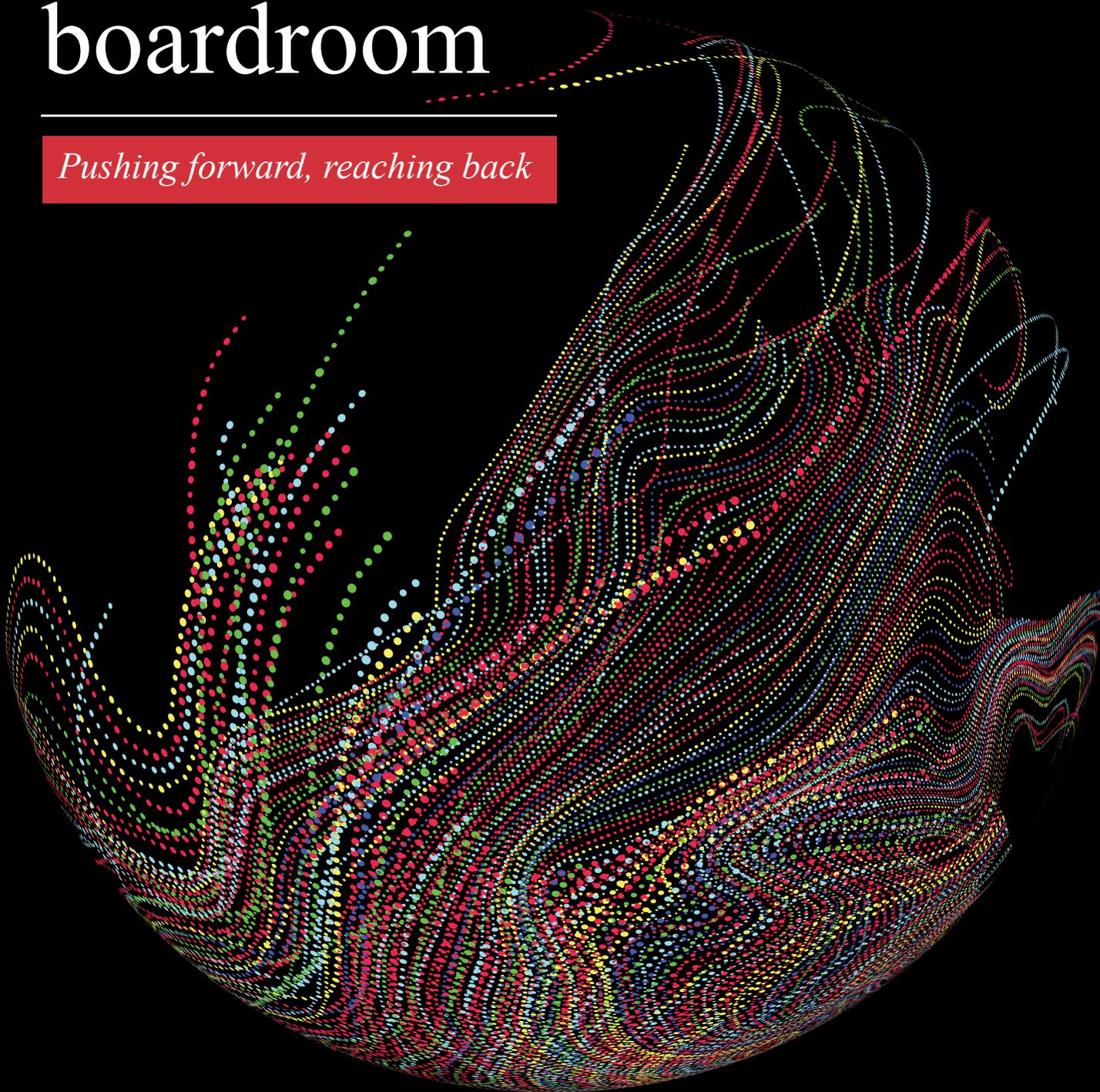


# Diversity in the boardroom

*Pushing forward, reaching back*



**WomenCorporateDirectors**  
*A Foundation Inspiring Visionary Boards Worldwide*

In partnership with  
**Board Leadership Center**





The Women Corporate Directors Foundation (WCD) works to inspire visionary boards worldwide and our annual Thought Leadership Commission is a critical enabler of this goal. In keeping with the topic of the 2019 report, this year's Commission includes corporate directors and governance experts from six continents, offering insights and recommendations that can be used by company boards ranging from small start-ups to large, mature businesses.

I am particularly excited about the topic of this year's report because, as I have said, we are at an inflection point for board diversity. This is the moment to push forward to change the face of the boardroom, and to use our positions as corporate directors to drive change in our companies and beyond. We hope and expect that this report will inspire action and reflection in boardrooms around the world.

—**Susan C. Keating**  
**CEO, Women Corporate Directors Foundation**

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“ We hope that boards will look to the report and its recommendations as the basis for an ongoing conversation and rely on it as a reference as they work to leverage the deep value that diversity has to offer. ”

—Susan Angele

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# Introduction



## Susan Angele

*Thought Leadership Commission Chair  
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The boardroom need for diversity—of thought, background, and experience—could not be more pressing in this era of change and disruption. In light of the data pointing to the value of diversity and the slow pace of change, pressure for board diversity is increasing globally, through gender quotas, media reports, and demands from institutional investors and other stakeholders, including employees and customers.

Interest in diversity is high; the supply of board-ready talent is deep; and, while challenges certainly exist, the opportunity to accelerate change is tremendous. The 2019 Thought Leadership Commission report assesses the state of board diversity globally and provides practical recommendations based on the wisdom and experience of corporate board members and diversity thought leaders. The report considers what it takes to push forward to change the face of the boardroom and also how boards can reach back to drive change in their companies.

The recommendations can be summed up as “define, build, harvest, and sow.”

**Define:** What are the needs of the company and the expectations of key stakeholders in both the country in which the company operates and the broader environment in which it does business? This report provides an overview of the current landscape and examines how the definition of diversity is evolving.

