



Board Diversification Strategy: Realizing Competitive Advantage and Shareowner Value



A Whitepaper by Virtcom Consulting



Introduction

The topic of board diversification was until recently an exercise in corporate social responsibility, ethics, morality, and in some parts of the world such as Norway, regulatory compliance. Today, this discussion has moved well beyond the moral imperative to a new discussion. Core business concepts such as competitive advantage, organizational performance, creativity, innovation and shareholder value are the new talking points linked to a diverse slate of board directors.

From a conceptual perspective, the diversification of talent at the top of the company lends itself to a solid risk management strategy. Basic portfolio allocation theory suggests that a more diverse basket of equities tends to lead to lower levels of equity risk. However, in the US, the rapid ascension of women and ethnic minorities in senior management, entrepreneurship and senior policymaking positions has led to a new pool of potential candidates for boards in publicly traded companies.

Furthermore, the rapid growth in purchasing power of US ethnic minorities in particular has resulted in growth and market opportunities in ways that other mature nations are not accustomed. This convergence of high quality diverse management talent and fast growing diverse customers (businesses and consumers) has resulted in CalPERS funding of this white paper to determine the economic impact of Board Diversification on publicly traded companies.

While board diversification as a business topic is at a nascent stage, the questions surrounding its impact will continue to be a topic for further research and evaluation in the US and internationally for years to come.



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Executive Summary

This whitepaper offers critical knowledge around opportunities to improve board of governance effectiveness and shareowner value. The opening section examines board diversity from a gender and ethnic minority representation perspective, but expands the traditional diversity definition to include diversity of board skills. In this report, a diverse individual is defined as being female, African American, Asian, and/or Hispanic. While this is a standard definition of diversity, aligned with the US Census and the EEOC, this report will move beyond visual diversity and also consider the diverse skills that board members bring into the boardroom, regardless of race and gender. Corporate boards decide the mix of director attributes, experiences, diverse perspectives and skill sets that are most appropriate for the company. Core attributes of board directors should address accounting or finance, international markets, business or management experience, industry knowledge, customer-base experience or perspective, crisis response, leadership and strategic planning as well as address historically underrepresented groups on the board, including women and minorities. The coming together of visual diversity with skills diversity leads to a greater diversity of perspective and thought.

Key whitepaper learnings include the following:

1. A gap still remains between ethnic minority representation on corporate boards in Fortune 100 companies versus the general US population.
2. While women comprise slightly more than half of the US population, they hold a mere 17% of the positions on corporate boards at Fortune 100 companies. Research suggests that companies with more diverse boards, especially gender based diversification, have higher performance and key financial metrics such as: Return on Equity, Return on Sales and Return on Invested Capital.
3. A selected group of companies with a high representation of diverse board seats (ranging from General Electric to Honeywell) exceeded the average returns of the Dow Jones and NASDAQ Indices over a 5 year period.
4. Each of the selected group of companies with a high representation of diverse board seats also have a Head of Diversity executive responsible for managing the company's diversity initiative.
5. The Business Case for Diversity has evolved to a proven Diversity Return on Investment (DROI) model that can be implemented across industries and on a global scale.
6. Companies that have non-diverse boards or have not integrated a diversity ROI model within their current diversity initiative may be at a clear competitive disadvantage and may be underperforming in terms of shareowner value.

The increasing diversity of corporate employees, consumers, suppliers and communities around the globe has resulted in the emergence of new pools of employee, management and board talent. While diversity linked to gender and ethnic minority status continues as the focal point of board diversification and shareowner value, diversity of board skills will have a major impact on board of governance effectiveness. Corporate Boards can leverage the insights of this whitepaper by following these suggested steps:

1. Place board diversity as an agenda item at a future board meeting.
2. Use best practices from this whitepaper as a road map for both board diversity and diversity return on investment.
3. Tap into key resources as listed in the Implementing Diversity Best Practices section.
4. Embed a Diversity ROI strategy in your organization with objectives, deliverables, accountability, and metrics. Corporate boards that embrace this approach will be strategically positioned to realize untapped future value.

I. The State of Board Diversity in the Fortune 100

Ethnic Minority Representation

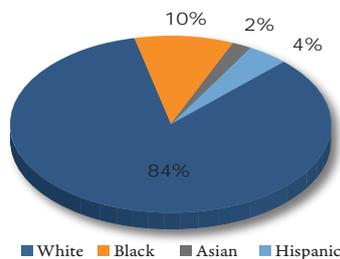
Diversity has become an inescapable fact of life. It is evident in the workplace, among customers, and in our communities. Globalization adds even more layers of diversity as the world becomes interconnected across continents and oceans. Not surprisingly, more companies are finding that having a diverse board of directors is a critically important component of a successful business strategy.

In this report, a diverse individual is defined as being female, African American, Asian, and/or Hispanic. While this is the standard definition of diversity that is in line with the US Census and the EEOC, this report will move beyond visual diversity and also consider the diverse skills that board members bring into the boardroom, regardless of race and gender. The coming together of visual diversity with skills diversity leads to a greater diversity of perspective and thought.

Earlier this year, the CalPERS Board reaffirmed the importance of diversity on corporate boards by expanding corporate governance guidelines for portfolio companies. The new guidelines have been amended into the System’s Global Principles of Accountable Corporate Governance, which are used by CalPERS to vote proxies, engage management and boards of publicly traded companies, and implement strategic initiatives.

While many companies are beginning to make great strides in creating a more diverse and inclusive workforce, a great deal of progress still remains in terms of creating a more diverse and inclusive workforce. As shown in the charts below, a gap still remains between ethnic minority representation on corporate boards in Fortune 100 companies versus the general US population.

FIGURE A: Percentage of Board Seats by Ethnicity

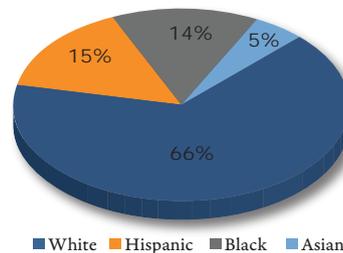


Number of Board Seats by Ethnicity

White:	1,031	Black:	119
Hispanic:	49	Asian:	20

Source: “Women and Minorities on Fortune 100 Boards,” The Alliance for Board Diversity, 2008

FIGURE B: Percentage of US Population by Ethnicity



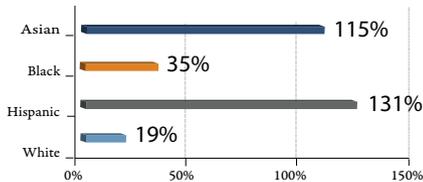
Number of People in US Population by Ethnicity

White:	198,744,494	Black:	40,240,898
Hispanic:	44,321,038	Asian:	14,907,198

Source: US Census 2006 and Virtcom Consulting analytics

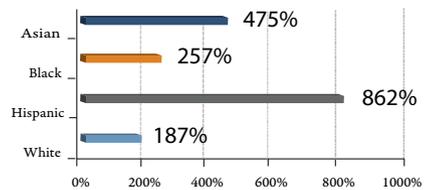
Forward-looking companies must be especially mindful of the massive demographic changes that are already taking place. The following charts show the current projections in population growth and buying power for the major ethnic groups in the US between 1990 and 2012.

