boards spend a lot of time on governance and with an overemphasis on risk, which does not necessarily reduce risk," one said.

"Unfortunately, this is making companies dead scared to take a risk. Are we making enough mistakes in the boardroom? No. Much of this is due to reputational risk. Reputation in a small pond is a major issue."

Asked about what skills boards needed less of, participants mostly identified accounting and legal skills. Competencies that respondents wished to see more of at the board level included international experience, executive experience and social media, technology and technology digital skills.

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