**Build:** What are the challenges to building diverse boards and the tools boards are using to accelerate progress?

**Harvest:** How does a diverse board become more inclusive and maximize the value of different perspectives in the boardroom?

**Sow:** How can boards set the tone, incent, encourage, and challenge management to move the needle on diversity and inclusion throughout the organization and become a strategic enabler to a strong culture and sustainable long-term growth?

This report includes 12 recommendations for directors and boards to consider. Like any set of recommendations delivered to a highly diverse audience, any individual board will likely find that some are already underway, some can be implemented in the short term, and some are aspirational only. Throughout, the report draws on the deep experience and wisdom of the Commissioners to provide practical suggestions and resources for directors to use in their boardrooms.

## The current landscape

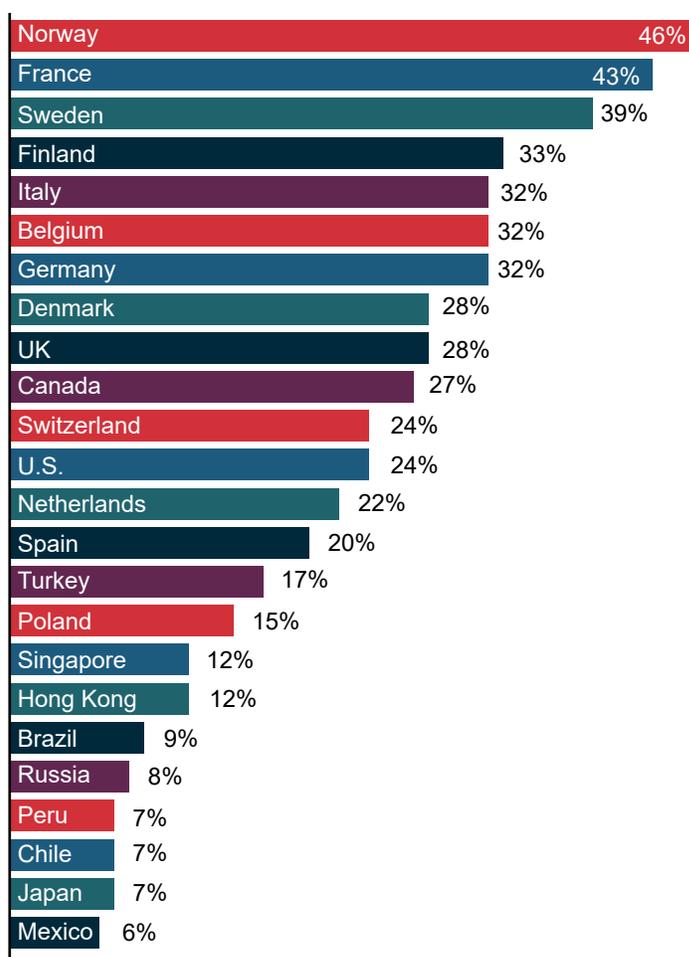
Lettie Pate Whitehead is considered to be the first woman to serve on the board of a major U.S. public company, having joined the board of The Coca Cola Company in 1934. And she was no token. In 1906, when Lettie was 34, she became a widow and took over her husband's business, a soda-bottling operation. She grew it from 70 bottling plants to over 1,000 and eventually sold the company to Coca Cola in return for stock. She was invited to join the board and served on it for almost two decades. In 1953, the year Lettie died, the Department of Labor publication "The Status of Women in the United State 1953" referenced four women who were on corporate boards.<sup>1</sup>

Fast forward to 2019, and the needle is moving, although around the globe there continue to be boards that are not diverse. For example, based on U.S. public company data compiled by Equilar, the percentage of women in the boardroom of Russell 3000 companies as of the end of 2018 was 18.5 percent.<sup>2</sup> Whether looking at gender in the U.S. or internationally, or other parameters of diversity such as race, ethnicity, and sexual orientation, there is progress, but the movement is so slow that the most commonly used word associated with the pace of change is "glacial." And yet there is hope.

To some extent, as outlined in the 2018 Spencer Stuart Board Index, the need for fresh, relevant perspectives is driving change in the boardroom. Desirable skill sets include tech, digital, and consumer marketing, among others. One-third of new S&P 500 directors are serving on their first public company board, and the majority of new directors come from roles other than chief executive officer (CEO) or chief operating officer (COO). Representation of women on S&P 500 boards is increasing gradually: 24 percent in 2018 compared to 22 percent in 2017 and 18 percent in 2013.<sup>3</sup> Gender diversity data for the larger Russell 3000 group compiled by Equilar shows that the percentages are lower but increasing in a similar fashion: 17.6 percent in 2018 compared to 15.7 percent in 2017 and 12.9 percent in 2014.

### Women corporate directors around the world, 2018

The table below, compiled by Spencer Stuart, represents the percentage of women directors on the boards of the largest publicly-listed companies.



Source: 2018 Spencer Stuart Boards around the World

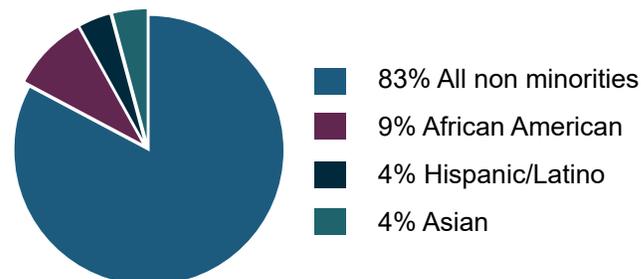
## Minority representation on large-cap U.S. boards

The information below, from Spencer Stuart, looks at minorities on boards of the top 200 companies in the S&P 500.