FIGURE C: Growth in Population: 1990-2012



Source: Selig Center for Economic Growth, The University of Georgia, 2007 and Virtcom Consulting analytics

FIGURE D: Growth in Buying Power: 1990-2012



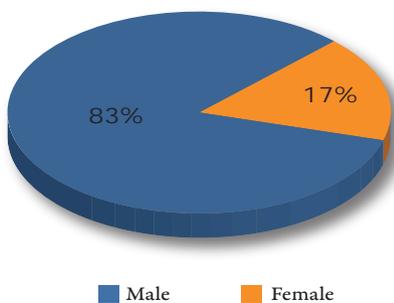
Source: Selig Center for Economic Growth, The University of Georgia, 2007

This data, drawn from the Center for Economic Growth at the University of Georgia, shows that ethnic minorities are expected to outpace Caucasians significantly in population size over the given time period. Perhaps more importantly, the buying power for each of these minority groups is projected to increase even more dramatically as well. In the case of Asians and Hispanics, these two groups will have a very disproportionate increase in buying power, even relative to their expected population growth rates. Companies which are ignorant of these trends or simply unprepared for them may find themselves becoming increasingly less relevant in the marketplace.

Gender Representation

In terms of gender representation, corporate boards are still quite clearly behind.

FIGURE E: Percentage of Board Seats by Gender

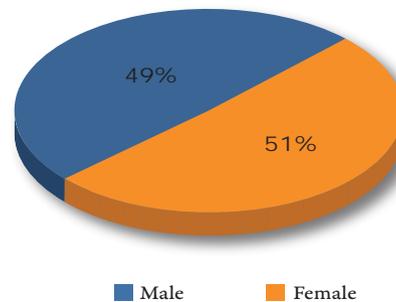


Number of Board Seats by Gender

Male:	1,011	Female:	208
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Source: "Women and Minorities on Fortune 100 Boards," The Alliance for Board Diversity, 2008

FIGURE F: Percentage of People in US Population by Gender



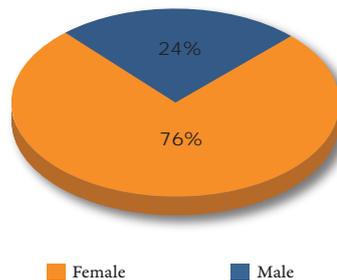
Number of People in the US Population by Gender

Male:	148,639,222	Female:	152,981,937
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Source: US Census 2006

While women comprise slightly more than half of the US population, they hold a mere 17% of the positions on corporate boards at Fortune 100 companies. This disparity is even more concerning in light of the fact that women control a significantly disproportionate share of consumer purchasing power in the US, as illustrated in the chart below.

FIGURE G: US Consumer Purchasing Power by Gender



Source: "Buying Power," Catalyst, 2008

While women's shares of the population and consumer buying power are not likely to increase over time at the same levels as those of ethnic minorities, they are surely not expected to decrease in any significant way. Still, one might expect at least a modest increase in women's buying power relative to their population size if they continue to gain greater parity with men in terms of compensation.

Corporate Boards with High Levels of Diversity

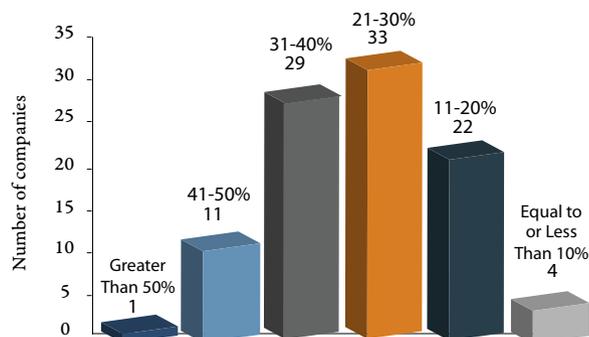
The following chart shows Fortune 100 companies which show the highest levels of diverse representation on their corporate boards. High diverse representation boards have 40 percent or greater diverse board seats or have representation across all minority groups, including African-Americans, Asian, Hispanics, and women. A diverse board seat is one that is occupied by a woman or minority board member or both.

FIGURE H: Companies with high diverse representation boards

Company	Total Seats	Diverse Seats	Diverse Seats as a % of Total Seats
Alcoa	10	5	50.00%
PepsiCo	15	7	46.67%
Aetna	13	6	46.15%
Dow Chemical	13	6	46.15%
IBM	13	6	46.15%
CitiGroup	16	7	43.75%
WellPoint	16	7	43.75%
Wal-Mart	14	6	42.86%
Wells Fargo	14	6	42.86%
Target	12	5	41.67%
Walt Disney Co.	12	5	41.67%
General Electric	15	6	40.00%
DuPont	11	4	36.36%
The Hartford	11	4	36.36%
Deere & Co.	12	4	33.33%
Mass Mutual	13	4	30.77%
Honeywell	14	4	28.57%

Source: "Women and Minorities on Fortune 100 Boards," The Alliance for Board Diversity, 2008 and Virtcom Consulting analytics

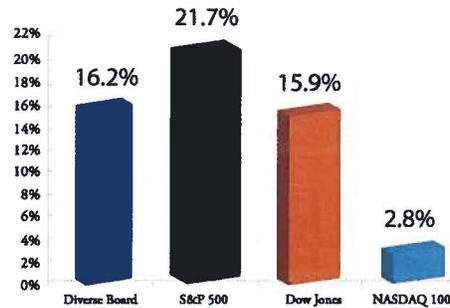
FIGURE I: Percentage Distribution of Board Diversity Among the Fortune 100



Source: "Women and Minorities on Fortune 100 Boards," The Alliance for Board Diversity, 2008

The stocks of the companies with high diverse representation boards gained 16.2% over five years from July 2003 to July 2008. In comparison, the Standard and Poors 500 gained 21.7%, the Dow Jones Industrial Average gained 15.9% and the NASDAQ 100 gained only 2.8%.

FIGURE J: Diverse Board Companies Performance Compared to DJIA and NASDAQ 100



Source: Virtcom Consulting analytics

Beyond Race and Gender: Board Skills Diversity Representation

Virtcom Consulting believes that boardroom diversity reaches beyond ethnic minorities and women, and into the diverse range of board members' skills. The chart below displays six board skills, which are from the CalPERS Global Principles of Accountable Corporate Governance. These six categories are used to analyze the strength of each company board's skills sets. Each score, based on a scale from 1 to 5, is a representation of what percentage of board members possess the particular skill (1 = 0 to 20%; 2 = 21 to 40%; 3 = 41 to 60%; 4 = 61 to 80%; 5 = 81 to 100%). For example, at The Walt Disney Company, 81 to 100% of the board members have executive management experience, whereas only 21 to 40% have international experience. Board skills data was unavailable for Target and WellPoint.

