Blog Series: Good Governance for Value Creation
Blog Post no.6

Board composition: the role of diversity in good governance.

Written by Jen Sisson (ICGN CEO) and Jakub Brejdak (Senior Policy Executive) on 19 February 2026

ICGN Good Governance for Value Creation.
Blog post no.6

Board composition: the role of diversity in good governance.

In the previous blog, we highlighted board independence as a cornerstone of effective governance. Independence is necessary for an effective board, but it is not sufficient. As the ICGN Global Governance Principles highlight "the board should comprise a sufficient mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making in alignment with the company's purpose, long-term strategy and relevant stakeholders".[1]

Well-functioning boards are not meant to produce comfortable consensus. Their strategic value lies in informed disagreement, challenge and robust discussion. Directors are appointed not to think alike, but to bring different viewpoints shaped by varied professional backgrounds and experiences. Without this diversity, boards risk groupthink and untested assumptions, even where independence standards are met.

As business models and risk profiles evolve, so too should board composition. Here, the role of the nomination committee is critical. Through oversight of the skills matrix, succession planning and appointment processes, it helps ensure that new directors bring a wider range of perspectives, experiences and ways of thinking into the boardroom. This in turn supports more constructive challenge and balanced decision-making as the company's strategy and risk environment evolve. Although it often receives less attention than other committees, its work is fundamental in ensuring that board composition continues to broaden the board's collective perspective over time.

Diversity is not one-dimensional

Board diversity has multiple dimensions. It can relate to gender, ethnicity and age, but also to professional background, international experience and ways of thinking.

---

[1] ICGN Global Governance Principle
https://www.icgn.org/global-governance-principles

The relevance of each will vary depending on the company's business model, workforce, customer base and geographic footprint.

For investors, the key question is not whether a board meets a narrow definition of diversity based on box-ticking, but whether its composition is right for the company. A well-composed board reflects the environment in which the company operates and brings together a balanced mix of skills, experiences and perspectives needed to support effective oversight and informed challenge. Effective diversity is therefore context-specific, and its value depends on ensuring that the right capabilities and viewpoints are present around the table.

Realising the value of diversity, however, also depends on boardroom culture. Strong leadership is essential in creating an environment where different perspectives are heard, constructive challenge is encouraged, and diverse contributions translate into better decision-making.

Why does diversity matter?

1. **Diversity supports better performance**

Of course, we can never compare the performance of the same company, over the same time period, with different board composition. So, there is an inherent challenge to trying to mathematically "prove" the benefits of diversity based on a single financial outcome. However, the overall suite of evidence supports significant value add from diverse decision making, in a range of contexts – including in the boardroom.

For example, a growing body of research suggests that different dimensions of diversity can support company performance. AllianceBernstein notes that nearly 70% of S&P 500 directors come from a single generation, while only around 5% are under the age of 50, highlighting the limited generational breadth of many boards.[2] Evidence indicates that boards spanning a wider age range have been associated with stronger performance outcomes, and academic research has found that the presence of Generation X (born between 1965 and 1980) directors correlates with

[2] The Case for Multigenerational Corporate Boards, AllianceBernstein,16.10.2024. https://www.alliancebernstein.com/us/en-us/investments/insights/investment-insights/the-case-for-multigenerational-corporate-boards.html

improved financial indicators such as return on assets and price-to-book ratios.[3] This is not about one particular generation being inherently more effective, but about the value of bringing in perspectives from age groups that are otherwise underrepresented; in many cases, Generation X directors have represented the younger cohort adding different experiences and viewpoints. A recent study of more than 230 US banks found that, after controlling for firm and board characteristics, greater age diversity was associated with higher-quality earnings reporting, lower loan charge-offs and fewer non-performing loans.[4] Studies of UK firms find that gender-diverse boards, especially where women reach a critical mass of three or more, are significantly linked with better financial results.[5] Beyond financial metrics, other studies point to mechanisms such as enhanced decision-making, broader information flows and stronger innovation outcomes when boards include a wider range of perspectives and backgrounds.[6]

2. Diversity reduces risk of groupthink

Board diversity is necessary, though not always sufficient, to strengthen the board's ability to challenge management and avoid groupthink. Directors with different professional backgrounds, experiences and perspectives are often better positioned to question assumptions, test strategic proposals and scrutinise risks that may otherwise go unchallenged. This is particularly important in areas such as major acquisitions, capital allocation and executive remuneration, where boards are required to exercise independent judgment under uncertainty. From an investor perspective, effective challenge is a core governance function, and diversity enhances the conditions under which it can take place.