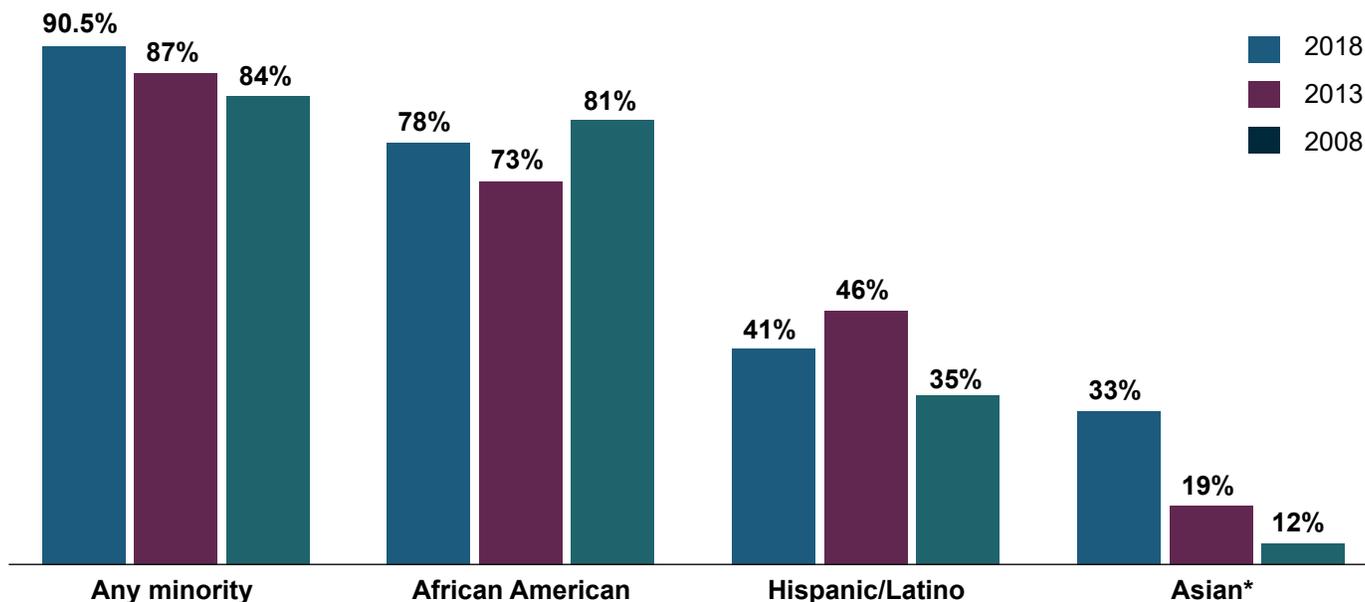
### Most of the top 200 company boards have at least one minority director

- Seventeen percent of directors in the top 200 S&P 500 companies (by annual revenue) are minority executives, defined as African American, Hispanic/Latino, and Asian directors, the same as in 2017. In 2008, minority representation was 14 percent of all directors in the top 200 companies.
- As of May 2018, 90.5 percent of the top 200 companies had at least one minority director, compared with 87 in 2013 and 84 percent in 2008.
- Sixteen (8 percent) of the top 200 S&P companies are led by African American, Hispanic/Latino or Asian CEOs, two less than in 2017. In 2013, only eight of the top 200 companies were led by minority CEOs.

### Minorities as a percentage of directors at top 200 boards



### Top 200 U.S. boards with at least one minority director



\*Beginning 2017, Asian category includes individuals of Indian descent, consistent with U.S. Census Bureau methodology.

### Majority of top 200 companies have directors from outside the U.S.

- Fifty-two percent of the top 200 S&P 500 companies have at least one non-U.S. director, compared with 47 percent a decade ago.
- A total of 188 directors of non-U.S. origin serve on the boards of the top 200 S&P 500 companies, accounting for 8.2 percent of all directors.
- International directors represent more than 30 different countries, but roughly half of non-U.S. directors come from the following four countries: UK (24 percent), Canada (11 percent), Germany (6 percent), and France (8.5 percent).

Source: 2018 Spencer Stuart U.S. Board Index

## Define



Review and discuss the research on how diversity adds value in the boardroom.



Use company strategy and stakeholder lenses to establish board diversity goals.



Construct a board matrix that considers multiple dimensions of diversity—skill set, background, and decision-making style.

### Review and discuss the research on how diversity adds value in the boardroom

As John Rogers says about board diversity, “It’s just common sense. The more people that are giving you fresh and new ideas, the better your organization will be.” This common sense is borne out in much of the research on the functioning of diverse groups, and a high-level board discussion of how diversity adds value can be a helpful way to help bring everyone to the same page. As summarized by Catalyst in “Quick take: Why diversity and inclusion matter,” a sampling of the studies published in the last few years show that:

- Diverse organizations are more successful at retaining talent
- Diverse teams are critical for innovation
- Mixed-gender boards have fewer instances of fraud
- Boardroom diversity strengthens corporate social responsibility performance
- Financial success parameters have been correlated with aspects of diversity over numerous and varied studies.<sup>4</sup>

One frequently cited study is the 2018 McKinsey & Company report “Delivering Through Diversity.” The study drew on data from more than 1,000 companies covering 12 countries, measuring the correlation between diversity (gender and ethnicity) in the boardroom and the executive team and profitability (measured by earnings before interest and taxes (EBIT)) and long-term value creation. The study found a positive correlation between both gender and ethnic diversity in the executive suite and performance as well as long-term value creation. At the board level, ethnic diversity correlated with higher

performance—companies with boards in the top quartile for ethnic diversity were 43 percent more likely to experience higher profitability. In contrast, companies in the bottom quartile for both gender and ethnic diversity were 29 percent less likely to exceed their peers in profitability.<sup>5</sup>

The results of this study, along with others by McKinsey, BCG, and Credit Suisse, are of keen interest. It should be noted, however, that (1) the studies show a correlation—that is, diversity and performance appear together, without addressing the question of causation—and (2) the studies were not intended to qualify as peer-reviewed academic studies. The findings of published studies consistent with academic-level protocols have been mixed—some support a statistically significant correlation between diversity and various metrics of performance (including accounting returns, market performance, and return on assets), and others do not find a difference. In “Does gender diversity on boards really boost company performance?” Wharton professor Katherine Klein assesses meta-analyses of hundreds of peer-reviewed academic studies on the topic and concludes that “the relationship between board gender diversity and company performance is either non-exist (effectively zero) or very weakly positive.”<sup>6</sup> When asked about the diversity business case, she says, “There is no business case for putting women on the board. There is no business case for putting men on the board.”<sup>7</sup>

Toyah Miller and Maria del Carmen Triana, authors of the peer-reviewed academic study “Demographic diversity in the boardroom: Mediators of the board diversity-firm performance relationship,” acknowledged the mixed results in the academic literature on linkage between board diversity and overall performance and concluded: “The lack of a main effect between gender diversity and firm performance does not necessarily mean that gender diversity does not help firms. There may be something about the firm’s environment that is not set up to allow the firm to achieve the benefits of a gender diverse board.”<sup>8</sup> Their study looked at impacts that are harder to quantify but are critical to long-term value—innovation and reputation. They found clear benefits of racial and gender board diversity with regard to innovation and a clear benefit between racial diversity and company reputation.