FIGURE K: Board Skills Representation:
Snapshot of 15 Fortune 100 Companies with High Levels of Diverse Representation
 Scale: 1 to 5; 5 = Strong Skill, 3 = Moderate Skill, 1 = Weak Skill

Company	Executive Management Experience	Accounting & Finance Knowledge	International Experience	Co. Specific Industry Knowledge	Customer Experience	Legal Knowledge
Actna	5	1	1	2	1	1
Alcoa	5	1	2	2	1	1
CitiGroup	5	1	3	2	1	1
Deere & Co	5	1	2	2	2	1
Dow Chemical	5	1	3	5	1	1
DuPont	5	1	3	5	1	1
General Electric	5	1	2	2	1	1
The Hartford	5	1	1	3	1	1
Honeywell	5	1	2	2	1	1
IBM	5	2	3	2	1	1
Mass Mutual	5	1	1	3	2	1
PepsiCo	5	2	2	2	2	1
Wal-Mart	5	1	2	3	1	1
The Walt Disney Co.	5	1	2	2	1	1
Wells Fargo	5	1	3	3	1	2

Source: Virtcom Consulting analytics

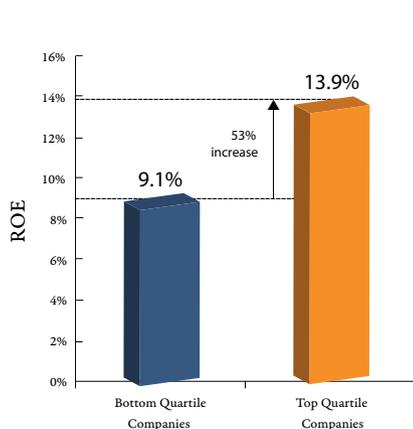
II. Board Diversification and Shareowner Value

Impact of Gender Board Diversification on the Bottom-Line

There are a broad range of best practices that can help to diversify boards related to visible board diversification. The activities have been consolidated into three major best practices areas: diverse member identification, candidate slate development and effective board member utilization. These approaches will serve as an effective board diversification strategy framework.

According to research conducted by Catalyst, Fortune 500 companies with higher representation of women on their corporate boards outperformed on three key financial measures compared to companies with lower representation of women on their boards. The research ranked Fortune 500 companies according to the percentage of women on their corporate boards and then grouped them into quartiles. The bottom and top quartiles were then evaluated over four years according to Return on Equity (ROE), Return on Sales (ROS) and Return on Invested Capital (ROIC).

FIGURE L : Return on Equity by Women’s Representation on the Corporate Board

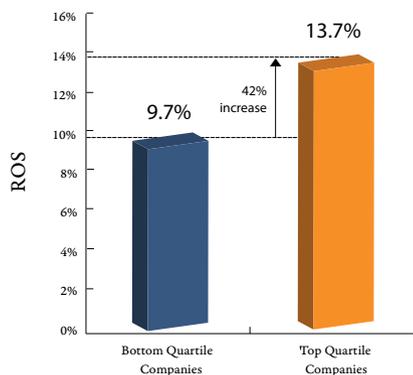


Return on Equity (ROE) is defined as the ratio of after-tax net profit to shareowners’ equity.

Companies that were in the top in terms of percentage of women on their corporate boards outperformed companies in the bottom quartile by 53% in terms of Return on Equity.

Source: “The Bottom Line: Corporate Performance and Women’s Representation on Boards,” Catalyst, 2007

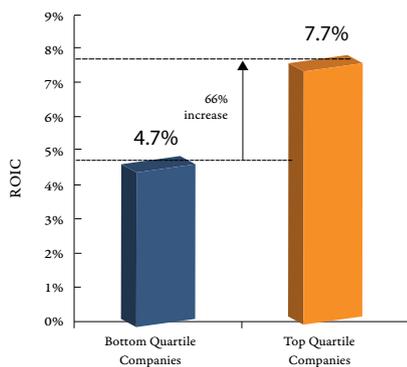
FIGURE M: Return on Sales by Women’s Representation on the Corporate Board



Return on Sales (ROS) is defined as the pre-tax net profit divided by revenue.

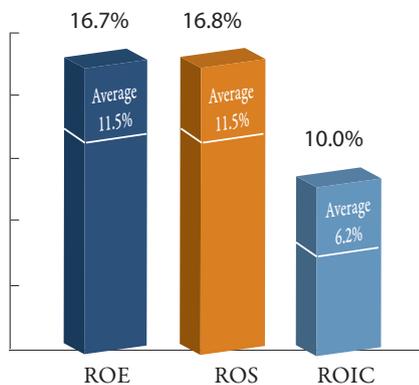
Companies that were in the top quartile in terms of percentage of women on their corporate boards outperformed companies in the bottom quartile by 42% in terms of Return on Sales.

Source: “The Bottom Line: Corporate Performance and Women’s Representation on Boards,” Catalyst, 2007

FIGURE N: Return on Invested Capital by Women's Representation on the Corporate Board

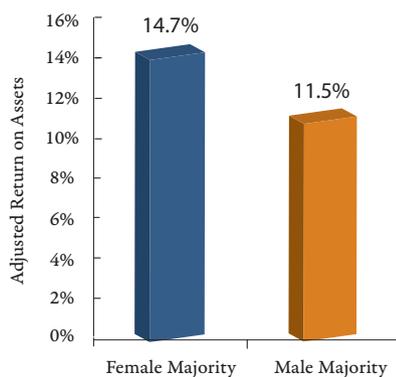
Companies that were in the top quartile in terms of percentage of women on their corporate boards outperformed companies in the bottom quartile by 66% in terms of Return on Invested Capital.

Source: "The Bottom Line: Corporate Performance and Women's Representation on Boards," Catalyst, 2007

FIGURE O: Financial Performance at Companies with Three or More Women Board Directors

In Fortune 500 companies where at least three women serve, stronger than average results were found on all three financial measures.

Source: "The Bottom Line: Corporate Performance and Women's Representation on Boards," Catalyst, 2007

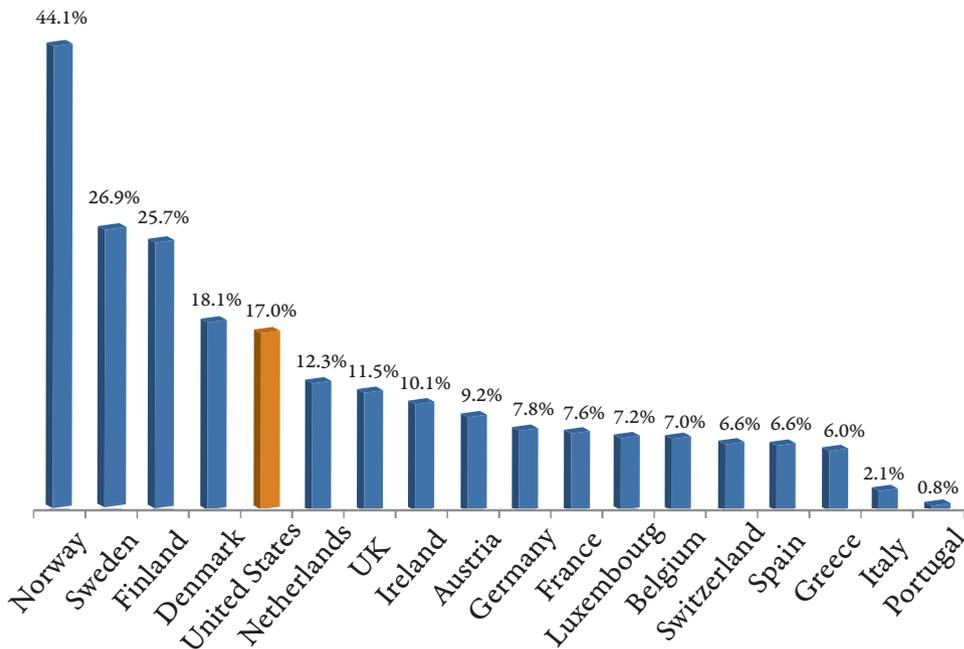
FIGURE P: Finnish Companies with a Female Board Majority Are More Profitable

A study conducted on companies in Finland showed similar results. The Finnish Business and Policy Forum examined limited liability companies that operated in Finland in 2003 and employed at least 10 people. Those companies which had a female majority on their corporate boards showed an Adjusted Return on Assets of 14.7%, while those companies with a male majority had an adjusted ROA of only 11.5%. Finland enacted a gender quota law in 2004, which requires boards to have 33 to 50% of members of both sexes.

