



# Diversifying diversity:

## Considerations for creating a truly diverse board

By Susan M. Angele

"If there are 10 members on a board, what would be a good mix for diversity?" That question, posed by an attendee following a panel discussion about board diversity, shines a spotlight on the challenges and opportunities associated with board composition overall and diversity in particular. Given the fast pace and complexity of the business environment, it is critically important that the board include the right mix of skill sets and perspectives to help guide the company's strategy and oversee risk.

For this reason, institutional investors and other stakeholders are increasingly scrutinizing the composition of the boards of the companies in which they invest and the level of diversity is a critical component of that scrutiny. As more companies move to make progress on diversity and the discussions become more robust, consideration of diversity becomes more nuanced and the question raised by that observer comes into play. When is a board sufficiently diverse? What is the best mix for the company? What do my stakeholders expect? What are the expectations as they relate to different types of backgrounds? Is a board sufficiently diverse if it includes three women but no minorities? What about a board with minorities but only one woman? Is sexual orientation relevant as an aspect of board diversity?

An easy answer to these questions would be that there is no magic formula and it depends on the company and the board. It goes without saying that, first and foremost, boards should be constructed to include highly qualified directors with a mix of skill sets that will help the board provide oversight of the present and vision for the future. While every company has different needs and different expectations placed on it by stakeholders, the following considerations may be helpful as a board works to develop a plan for enhancing diversity:

- Does the board have an appropriate level of turnover?
- Is the board making a sufficient effort to ensure that it is using board recruiting as an opportunity to add qualified candidates who not only provide

the needed skill sets but also bring different backgrounds and add different ways of thinking into the boardroom?

- Does the composition of the board include directors with backgrounds who can provide special insight into important aspects of strategy, such as a key international market or the demographics of a key consumer, employee, or other stakeholder base?
- Are there other considerations that should be considered in building a diverse—and inclusive—board?
- What message is the company sending to its stakeholders with regard to the composition of the board?

### Build a strategic-asset board

Over the past few years, average board turnover among Russell 3000 companies has remained fairly stable at a level of 10 to 11 percent, according to the 2017 Equilar Board Composition and Director Recruiting Trends report<sup>1</sup>. Board turnover is a delicate issue that often is not discussed outside the context of director recruitment. Consider whether the board has incorporated this recommendation from the Report of the NACD Blue Ribbon Commission on Building the Strategic Asset Board: "Director renominations should not be a default decision, but an annual consideration based on a number of factors, including an assessment of current and future skill sets and leadership styles that are needed on the board." The report also recommends that boards include a mix of long, medium, and short-tenured directors (under five, five to 10, and more than 10 years of service), with strong continuous improvement processes—and tenure-limiting mechanisms as needed—to maintain a board that continues to be fit for purpose over time. Implementing the recommendations in the report, particularly as they relate to board tenure and turnover, may open opportunities for the board to recruit new board members who will add new and valuable perspectives through diversity of background as well as skill set.

<sup>1</sup>Source: Equilar, "Board Composition and Director Recruiting Trends," September 2017.

## Recruit with an eye toward diversity

Recruiting for a board that is diverse on a number of levels—skill sets, backgrounds, and perspectives—takes careful planning, relentless focus, and a willingness to use a broad lens to find the best candidates. In a survey by WomenCorporateDirectors Foundation, in association with Spencer Stuart and Harvard Business School, directors were asked to rank, in order of importance, the most effective ways to build diverse boards. Not surprisingly, the top answer was “board leadership (chair, lead director, nominating and governance committee chair) serving as champions of board diversity.” When asked about the biggest challenge to board diversity, the number one answer varied by age and gender. Men over the age of 55 responded that lack of talent was the biggest issue, while men age 55 and younger and women of all ages believe the biggest issue is not making diversity a priority.

As a supplement to the board members’ own networks and the recruiter’s (if one has been engaged), numerous resources exist that can help boards to broaden their recruitment efforts to build a diverse board. Membership organizations with highly qualified, diverse board members are often eager to connect with boards seeking to recruit new directors. WomenCorporateDirectors Foundation, Latino Corporate Directors Association, Ascend/Pinnacle, Black Directors Conference, and Quorum are some examples of organizations with highly qualified, diverse members. In addition, the Equilar database, NACD’s database, and other board-level databases include highly qualified candidates from a wide range of backgrounds.

## Make diversity strategic

When building a diverse board, a strategic approach can help bring an understanding of communities that are critical to the company’s success to the boardroom. For example, according to Bloomberg Businessweek, the purchasing power of the LGBT community in the U.S. is estimated to be \$917 billion. In addition, LGBT Capital, an investment and corporate advisory firm that focuses on the LGBT market, estimates that LGBT global purchasing power stands at \$5.7 trillion. According to Latino Gross Domestic Product (GDP) Report, released in June 2017, the GDP produced by Latinos in the United States in 2015 was \$2.13 trillion and Pew Research Center projects that the Hispanic share of the U.S. population is expected to reach 24 percent by 2065. In addition, Pew released a study in September 2017 that finds that Asian Americans have the fastest growth rate of any major racial or ethnic group and will be the largest immigrant group by about 2065 (38 percent). Their median annual household income is 36 percent higher than the median U.S. household. And the consulting firm Female Factor reports that women drive 70–80 percent of all consumer purchase decisions, either directly or through influence.