When a board is diverse and the dynamic is right, the benefit can be palpable. “We all read about board diversity as a hot topic and we read about why diversity is important. But it’s not until you have diversity on your board that you see it happening in front of your own eyes.” This comment came from Joe Meyer, founder and CEO of [ExecThread](#), a start-up that began with a very typical U.S. start-up board composed exclusively of men, primarily white. He acted with intentionality to change that paradigm, and now has a diverse board as well as a diverse senior management team. So what is different? “Board members are more thoughtful. We are getting a more interactive conversation and more balanced viewpoints.” He says, “Reading about the benefits of diversity in an article doesn’t really mean as much as actually experiencing it. I’m seeing the benefits in real time as the board has become more diverse.”

### Use company strategy and stakeholder lenses to establish board diversity goals

Many Commissioners stressed the importance of alignment between board composition and company strategy. This applies to all measures of diversity. As Esther Aguilera says, “It starts with taking a look at your company’s employee demographics and customer base, not only the current demographics but also the trend.” She continues, “Current and future customers and employees are the most valuable assets to any company, and their demographics should be reflected in the boardroom. Along the same lines, in the U.S., activist investors are targeting companies with a disconnect between a company’s C-suite and board leadership and their customer base.” As the board considers parameters of diversity that are aligned to strategic needs and stakeholder expectations, consider not only the company’s internal data but also the broad demographic data and stakeholder trends such as the following:

- Seventy to eighty percent of all consumer purchase decisions are made by women<sup>9</sup>
- The global purchasing power of the LGBT community is estimated at \$3.7 trillion<sup>10</sup>
- Hispanics constitute nearly 20 percent of the U.S. population and are continuing to grow<sup>11</sup>
- Chinese consumers and companies are increasingly influential in the global marketplace.

Hiltrud Werner’s companies use an international lens. She says, “We are looking at our global footprint, and asking ‘what is our customer base that we have to understand...’

China is a big market for us, for example. Understanding the demographics of our customer base is one key element that has helped us to widen our lens for diversity.”

In defining the parameters of diversity important to board composition, boards may want to consider the following questions:

- What is the demographic composition of the company’s current:
  - Customers
  - Suppliers
  - Executive talent
  - Workforce?
- Over the next few years and the longer term:
  - How do we expect each of these demographics to change?
  - How do we want them to change? Are there untapped opportunities in currently under-represented demographics?
- What do our stakeholders (defined as those listed above, investors, regulators, and others as relevant) expect from us with respect to board diversity?
- In light of all of these inputs, what are the implications for the composition of our board?

### Construct a board matrix that considers multiple dimensions of diversity—skill set, background, and decision-making style

In public companies and many private companies, a board matrix is a routine part of the board-building process. The process, however, is not always robust. As one Commissioner says, “I’ve seen it done where there is a laundry list of skills and nothing changes from year to year.” As the business environment and the company’s needs change, some criteria will become less relevant and new ones will move to the forefront. Consider reviewing the board matrix each time the strategy is refreshed. In addition, consider defining (and disclosing) what qualifications are needed to satisfy each category, and rigorously placing check marks only when truly appropriate (i.e., this is not an exercise in checking as many boxes as possible). The following samples illustrate examples of the types of criteria that might populate the matrix: skill sets, diversity, board tenure, and—in the first sample—decision-making styles.

## Personalities that help build a culture of inquiry

The following composite personality types illuminate ways that individual board members can contribute to a culture of inquiry. Most people have a combination of traits that may emerge according to the situation. But a board that is completely missing any of these traits—or is too heavily weighted with one or two—will have a harder time governing in a culture of inquiry mode.



### The coach

A cheerleader who celebrates what's working well, motivates the board to do even better, and reminds the group of the common vision, core values, and the interests of the organization.



### The caller

Courageous, sensitive, and skillful in calling individuals on questionable or inappropriate actions or disrespectful behaviors, the board's desired norms of behavior, or the welfare of the organization.



### The observer

Good at pointing out to the group insights and observations about board dynamics or other issues that illuminate board performance and get disagreements as well as accomplishments out in the open.



### The reframer

Skilled in recasting a complex or divisive issue in a new light, ferreting out and framing the real challenge at hand, and opening up new possibilities to shift attention to fertile new ground for realistic options.



### The analyst

Adept at generating conceptual possibilities sorting through large amounts of information, considering the consequences of proposed actions, and/or analyzing options strategically, objectively, and dispassionately.



### The healthy skeptic

Enjoys questioning the pros and cons, testing new ideas, playing the devil's advocate, and airing "dissensus" for a good argument that will help surface intelligent doubt and illuminate the issues and the stakes.



### The synthesizer

Quickly distills patterns, core issues, common themes, and long-range perspectives on complex, contentious, or controversial issues that summarize the discussion to help the board advance to the next step and avoid rehashing old ground.



### The facilitator

Highly attuned to the needs and emotions of others by encouraging full participation, ensuring that different views are heard, and supporting everyone to do their best thinking. Helps keep the board on track in serving the interests of the organization and the board. (Ideally, facilitator traits are present in the board chair, committee chairs, and individuals designated to lead board discussions.)