Source: "Female Leadership and Firm Profitability," Finnish Business and Policy Forum EVA, 2007

Given that in the US, women hold 17% of corporate board positions at Fortune 100 companies, how does this compare to female corporate board representation in other countries? As the chart below illustrates, the United States leads most European countries quite handily – but not all.

FIGURE Q: Countries by Percentage of Board Seats Held by Women



Source: “Women on Boards in Europe,” Catalyst, 2008

The Scandinavian nations of Denmark, Finland, Sweden and especially Norway have demonstrated remarkable success in boosting female representation on corporate boards in their companies. While some of this progress may be attributed to the more progressive attitudes toward gender equality that modern Scandinavian cultures are reputed to have and to the more active role of their governments in labor policy, US companies may still benefit from an examination of the best practices and policies that their companies have adopted.

Beyond using board diversity as a way of driving shareowner value, there are complementary business models that drive return on investment. The next two sections will lay out how diversity return on investment came about, models of implementation, and case studies to back them up.

III. Making the Case for Diversity as a Business Strategy

Phase 1: The Business Case for Diversity

In 1989, Lewis Platt, the CEO of Hewlett Packard spoke of a new and innovative concept: the business case for diversity, a corporate diversity initiative that positively impacts employees, suppliers, customers, communities and the bottom-line. This revolutionary moment was the first step toward moving diversity from a moral, ethical and legal corporate responsibility to a potential source of business value.

Phase 2: The Marketing of the Business Case

Since the emergence of the business case for diversity, diversity initiatives have grown in corporate America. According to Goldman Sachs Urban Investment Fund, the Fortune 500 invest nearly \$2B yearly in corporate diversity programs, ranging from diversity training to the recruitment of diverse candidates. In addition, a number of promising theories such as the concept of Diversity ROI and Diversity Shareowner Value have offered glimmers of hope to prove that corporate diversity efforts can actually impact the bottom-line. For nearly two decades, the marketing of the business case has ensured that diversity initiatives thrive in corporate America- with Fortune 500 CFOs unaware of how much value has been linked to the \$2B yearly investment.

Phase 3: The Existence of Diversity ROI

In September 2004, the Harvard Business Review (HBR) published a seminal case study called “Diversity as Strategy.” In it, a new concept was proven, Diversity ROI, as the CEO of IBM, Louis V. Gerstner, publicly declared that a diversity initiative lead by his Chief Diversity Officer in partnership with one of his business units had a clear impact on the bottom-line. Gerstner partnered his women and ethnic minority Employee Networking Groups (employee support groups for IBM employees of similar backgrounds or interests) with his Market Development unit to penetrate a market of 13,000 Women and Ethnic Minority owned businesses with at least \$20M in Revenues to purchase IBM products. The effort launched in 1998 when the business unit generated approximately \$10m yearly. By 2003, the business unit generated over \$300M in business. In the HBR Case Study, Gerstner implicitly credits the incremental growth in sales to his diversity initiative and business unit partnership.²

Given the Stature of the “Two Lou’s,” and the proof of the existence of Diversity ROI, a natural consequence would be that a number of Fortune CEOs of major publicly traded companies would establish a diversity initiative, partner that initiative with a business unit or units, and watch the money flow. But that hasn’t happened. Instead, diversity initiatives continue in the eyes of the Fortune 500 CFOs and CEOs to be cost centers and offer no financial testimony to suggest otherwise.

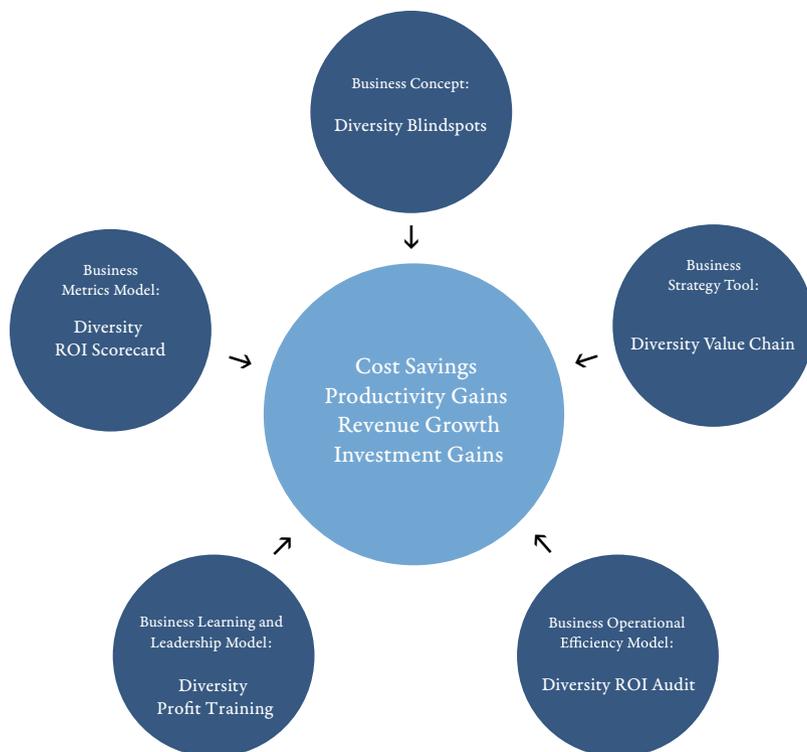
¹ Goldman Sachs Urban Investment Group press release, May 17, 2006

² “Diversity as Strategy,” Harvard Business Review, September 2004

Phase 4: Diversity ROI Implementation

The glaring mistake of declaring a business case for diversity and proving the existence of Diversity ROI was the lack of clear, proven implementation steps and tools. In 2002, Virtcom Consulting launched a revolutionary project within the Commercial Card business unit of Visa USA, a project that paved the way to formulate a clear, proven set of implementation tools. Virtcom established “The Five Forces of Diversity ROI,” an innovative approach which could be applied on a global scale to any industry, business model or publicly traded or private enterprise.