---

[3] He, Z. & Miletkov, M. & Staneva, V. (2023), "New kids on the block: The effect of Generation X directors on corporate performance," *Journal of Empirical Finance*, vol. 71, pp. 66-87.
[4] Janahi, M., Millo, Y., & Voulgaris, G. (2022). "Age diversity and the monitoring role of corporate boards: Evidence from banks", *Human Relations*, *76*(10), 1599-1633.
[5] Brahma, S., Nwafor, C. and Boateng, A. (2021), 'Board gender diversity and firm performance: The UK evidence', *International Journal of Finance & Economics*, Vol. 26(4), pp. 5704–5719.
[6] Di, H., An, J. and Yao, M. (2022), 'Finding the key to the black box of board diversity and firm performance: A mediating effect analysis of technological innovation', *Frontiers in Psychology*, Vol. 13.

3. **Diversity can enable to stronger board adaptability in times of uncertainty**

Companies are operating in an environment characterised by rapid technological change, geopolitical uncertainty and shifting regulatory and market expectations. In this context, boards cannot rely solely on experience shaped by past business cycles, and given that recruiting new directors to fill every skills gap is not realistic, calling on independent expert advice to bring challenging external perspectives into the boardroom can more easily happen with an open-minded, diverse board that welcomes such voices. Challenging legacy assumptions and is vital to help boards respond to emerging risks and opportunities.

When combined with effective succession planning and periodic board refreshment, diversity reduces the risk that boards become inward-looking or overly anchored in historical success. From an investor perspective, adaptable and diverse boards are better positioned to navigate uncertainty, recalibrate strategy when needed and oversee long-term value creation in a fast-changing environment

Diversity under pressure

Board diversity is increasingly being debated in terms of its relevance to business outcomes, particularly in the United States. Recent policy and legal developments, including executive actions and regulatory signals from the current US administration, have led many companies to reassess how they approach diversity-related programmes and disclosures.[7] Importantly, changes in public reporting do not necessarily signal a change in underlying views on the value of diversity. In many cases, updated language reflects compliance, litigation and reputational risk management in a fast-shifting environment, rather than a fundamental shift in corporate attitudes or boardroom priorities.

This has been visible in public disclosures. In the first half of 2025, 59 percent of companies in the S&P 500 significantly revised or removed diversity, equity and inclusion disclosures previously included in their Form 10-K filings. References to

[7] Ending Radical And Wasteful Government DEI Programs And Preferencing, White House, 20 January 2025.
https://www.whitehouse.gov/presidential-actions/2025/01/ending-radical-and-wasteful-government-dei-programs-and-preferencing/

"DEI" or similar language fell sharply, with only 34 percent of companies using such terms in their most recent filings, down from around 90 percent in 2024.[8] Moreover, the share of Russell 3000 companies reporting director race and ethnicity fell by 40% from 2024 to 2025.[9]

These developments may also have ripple effects beyond the United States, particularly in jurisdictions with close economic and regulatory ties. Canada is a clear example, where many companies and institutional investors are connected to the US through cross-listings, direct operations and contractual relationships, and may in the near term therefore experience indirect pressure from shifts in US policy and disclosure practice.[10] At the same time, applying a longer-term lens, Canada other markets such as the United Kingdom[11] and the EU[12] maintain their own expectations around board and senior management diversity disclosures.