When these qualities are not present in the chair (and when a board agenda item cries out for open discussion and dialogue), consider asking another more skilled board member to facilitate the board discussion. A skilled facilitator can draw out everyone's input in a safe and respectful manner, especially if the chair lacks the group process skill or objectivity to create this climate. Additionally, one or more board members can volunteer to play any roles that may be missing from your current board composition.

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## Sample expanded board matrix

	Board of directors							
	Name 1	Name 2	Name 3	Name 4	Name 5	Name 6	Name 7	Name 8
<b>Skills and experience</b>								
Board of directors experience	X			X				
(Specific) industry experience		X					X	
CEO/Business head	X			X				
International	X					X	X	
Human capital management/compensation			X				X	
Finance/Capital allocation		X			X		X	
Financial literacy/Accounting (Audit committee financial expert or "ACFE")			X			X		
Government/public policy	X			X				
Marketing/Sales			X		X			
Environmental science/Policy/Regulation						X		
Academia/Education								
Risk management				X				
Corporate governance		X						X
Technology/Systems					X			X
Business ethics			X			X		X
Real estate		X			X			X
(Custom 1)								
<b>Demographic background</b>								
<b>Board Tenure</b>								
Years	15	15	10	8	7	7	4	1
<b>Sexual orientation (voluntary)</b>								
LGBTQ	X							
<b>Gender</b>								
Male		X	X	X	X	X		X
Female	X							
Non-binary								
<b>Age</b>								
Years old	60	63	65	62	60	67	55	47
<b>Race/Ethnicity</b>								
African American/Black	X							
Asian, Hawaiian, or Pacific Islander								
White/Caucasian		X	X	X		X	X	X
Hispanic/Latino					X			
Native American								
Other								

Source: City of New York, Office of the Comptroller (Board Accountability Project 2.0)

## Age as a virtue

Spurred by the widening scope of board expertise and pace of change in technology and innovation, boards around the world are adding younger members in the prime of their careers. And, according to Spencer Stuart, 37 percent of S&P 500 directors under 50 are women, compared to 24 percent overall.

“ For me, it was about getting comfortable with the best places to add value and being comfortable with the places I couldn’t. Where is simply asking a smart question useful? Where should I apply the expertise that I bring to the table? Where can I use my network to connect the company with outside expertise? ”

— Tara Walpert Levy



**“ The reality is that tech skills are more prevalent in a younger demographic. And it’s important to have directors with those skills and perspectives so the board has the ability to assess if the company is properly positioned from a tech standpoint and knows the questions to ask and the concerns they should have. ”**

**— Patricia Pineda**

**“ It’s hard to determine if [a younger director] will understand the difference between management and governance. You’re looking for people who are good listeners, who are open to new ideas, who don’t think they have all the answers, and who are strategic and think at a high level. ”**

**— Julie Daum**



## Build



Seek a diverse slate for every board director search.



Edit search criteria to remove bias while maintaining linkage to strategic needs.



Develop pathways for the board to tap into new, diverse networks of qualified board candidates.

### Board quotas

A number of countries require board diversity by means of a mandated quota, including France, Spain, Norway, Finland, Iceland, Italy, Germany, and India. In 2003, Norway was the first country to institute a gender quota and it currently has the highest percentage of women on the boards of large public companies at 44 percent, according to the Spencer Stuart 2018 Board Index. In the U.S. under a new law enacted in September 2018, public companies headquartered in the state of California are required to have at least one woman director by the end of 2019 and at least two or three (depending on the size of the board) by the end of 2021, and other states including Illinois and New Jersey are in various stages of considering quotas. (The quota currently pending in the Illinois state legislature requires boards to include at least one woman and one African American director). There are many different opinions about quotas, among Commissioners, WCD members broadly, and the population as a whole. WCD has not taken a position on the issue.

### Seek a diverse slate for every board director search

As John Rogers says, “If you search for talent everywhere you end up with better talent.”

Patricia Pineda says, “You have to be very intentional if you’re serious about diversity on the board.” Joe Meyer continues this theme. He says, “If you’re not intentional about [board diversity] from the get-go, about having a candidate short list that represents society as a whole, it’s harder.” And he has a response to those who say finding diverse board talent is too difficult. “If it’s a priority, then it becomes an objective like any other requirement, in the same way that you’re looking for industry experience, or geographical relevance, or functional experience.”

### Edit search criteria to remove bias while maintaining linkage to strategic needs

A number of Commissioners commented on the linkage between the drive for diversity and a thoughtful approach to board composition overall. Julie Daum, North American Board Services practice leader at Spencer Stuart, notes that deeper conversations often occur when boards in search of diversity begin to look beyond CEOs for relevant talent. She described an example in which the original goal was to recruit a woman CEO for a board. As the search progressed, the board came to the realization that the best candidate was a woman who, though not a CEO, had deep expertise in an area of critical importance to the company’s strategy. “The successful candidate, while less experienced than CEO candidates, has energy and ideas, and she knows exactly what the company needs to do. She’ll add value to the discussion from day one.”

Matt Fust discusses a similar experience. “On one of my boards, we were searching for a new director, and the initial spec was a current or former public company CEO with specific experience and credentials. And shockingly, 16 of the initial 19 candidates presented by the recruiter were men. So it forced a conversation that caused us to look around the room and say ‘the public company CEO demographic is pretty well represented here.’ It turned out that what we really needed was [a different type of experience].”

## Develop pathways for the board to tap into new, diverse networks of qualified board candidates

One of the top challenges that non-diverse boards express with regard to board diversity is lack of access to a qualified, diverse, candidate pool. This is where intentionality again becomes important. As Ana Paula Pessoa says, “One of the big benefits of having a diverse group on the board is being able to access a diverse network.”

In the absence of a diverse network, numerous diversity-focused organizations have networks that can be tapped. Esther Aguilera, CEO of Latino Corporate Directors Association, said that she has been approached by a few nominating and governance committee chairs “who, because of their customer base and who they target, saw gaps in their boardroom and proactively asked to be connected with four or five different Latino directors with no obligation, but who may be a fit in the future.” She says that for nom/gov chairs, “getting to know a broader, more diverse group of directors should be part of the job description.”