Figure R: The Five Forces of Diversity ROI



Source: Virtcom Consulting

Five Forces of Diversity ROI³

The five forces of diversity ROI work together to impact the business in terms of cost savings, productivity gains, revenue growth, and capital investment gains through the identification of Diversity Blindspots, a missed business opportunity linked to diverse employees, suppliers, communities, marketing, business development, or capital investment. These Blindspots can be uncovered using a diversity ROI audit, a process and methodology used to identify Diversity Blindspots within company business units. The basis of the audit is the Diversity Value Chain (Figure R), a strategic framework that lays out the main areas of diversity and the business metrics that impact them. Diversity Profit Training can be used to upgrade the skills of business unit

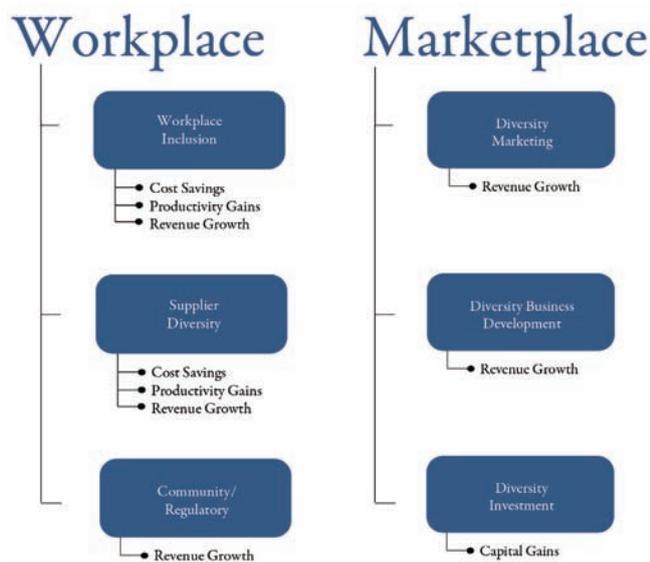
managers tasked with realizing Diversity Blindspots. Finally, the diversity ROI scorecard is a set of metrics that evaluate the impact of identifying, realizing and implementing a Diversity Blindspots project.

When these five forces are leveraged in tandem, Fortune 500 companies can prove that diversity initiatives not only drive hard dollar value, but in most instances drive such dramatically high levels of impact to be described as “Diversity Profit Center.” But it is also important to note that no Diversity ROI model has been proven to work without the foundation of an established diversity initiative and infrastructure. An established diversity infrastructure typically contains:

1. **DIVERSITY EXECUTIVE:** A designated corporate executive at the VP level or above, responsible for building, managing and maintaining the corporate diversity initiatives. In some cases, the highest ranking diversity official is called a Chief Diversity Officer (CDO).
2. **DIVERSITY BUSINESS PLAN:** The existence of a corporate diversity business plan that lays out the strategy for implementing and embedding a diversity initiative. The plan usually contains elements such as diversity talent recruitment, cultural sensitivity and awareness training, establishment of a corporate diversity council, development of employee networking groups, strategic alliances with key diverse community stakeholders, supplier diversity, multicultural markets/consumers acquisition and management of legislative and compliance issues.
3. **DIVERSITY RESOURCES:** Resources to support the implementation of the diversity initiative include junior executives, external consultants and designated budgetary funding.

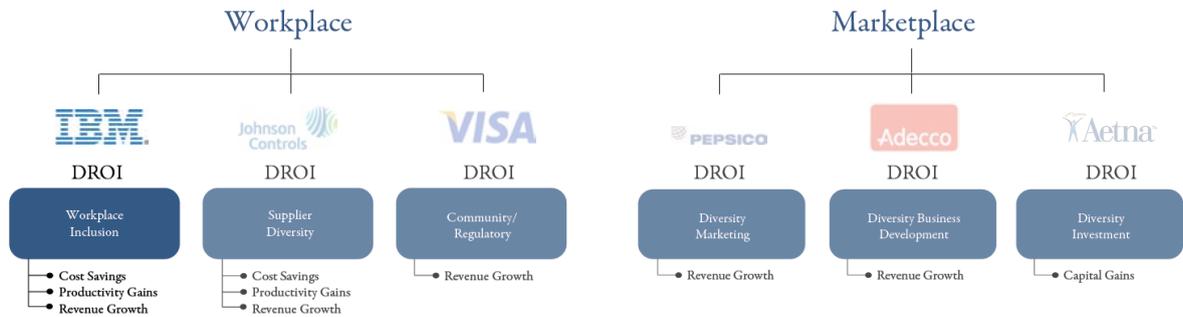
Consequently, those companies that currently house a corporate diversity initiative may have an untapped source of shareowner and ROI value, which can offer a unique competitive advantage to those companies with diversity infrastructure. As a shareowner, it is now appropriate to ask the Board or CEO if the company has a diversity infrastructure and if so, does it have a Diversity ROI overlay.

FIGURE 5: Virtcom Consulting Diversity Value Chain



The Virtcom Consulting Diversity Value Chain™ is a framework that provides a classification of corporate diversity business activities within six major categories, classified as either workplace or marketplace focused. Each of those categories is linked to basic profitability metrics: cost savings, productivity gains, revenue growth, or capital gains.

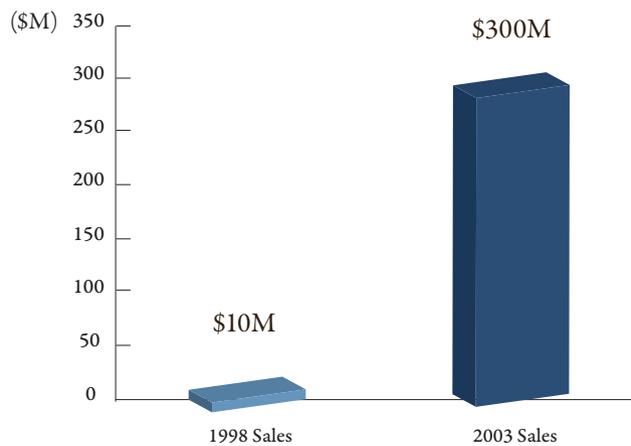
Diversity Return on Investment Case Studies



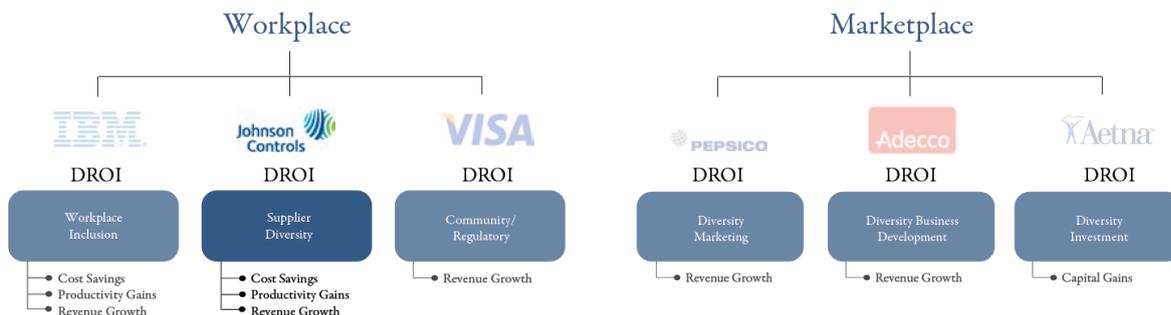
Workplace Inclusion: IBM

- Diversity Blindspot: Acquisition of women and minority small business customers
- Diversity ROI Model: Partner Women & Ethnic Minority Employee Networking Groups (employee support groups for IBM employees of similar backgrounds or interests) with IBM’s Market Development unit. The partnership focused on 13,000 potential women/ethnic minority customers with \$20M or more in revenues.
- Pre-Blindspot Identification: 1998 Sales of approximately \$10M
- Post-Blindspot Identification: 2003 Sales of over \$300M⁴