Inclusion in the boardroom of qualified directors who bring to the discussion the lenses of these communities, or others as applicable, can provide a competitive advantage to the company, both from the valuable perspective that the director will bring to the boardroom and also from the message that it sends about the company’s values and priorities to current and prospective employees and consumers.

## Ways to Build Diverse Corporate Boards

Rank in order of importance the most effective ways to build diverse corporate boards (where 1 is least important and 6 is most important)

	All companies	Men	Women
Board implementing targets for diverse membership	2.9	2.8	3.0
Board leadership (chair, lead director, nom/gov chair) serving as champions of board diversity	5.2	5.2	5.3
CEOs serving as champions of board diversity	4.0	4.0	4.2
Developing a pipeline of diverse board candidates through director advocacy, mentorship and training	4.0	4.3	3.4
Requiring that every director slate includes diverse director candidates	3.2	3.1	3.5
Shareholders actively demanding greater board diversity	2.6	2.6	2.8
	N = 241	N = 174	N = 60

Source: Spencer Stuart and WomenCorporateDirectors Foundation, 2016 Global Board of Directors Survey

## Build an inclusive board

Susan Stautberg, the founder and chairman emeritus of Women Corporate Directors Foundation, is often quoted as saying “One woman [on a board] is a token, two women is a presence, and three women is a voice.” According to The 30% Club, “Research suggests that 30% is the proportion when critical mass is reached—in a group setting, the voices of the minority group become heard in their own right, rather than simply representing the minority.”

Building a truly diverse board requires attention to the dynamics of an inclusive environment so that top boardroom talent will be able to contribute to the fullest. For a board that includes (or wants to include) global talent, also consider cultural norms and how they may influence an individual board member’s contributions. Consider the language used as it relates to LGBT board members. Does every staff member in the corporate secretary’s office who develops questionnaires or interacts with board members have a sensitivity to types of language that would be more—or less—inclusive to all of the members of the board? Are generational differences and working styles in a diverse group of board members taken into account? Are the board and committee chairs sensitive to cultural norms and unconscious biases that may impact the dynamics of a discussion? Board leaders who make an extra effort to consider these factors will create an environment that maximizes the value that each board member individually—and the board as a whole—brings to the table.

## Show your work

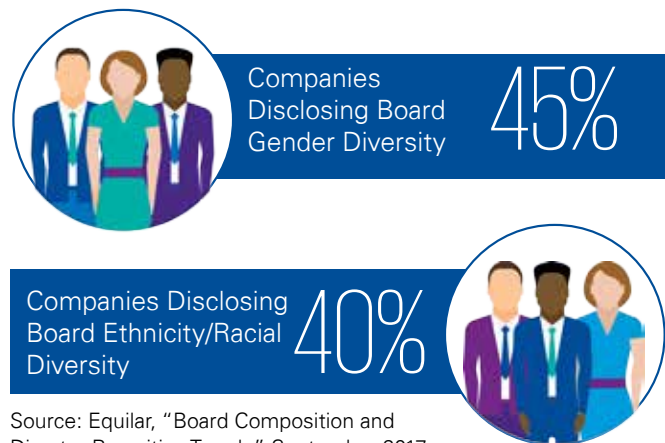
The number of institutional investors placing an emphasis on assessing and engaging with companies on board diversity continues to grow. Both State Street Corp. and BlackRock have issued public letters emphasizing the importance of board diversity, and brought the conversation around gender diversity to a new level by indicating that if engagement with a company did not yield what they considered to be sufficient progress, they may exercise their proxy votes against the chair of the nominating and governance committee. Vanguard has issued an open letter to directors of public companies indicating that it will look at the composition and diversity of the board as one pillar as it considers proxy voting and engagement. The New York City Comptroller issued a public letter to 151 U.S. companies indicating that it is prepared to use proxy access as a tool to drive engagement around board composition and diversity, and requesting disclosure of a board skills and experience matrix that includes gender, race, and ethnicity as required dimensions and sexual orientation as an optional dimension.

Companies are increasing the information they disclose about board composition. The Equilar report examined the proxy disclosures of public companies including a group of 500 large-cap companies designated the

“Equilar 500.” A majority of those companies disclosed that they consider gender or ethnicity in board or director candidate assessments (64% and 62%, respectively). A smaller but still significant number of these companies disclosed the actual composition of the board by gender (45%) and/or ethnicity (40%). And while disclosure of a board skills matrix is less frequent, it is a growing trend: over 18% of Equilar 500 companies disclosed a board skills matrix in their 2017 proxy statements, an increase of nearly seven percentage points compared to the previous year. The message is clear: institutional investors want the companies they invest in to be governed by diverse boards, and they are prepared to take action if they do not see sufficient progress.

As I’ve interacted with board members on the topic of diversity, I’ve noticed common themes. The first is that building a diverse board takes leadership and persistence. A number of nominating and governance committee chairs have related stories about pushing back on the first, second, third, and even fourth group of potential board candidates in order to arrive at a pool that is sufficiently diverse.

The second is the benefit. In story after story, I’ve heard about the new board member who adds value to the discussion in ways not previously imagined, but who was not previously part of anyone’s network and was found only after an intensive search. To return to the original question about what the right mix for diversity is, the right mix is the one that includes a combination of experiences and perspectives that maximizes the ability of the board collectively to guide the company in its pursuit of long-term value. Under the scrutiny of investors, boards will want to demonstrate that they have given careful thought and taken appropriate action to achieve the right mix of diversity for their company.



Source: Equilar, “Board Composition and Director Recruiting Trends,” September 2017.

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