## Governance guidelines proposal

The following proposed governance guideline is recommended by the Diverse Corporate Directors Coalition (WCD, Latino Corporate Directors Association, Black Corporate Directors Conference, Ascend Pinnacle, and Quorum):

*Our Nominating and Governance Committee seeks to develop a board that reflects diverse backgrounds, experiences, expertise, skill sets and viewpoints. We actively seek director candidates who bring diversity of age, gender, nationality, race, ethnicity, and sexual orientation.*<sup>12</sup>

Matt Fust has been a leader in driving the guidelines initiative. While companies in the past were often reluctant to provide this level of transparency, he has seen a change more recently. He says, “As I and others who are working on these governance guidelines have approached CEOs, board chairs, corporate counsel, outside counsel, general counsels, board secretaries, or nominating and governance committee members, very rarely has the response been ‘We disagree.’ Nearly always, it has been, ‘We’ve never thought of it.’ And so many people have come up to me subsequent to those conversations saying, ‘We did it. And it was easy.’”

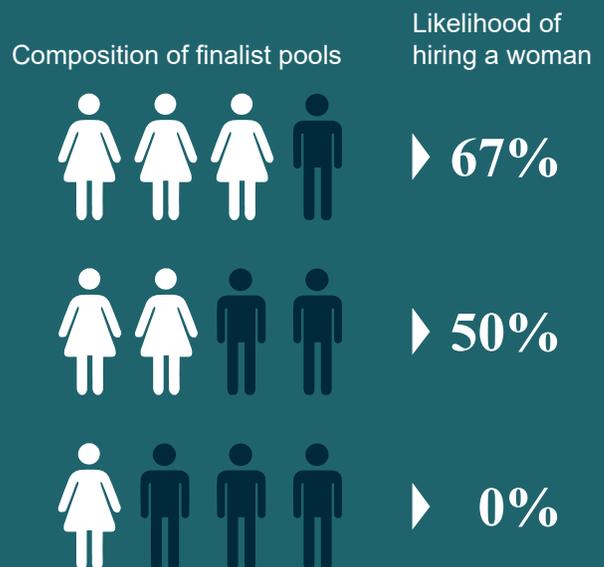
## Beyond the Rooney Rule

The Rooney Rule (named for Dan Rooney, the owner of the Pittsburgh Steelers), brought people of color into the management ranks of the National Football League (NFL). Implemented in 2003, the rule required that every team in the league must interview at least one person of color for every open head coach or general manager position. It changed the face of the NFL’s executive ranks and has been adapted in many other contexts including corporate boards.

While the rule is memorable and makes a difference, it has been criticized for not going far enough. The title of a Harvard Business Review article and the graphic below reporting the results of a study say it all: If there’s only one woman in your candidate pool, there’s statistically no chance she’ll be hired. A reason, according to the authors, is that being the only one highlights how different the candidate is from “the norm,” and “deviating from the norm can be risky for decision makers.”<sup>13</sup>

## The relationship between finalist pools and actual hiring decisions

According to one study of 598 finalists for university teaching positions



Reprinted with permission from “If there’s only one woman in your candidate pool, there’s statistically no chance she’ll be hired” by Stefanie K. Johnson, David R. Hekman, and Elsa T. Chan, hbr.org, April 2016.

## Report from the WCD Nominating and Governance Chair Roundtable

As an organization representing members of diverse backgrounds, WCD works with other organizations devoted to board diversity. Under the leadership of WCD lead director Kapila Anand and WCD member Gabrielle Sulzberger, WCD has convened a series of roundtables for the purpose of identifying ways to accelerate board diversity. Roundtable participants, including male and female directors with diverse backgrounds, discussed challenges and opportunities, and developed a plan including the following five work streams:

- **Convene Nominating and Governance peer group exchanges focused on board diversity.** Additional peer exchanges have taken place since the original session and the plan is for nom/gov chairs to continue to learn from each other, develop action items from the working groups established, and radiate that knowledge to the broader board community.
- **Explore the value of a centralized database of diverse directors and board candidates.** A robust pipeline exists, and WCD and other diverse organizations are working to connect board openings with highly qualified candidates within their networks.
- **Architect a strategy to engage investor groups and alliance organizations.** The organizations that comprise the Diverse Corporate Directors Coalition (WCD, Ascend Pinnacle, Black Corporate Directors Conference, Latino Corporate Directors Association and Quorum Out Leadership) engage with investor groups in a collaborative fashion.
- **Develop a library/resource for Nominating and Governance committees.** A digital resource is being developed.
- **Benchmark and establish best-in-class individual board member performance assessments.** The participants agreed that a framework for candid performance assessments, including the benchmarking of current practices, is a good first step towards board refreshment.



“**Nom/gov committee peer exchanges can serve to radiate knowledge to a broader board community.**”

— **Kapila Anand**



## Harvest



Consider how diversity and unconscious bias awareness can aid strategic insight.



Exercise inclusive leadership to harness the full collective intelligence of the board.



Be transparent.

### Consider how diversity and unconscious bias awareness can aid strategic insight

As Ana Paula Pessoa says, “When you have directors with similar backgrounds, they tend to ask the same questions over and over again—different wording but basically the same approach.” In contrast, Ana Paula Pessoa related a story about one of her boards, a water company. She commented that women were primarily responsible for paying the bills for this service, and that the country had a history of bias against women in the provision of credit and negotiations with regard to debt. “It’s not obvious that a man would think about that. As a woman, I did think to ask the question about how the billing processes are working in light of the cultural context, and this led to a deeper discussion. Again, it’s a matter of asking the questions.”

Numerous Commissioners described experiences in which their diverse perceptions had helped their companies identify business opportunities that

“**When you have directors with similar backgrounds, they tend to ask the same questions over and over again.**”  
— Ana Paula Pessoa

otherwise would likely have been missed. For example, Commissioners have questioned management’s assumptions about consumer and employee preferences when the data relied primarily on the needs of white males. And some have pushed their companies to pursue what became highly lucrative new lines of business targeted specifically to women. As the experience of one Commissioner demonstrates, persistence can pay off—a potential opportunity suggested by board members was rejected by more than one CEO at the company, and a new CEO finally saw and implemented the opportunity with great success.