FIGURE T: IBM Marketing Development Unit Sales, 1998 vs. 2003



4 “Diversity as Strategy,” Harvard Business Review, September 2004



Supplier Diversity: Johnson Controls

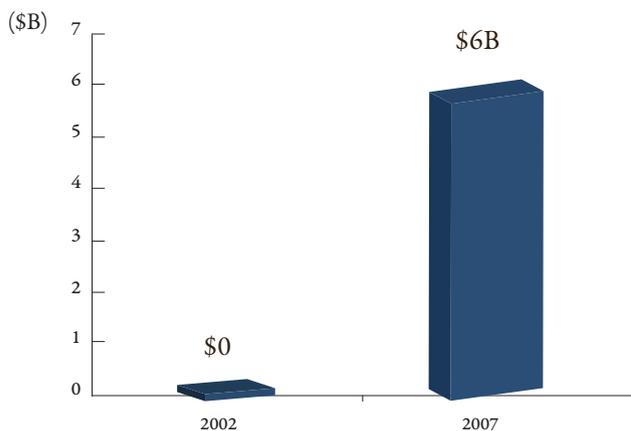
Diversity Blindspot: Acquisition of large scale auto industry subcontracts designated for women and minority owned businesses

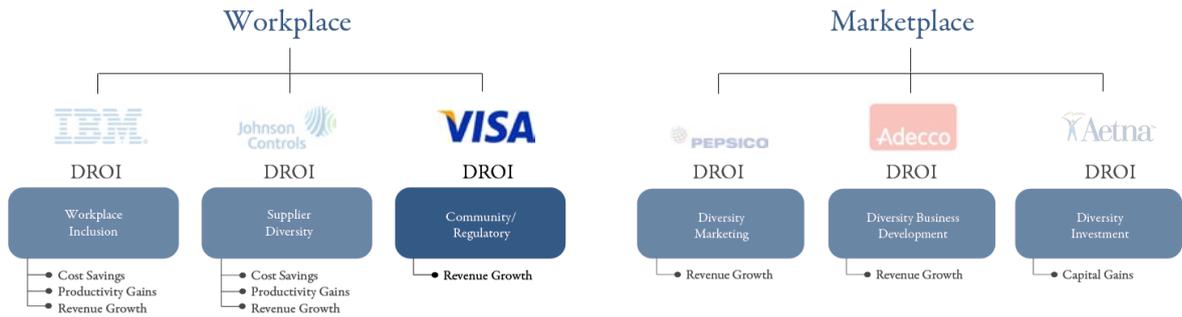
Diversity ROI Model: Formed a series of joint ventures (51% owned by MBE, 49% owned by Johnson Controls), to acquire large scale auto industry subcontracts designated for women and minority owned businesses.

Pre-Blindspot Identification: No joint venture program in place prior to 2003

Post-Blindspot Identification: By 2007, nearly \$6B of incremental sales across joint venture companies⁵

FIGURE U: Johnson Controls Incremental Sales Across Joint Venture Companies, 2002 vs. 2007





Community/Regulatory: Visa

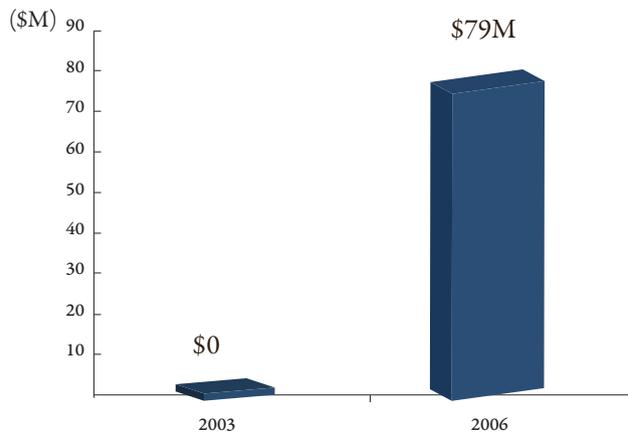
Diversity Blindspot: The acquisition of diverse small business merchants to accept Visa Federal Government Procurement Cards

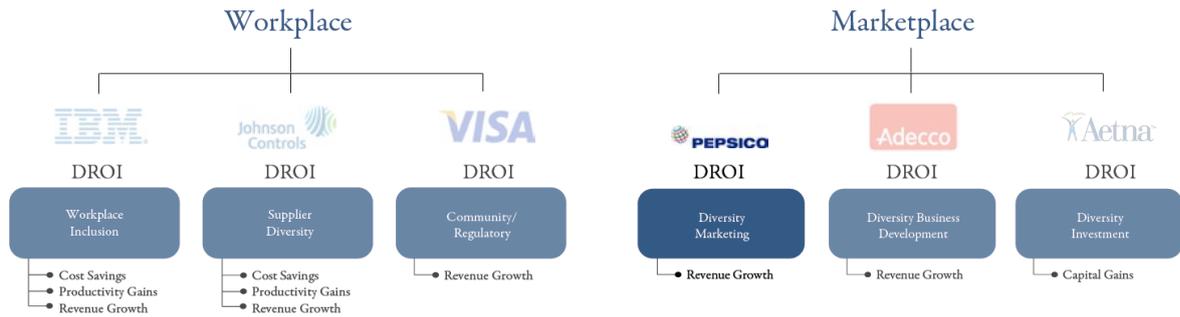
Diversity ROI Model: Federal acquisition regulation requires that 23% of US Government procurement is allocated with diverse businesses (women, minority, hubzone, disabled, veterans). Leveraged regulation to partner with NASA and the Department of Commerce to sign up diverse merchants to accept credit cards for large procurements (\$5k and above). This ensured government compliance and facilitated Visa transaction revenue growth.

Pre-Blindspot Identification: No program in place prior to 2004

Post-Blindspot Identification: By 2006, nearly \$79M in incremental sales⁶

FIGURE V: Visa Federal Government Procurement Cards Incremental Sales, 2003 vs. 2006