From an Asia-Pacific investor perspective, it is also worth noting that many markets in the region continue to place growing emphasis on board diversity. In several Asian jurisdictions, this is being driven by a combination of regulatory reforms, evolving stewardship expectations and practical succession challenges linked to ageing boards and changing business environments. These developments serve as a reminder that global trajectories are not uniform. While disclosure practices may be shifting in some markets, others are continuing to strengthen their focus on board composition, suggesting that longer-term governance convergence is shaped by multiple regional dynamics rather than by developments in any single jurisdiction.

---

[8] Evolving DEI Disclosure Practices in SEC Filings, Harvard Law School Forum on Corporate Governance,
https://corpgov.law.harvard.edu/2025/06/10/evolving-dei-disclosure-practices-in-sec-filings/

[9] Board Practices and Composition in the Russell 3000 and S&P 500: 2025 Edition, The Conference Board.
https://www.conference-board.org/publications/board-practices-and-composition-2025-edition

[10] Navigating Board And Executive Officer Diversity Expectations In Canada: A Roadmap For High Performing Boards, CCGG Investor Perspective, 2026.
https://link.edgepilot.com/s/7a600210/fieu5A3FB02ra33EgKcbpg?u=https://ccgg.ca/download/6024/?tmstv=1768233248

[11] In the UK, diversity expectations are reflected in the Listing Rules through a disclosure-based framework. Listed companies are expected to have at least 40% women on the board, at least one woman in a senior board position and at least one director from a minority ethnic background. Where these thresholds are not met, companies must explain the reasons and provide standardised numerical data in their annual reports for the relevant financial year.

[12] In the EU the Gender Balance on Corporate Boards Directive sets targets for large listed companies of 40% of the underrepresented sex among non-executive directors or 33% among all directors.

The investor perspective

From an investor perspective, board diversity is not a matter of optics but of governance effectiveness. Alongside independence and relevant expertise, it is considered a material element of board composition. Boards that bring a broader range of perspectives are better placed to challenge management, oversee risk and navigate complex, fast-changing markets. While disclosure practices and policy signals may shift across jurisdictions, investors continue to view a diverse board as a fundamental part of the governance toolkit that supports long-term value creation.

Case studies

Myer Holdings: The cost of limited board diversity[13]

Myer Holdings, Australia's iconic department store chain, faced significant financial challenges, including a 40% drop in share price over recent years. This decline was partly attributed to a board lacking expertise in digital transformation and e-commerce, areas crucial for adapting to retail's evolving landscape. Additionally, the board's gender imbalance, with women comprising less than 20% of directors, contrasted sharply with the company's predominantly female customer base. This mismatch weakened strategic insight and responsiveness to market demands. The case underscores how limited diversity can hinder innovation and responsiveness in traditional retail.

Meridian Energy: Leveraging gender and cultural diversity

Meridian Energy Ltd, a New Zealand power company, has become a regional leader in sustainability and market performance through a strong commitment to gender diversity and Māori representation. Women currently make up 57% of its board and 36.4% of executive leadership, exceeding internal gender equity targets. Meridian also set a goal of 16% Māori representation by 2030 and actively promotes cultural competence through Te Ao Māori initiatives.[14] Meridian's inclusive

---

[13] https://www.reuters.com/business/retail-consumer/australias-myer-holdings-swings-annual-loss-shares-tumble-2025-09-23/?utm_source=chatgpt.com
[14] Meridian Energy, 'Workplace Diversity and Inclusion', 2024.

leadership has supported its position as a sustainability leader and aligns with global findings that diverse boards deliver stronger financial outcomes.

ICGN is grateful for the support of the working group Good Governance for Value Creation composed of Caroline Escott (Railpen), Nana Li (Impax AM), Catherine McCall (CCGG), Jana Jevcakova (Sodali & Co), Cristina Ungureanu (Qatar Investment Authority), Ali Saribas (Squarewell Partners), Fabienne Crisovan (Zurich Insurance), Lindsey Stewart (Morningstar), Luiz Martha (IBGC), Simon Rumore (Peakstone Global), Catherine Salmon (ISS), Peter Flynn (Scottish Widows), Karina Litvack, Hideto Nishitani and David Pitt-Watson.

We encourage dialogue by contacting Jakub Brejdak, Senior Policy Executive, policy@icgn.org.