Directors with diverse backgrounds add value because of the different perspectives and experiences they add to the boardroom discussion. Yet many directors have experienced boardrooms that do not encourage—and sometimes actively discourage—different perspectives. Marina Eloy-Jacquillat described a previous board experience in which “when I had an opinion that was different, the whole atmosphere of the board made me very uncomfortable.” In “How to defeat groupthink: Five solutions,” Cass Sunstein and Reid Hastie reference the importance of a critical-thinking culture, and comment: “In experiments with groups, when people are told that the goal is ‘to get along,’ they are far less likely to disclose what they know than when they are told that the task involves critical thinking. The point applies to many organizations, including ... corporate boards.”<sup>14</sup>

One way to help create an inclusive environment begins with onboarding. Kapila Anand references how in her company a change to the onboarding process made a difference. “Now it’s much more about the strategic issues facing the industry prospectively than about the company’s history. We’ve held the discussion for the full group, and it becomes much more about building that sense of chemistry at the same time as you’re sharing knowledge with each other and adding to the discussion of strategy at the same time.”

## Exercise inclusive leadership to harness the full collective intelligence of the board

Marina Brogi stresses, “You might design, in theory, the perfect board with the perfect mix of skills. But when you look at board effectiveness on paper, it doesn’t mean that the board is functioning correctly.” She comments that some directors may be intimidated by the boardroom dynamic or may not be adding full value to the conversation for other reasons. The *Agenda* magazine article “As boards increase diversity, examine ‘micro’ behaviors,” highlights the “awkwardness” that comes with diversity and examines behaviors that can damage the board dynamic: for example, a board member who becomes impatient listening to a director for whom English is a second language, a board chair who pays more attention to those who support his own point of view, or a board that suggests through body language that the opinion of a vocal director should be followed without further discussion.<sup>15</sup>

Four conditions characterize wise group decisions, according to “The Wisdom of Crowds”:

1. Diversity of opinion (each person should have some private information, even if it’s just an eccentric interpretation of the known facts)
2. Independence (people’s opinions are not determined by the opinions of those around them)
3. Decentralization (people are able to specialize and draw on local knowledge)
4. Aggregation (some mechanism exists for turning private judgments into a collective decision).<sup>16</sup>

As a matter of continuous improvement, it may be helpful for board and committee leaders to assess the board environment against these conditions and to consider whether they are sufficiently drawing out relevant information, dissenting opinions, and specialized knowledge to enhance the robustness of the board’s decision-making process. Janet Wong has experienced this dynamic. “We have a great chairman who makes sure that everyone’s voice is heard. And being the only woman on the board, I feel he makes the effort to make sure my voice is heard, be it in the board room, at the board dinner, or otherwise.”

## How a different perspective can build a company

As a telling example, Romi Haan founded and successfully grew a company that deeply benefits from her diverse perspective. The product on which her multimillion-dollar Korean company was founded was a steam mop that had its genesis in a consumer insight based on her experience cleaning her own home. The product was highly innovative and nothing like it was on the market at the time. In the company’s early stage, she had an extremely difficult time convincing the uniformly male store buyers that the product served an unmet marketplace need. Women saw the value immediately, and she was able to grow the business into what is now one of the most well-known electric consumer products businesses in the country.

## Implications of being the “only”

Research has focused on the experience of individuals who are different from the others in their group. In a survey of U.S. companies, 45 percent of women of color, 37 percent of men of color, 76 percent of lesbian women and 70 percent of gay men responded that they were often the only or one of the only people of their race/ethnicity or sexual orientation in the room.<sup>17</sup> The “onlys” were far more likely than others to agree that during the normal course of business they had had experiences including needing to provide more evidence of their competence than others do, having their judgment questioned in their area of expertise, and being mistaken for someone at a much lower level. While this study, “Women in the Workplace 2018” by McKinsey & Company and Lean In, spanned all levels of the workforce, the same issues can—and anecdotally do—occur in the boardroom. Joe Meyer says, “I’ve seen the woman who was the first female member of our board become more vocal, and I think, more comfortable to be quite honest, when the second woman joined the board.” And, as the 30% Club says, “30 percent is the figure widely agreed to mark the stage at which contributions of the minority group cease being representative of that particular group and start to be judged on their own merit—in other words, critical mass is achieved.”<sup>18</sup>

## Be transparent

Disclosure of board diversity is becoming increasingly important for investors and other stakeholders seeking a better window into the composition and effectiveness of the board. As New York City Comptroller Scott M. Stringer says in the August 2018 New York City Pension Funds compilation of *“Best Practices” in Board Matrices*, the New York City Retirement Systems (NYCRS) seeks disclosures that enables NYCRS to assess board diversity “without asking their investors to make assumptions about how their directors self-identify based on photographs or the spelling of their names.” The document is part of the City’s “Board Accountability Project 2.0,” and the reason for the focus on diversity was stated as “diverse and highly qualified boards are best positioned to avoid ‘group think’ in boardrooms and to produce better and sustainable long-term returns...”<sup>19</sup>

Lack of disclosure can prove frustrating to organizations seeking to engage in deeper research on the correlation between diverse board composition and business impacts. One suggestion from many organizations working in board diversity is to offer self-identification opportunities on a purely voluntary basis. While there is a concern that asking a board member about their race, ethnicity, or sexual orientation might be inappropriately intrusive, Matt Fust says, “There are numerous mechanisms for enabling that conversation that may be more comfortable than asking in a direct manner. For example, with a question on the directors and officers’ insurance (D&O) questionnaire that, on a voluntary basis, invites directors to self-identify their gender, race, ethnicity, sexual orientation, veteran status, national origin or other demographics that the organization considers relevant from a board diversity status, the data just becomes part of what’s known about the board.”