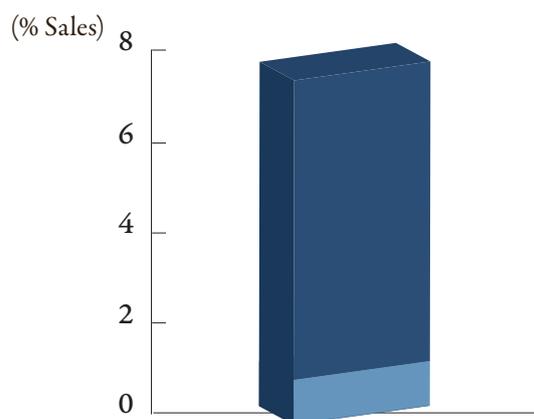




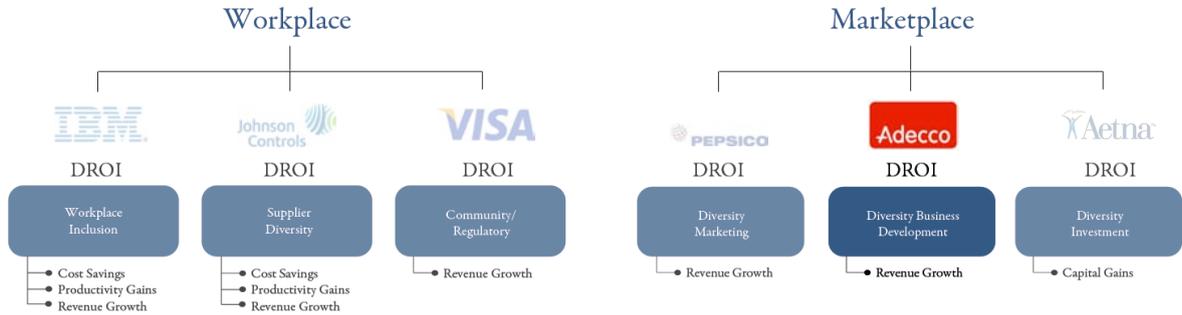
Diversity Marketing: PepsiCo

- Diversity Blindspot: The development of new products and targeted marketing focused on diverse consumers
- Diversity ROI Model: Established and leveraged an external Diversity Advisory Council comprised of business leaders. Product R&D and marketing groups partnered with Diversity Advisory Council for new marketing initiatives and products targeted at Hispanic and other ethnic minority markets.
- Pre-Blindspot Identification: Data not available
- Post-Blindspot Identification: By 2004, one of the eight percentage points of the company’s incremental sales growth was attributed to diversity advisory council efforts⁷

FIGURE W: 1 out of 8 Percentage Points of PepsiCo’s Incremental Sales Growth Attributed to Diversity



7 “The New Diversity,” The Wall Street Journal, November 14, 2005



Business Development: Adecco

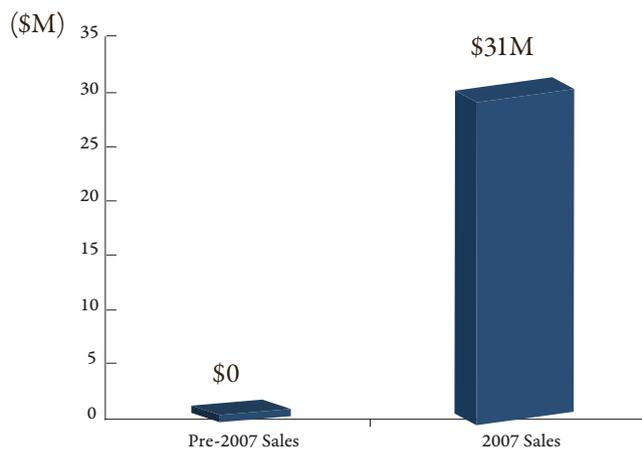
Diversity Blindspot: The acquisition of large enterprise customers with embedded diversity programs (Fortune 1000, middle markets and government customers)

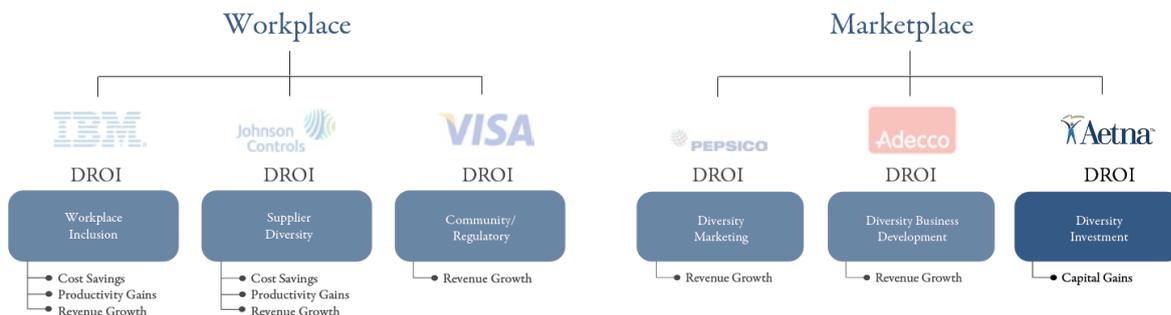
Diversity ROI Model: Adecco’s Office of Diversity reviews all large enterprise sales prospects to determine if there is an embedded diversity program, or set of diversity principles embedded in the potential customer. The Office of Diversity taps into the relationship with the prospect’s Office of Diversity to build awareness around Adecco’s diversity organizational alignment. The Office of Diversity is integrated into the end-to-end RFP sales process and serves as a key component to win the RFP deal. Top sales leaders are trained on the appropriate diversity communications to target diversity aligned prospects.

Pre-Blindspot Identification: No diversity RFP sales program in place prior to 2007

Post-Blindspot Identification: By end of 2007, nearly \$31M of incremental sales⁸

FIGURE X: Adecco Diversity RFP Sales Program 2006 vs. 2007





Diversity Investment: Aetna

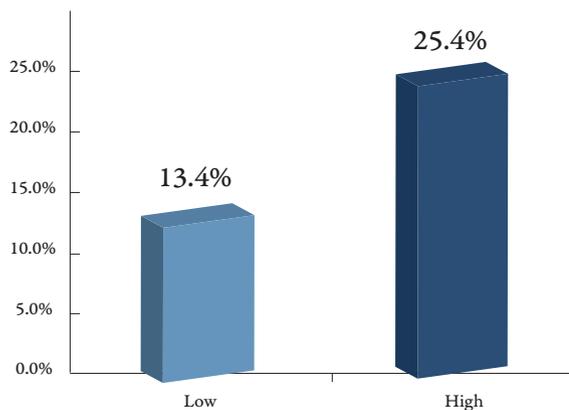
Diversity Blindspot: The investment of company funds into minority owned business ventures through minority business focused venture and private equity capital funds

Diversity ROI Model: Allocate \$100M to invest in minority private equity and venture capital funds

Pre-Blindspot Identification: No investment program in place prior to 2006

Post-Blindspot Identification: Forecast returns that are comparable or better than national averages based on a Kauffman Foundation study showing that these funds meet or beat industry IRR⁹

FIGURE Y: Aetna Weighted IRR Forecasted Returns Based on Kauffman Foundation Study



IV. Best Practices for Corporate Board Diversification

There are a broad range of best practices that can help to diversify boards related to visible board diversification. The activities have been consolidated into three major best practices areas: diverse member identification, candidate slate development and effective board member utilization. These approaches will serve as an effective board diversification strategy framework.

Diverse Board Member Identification¹⁰

It is critical to have processes in place to be able to identify diverse candidates, ranging from leveraging current relationships to developing new ones.

1. Leverage relationships with diverse suppliers and other businesses that are familiar with the company to find candidates with strong skills and industry knowledge.
2. Consider diverse candidates who are not yet CEOs, but are in other high leadership positions.
3. Identify diverse candidates in non-profit groups who have the same skills as corporate leaders, yet work under the radar.
4. Develop relationships with colleges and universities that serve historically underrepresented populations for developed talent on both the faculty and administration level. It may also be possible to gain access to the alumni network.

Diverse Candidate Slate¹¹

Another critical aspect of board diversity is having processes in place to diversify the candidate slate; this includes everything from the actual process of nominating to a board member messaging the company's reputation for diversity.

1. If not already in existence, create a nominating committee, preferably comprised of diverse members if possible, to analyze future board needs and develop a diverse slate of qualified candidates before a new position opens.
2. Enlist executive search firms to help build a diverse candidate slate.
3. Develop and publicize a reputation of diversity and inclusion to attract best-in-class diverse talent on the board level.
4. Publicly announce all new diverse board members to demonstrate the board's talent and diversity achievements.

10 "3 Best Sources for Finding Diverse Board Members," Diversity, Inc, April 2007 and Virtcom Consulting

11 Virtcom Consulting

Board Member Utilization¹²

Once a new diverse board member has been selected, it is important to have an on-boarding process that will support the new member. It is equally as important to develop an inclusive meeting environment.

1. Chair of the board should foster a courteous and welcoming culture and also encourage respectful challenging of ideas and innovative thinking.
2. The board should encourage new members to present their ideas in order to get to know the new member better.
3. Existing board members should provide coaching to new comers both before and after the first board meeting. This could include coaching around responsibilities, company challenges, culture, or post-meeting debriefs.
4. Team building exercises should be employed to encourage stronger group interaction.

12 “The Female FTSE Report 2007,” International Centre for Women Leaders, Cranfield School of Management, 2007 and Virtcom Consulting

V. Leveraging Diversity for Impact

Corporate Boards must focus on core strategies that can utilize diversity initiatives for bottom-line and organizational performance impact. This whitepaper proposes three different models to effectively leverage diversity: board diversity, a diversity committee focused on diversity ROI (Return on Investment), and an external diversity committee focused on Diversity ROI. These models either individually or in tandem can drive new levels of value for corporations and their boards.

Three Models to Leverage Diversity for Impact

Model 1: Board Diversity

Board Diversity is critical to any diversity program by demonstrating that the firm is committed to its diverse customers and employees and that all minority groups are valued by the organization. It helps in the recruitment of best-in-class talent which leads to greater diversity of people and ideas across the workforce.

Model 2: Diversity Committee focused on Diversity ROI

While it may take time to build a diverse and representative board, a board diversity committee can be formed immediately to demonstrate a firm's commitment to diversity. A board-level independent diversity committee or adding a diversity function to an existing committee can help to initiate a workforce diversity strategy and find diversity profit opportunities across the organization.

Model 3: External Diversity Committee focused on Diversity ROI

An external diversity committee is similar to a board diversity committee, except that it is comprised of people that are entirely external to the firm.

VI. Implementing Diversity Best Practices

While a number of leading publicly traded companies have implemented diversity best practices, there are considerable opportunities for thousands of publicly traded to implement an effective corporate diversity program that can support bottom-line objectives. The most immediate and cost-effective strategy is to attempt to build a diverse corporate board, characterized by both visible diversity characteristics and diversity skills sets. Beyond this board focus, publicly traded companies may also launch a corporate diversity initiative with a diversity executive and a diversity business plan. The best in class publicly traded organizations ensure that a core principle of their diversity strategy includes a diversity ROI focus.

Tier 1: Building a Diverse Board

A diverse board is the most important aspect of corporate diversity. It shows the organization's commitment and sets an example for the rest of the organization.

1. Forecast future board openings year by year over a five year period. Also make sure that an entire skills audit has been performed and include the skill gaps in the new candidate specifications.
2. Task the nominating committee with the provision of a diverse candidate slate to address board openings, possibly in conjunction with an external search firm.
3. Identify diverse candidates early, well before actual openings.
4. Create a board culture of inclusion before diverse members join.
5. Have an engagement plan for new members to support relationship building, and to provide opportunities to leverage skills.

Research Organizations

Executive Leadership Council
www.elcinfo.com

HACR
www.hacr.org

Catalyst
www.catalyst.org

The McKinsey Quarterly
www.mckinseyquarterly.com

Kellogg Center for Executive Women
www.kellogg.northwestern.edu/research/cew

Implementation Organizations

Diversified Search Ray & Berndtson
www.diversifiedsearch.com

Spencer Stuart
www.spencerstuart.com

Heidrick & Struggles
www.heidrick.com

Board Recruiting (NASDAQ OMX)
www.boardrecruiting.com

Tier 2: Building a Sustainable Diversity Infrastructure

Beyond board diversity, building a sustainable diversity infrastructure is critical because it is the basis by which diversity will spread throughout the rest of the organization. The primary components include an executive, a business plan, and resources like a budget, staff, and external consultants.

1. Appoint a diversity executive with Vice President or above status; he or she should report into the C-Suite.
2. As suggested by a recent New York Times study, the infrastructure should have a budget of \$500-750k.¹³
3. Establish an Executive Diversity Council comprised of C-Suite and business unit leaders to meet quarterly to oversee diversity initiatives.
4. Develop a diversity business plan to address major areas such as workforce diversity, training, affinity groups, supplier diversity, and diversity policy.
5. The diversity business plan must include a diversity shareowner value strategy including an analysis of missed diversity business opportunities.
6. Perform a diversity ROI audit of business units within the company.

Research Organizations

Black Enterprise Magazine
www.blackenterprise.com

Diversity, Inc. Magazine
www.diversityinc.com

Diversity-Executive Magazine
www.diversity-executive.com

The New York Times
www.nytimes.com/online/diversityandinclusion

Implementation Organizations

Future Work Institute
www.futureworkinstitute.com

Global Lead
www.globallead.com

Kaleidoscope Group
www.webkg.com

Novations
www.novations.com

Virtcom Consulting
www.virtcomconsulting.com

Tier 3: Implementing a Diversity ROI Initiative

The diversity ROI initiative builds on the value of the diverse board and infrastructure to prove the full business impact of diversity.

1. Analyze target business units for areas where there may be missed diversity business opportunities.
2. Identify top opportunities that drive diversity Blindspots and quantify business value.
3. Integrate into current business strategy and product implementation.
4. Fill educational voids in senior managers and sales force through diversity profit generation training.
5. Monitor diversity ROI profits and shareowner value using current metrics systems and scorecard.

Research Organizations

Hubbard & Hubbard
www.hubbardnhubbardinc.com

The Spartacus Group
www.thespartacusgroup.com

Medici Group
www.themedicieffect.com

Implementation Organizations

Virtcom Consulting
www.virtcomconsulting.com

VII. About Virtcom Consulting

About Virtcom Consulting

Virtcom Consulting (www.virtcomconsulting.com) is one of the world's leading global diversity management consultancies based in New York City, with office presence in London, UK. The firm's global client roster includes blue chip multinationals focused on driving diversity initiatives on a local, regional and global scale. Virtcom offers value based services within three business lines: strategy solutions (Global, ROI, Infrastructure, Employee Engagement and Connectivity), training and e-learning, and thought leadership (research reports and leadership development events).

Virtcom Consulting has developed a range of innovative and groundbreaking tools including the Diversity ROI Scorecard, the Diversity Value Chain and Diversity Profit Training. Virtcom also founded the World Diversity Leadership Summit, one of the leading conferences of Global 1000 business leaders, government officials and community leaders to address global diversity management practices. In 2007 and 2008, the Summit was held at the United Nations and featured an international CEO Roundtable with the heads of Major League Baseball, HSBC, Procter & Gamble, Aviva UK, MGM Mirage, and Adecco.

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