Currently, in the U.S., disclosure rules for public companies do not define “diversity” in the regulations governing the proxy.<sup>20</sup> Historically this has fostered a vague “we consider diversity” type of disclosure, leaving the reader with little information. The push for transparency is changing this on a voluntary, company-by-company basis. In addition, a recently published interpretive guide will likely lead more companies to specific disclosure as it clarifies the need for disclosure if a director self-identifies and the self-identified characteristics were considered in assessing whether the person’s experiences or attributes made them the right fit for the board. In addition, legislation has been recently introduced (the Menendez-Meeks bill) to require disclosure, based on self-identification, of the racial, ethnic, gender, and veteran composition of the board. Of course, when and whether the bill eventually becomes law remains to be seen.

## Pay disclosures

A study by the World Economic Forum assessed the gap between the wages of men and women and calculated that it will take between 61 and 171 years for countries to close the gap.<sup>21</sup> The gap in the U.S. is significant, particularly for women of color—women overall earn \$0.80 for every dollar men make, while the figures for African American women and Latinas are even lower when compared to white men: \$0.61 and \$0.53.<sup>22</sup> This is a board issue given the visibility it has gained among institutional investors and regulators. The UK now requires companies to report their gender pay gap publicly and, in the U.S., shareholder resolutions requesting the company to address gender pay issues are on the rise. A presentation by Pearl Meyer available online ([www.pearlmeyer.com/you-too-what-boards-need-to-know-and-do-about-gender-pay-equity.pdf](http://www.pearlmeyer.com/you-too-what-boards-need-to-know-and-do-about-gender-pay-equity.pdf)) clarifies an important point—pay gap and pay equity, though sometimes used interchangeably in the media, are not the same. Pay gap compares all working men to all working women in the company, and a large pay gap can signal a lack of women in the senior ranks. Pay equity, on the other hand, compares compensation for similar jobs (some highly visible examples have involved lead actresses paid less than their male counterparts in films and TV series.) Pearl Meyer recommends that boards and management:

- Get ahead of the curve on compliance (both pay gap and pay equity audits)
- Immediately address pay equity issues
- Assess practices that can affect pay gap such as career advancement/succession planning
- Mitigate PR risks through a comprehensive communications strategy.<sup>23</sup>

## A private matter

“Board composition and how we’re thinking about the board is increasingly a part of the dialogue as we’re formulating a deal,” said Ben Holzemer. “Crafting a very specific spec of what is needed is one key to building great boards and an important catalyst in adding diversity.”

The global push to enhance corporate board diversity is not lost on male and female leaders at private equity and venture capital firms and other investors in non-public companies. Global investors in private equity and venture capital, as well as the investment firms’ management, are putting a greater emphasis on the diversity of investment teams and portfolio companies, according to a March 2019 report from the International Finance Corporation, Oliver Wyman, and RockCreek.<sup>24</sup>

In **Moving toward Gender Balance in Private Equity and Venture Capital**, the authors reveal key findings regarding gender diversity among limited partners, general partners, and portfolio companies, and recommend several steps to close the gender gap:

### Limited Partners

**Ask about gender diversity in the due diligence process.** The Institutional Limited Partners Association offers a **Due Diligence Questionnaire** that includes guidelines on diversity and inclusion policies and initiatives for both General Partner firms and their funds’ portfolio companies.

**Establish investment goals or targets related to the diversity of investments.** “Examples of goals include increasing the number of General Partners that

provide sex-disaggregated data on women in their funds and portfolio companies, improving the proportion of capital allocated to gender-balanced investment teams, and investing only in General Partners with gender diverse teams.”

### General Partners

**Establish a tone at the top for improving gender diversity.** Establish and communicate gender diversity goals, collect data to assess progress, and make senior leadership accountable.

**Support an internal environment that does not force a choice between family and career.** Of the global firms surveyed by IFC, 25 percent do not offer maternity leave and more than half do not offer paternity leave. The paper recommends equal benefits and flexible work initiatives.

**Engage portfolio companies at the time of and after investment to drive change on gender diversity.** “Less than 40 percent of surveyed emerging market General Partners track sex-disaggregated employment data, and about 33 percent actively pursue diverse candidates when sourcing talent.”

Find the full report and other key findings from this survey of Limited Partners and General Partners in East Asia, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa at [www.ifc.org](http://www.ifc.org).

Also read “Building a High-Performing Private Equity Portfolio Company Board” at [womencorporatedirectors.org](http://womencorporatedirectors.org).

## Closing a gender gap in business education

A 2011 student-led case study revealed that, despite an increasing number of women matriculating at Harvard Business School (HBS), women were lagging their male classmates for academic honors.

Observing that women’s comments in the classroom were often overlooked by professors grading students on class participation, HBS added scribes to take notes, and implemented a class participation grading tool that gives faculty members data on their calling patterns.

In 2018, for the first time, women were overrepresented for second-year honors. In addition, as a result of other changes, the percentage of women on the faculty has increased.<sup>25</sup>

The school also is working on increasing representation of women in senior roles in their case studies. “It’s important for us to be mindful that our curriculum itself conveys to people who they think should be in leadership roles,” HBS Dean Nitin Nohria told *The Harvard Crimson* in 2017. “It’s an ongoing commitment.”<sup>26</sup>

## Sow



Routinely review an organizational diversity scorecard.



Hold management accountable for inclusive leadership.



Board members are looked up to as role models—consider how to leverage this position.

### Routinely review an organizational diversity scorecard

“If a senior management team is not diverse, to me, that’s a red flag right there,” says Patricia Pineda. A frequent first step for boards is to include a review of relevant metrics as part of their oversight. As Ana Paula Pessoa says, “Board members need to ask the right questions, and part of that is pushing for new metrics, getting management to recognize things that they haven’t thought about before.” Jan Koors says, “By definition, if the board is going to do a good job of overseeing diversity, they have to have statistics all the way through to the bottom of the organization. You can’t understand the organization unless you understand recruiting and why and how the company loses diverse talent along the way.”

Consider whether the board tracks the following metrics, suggested by Mercer in “Metrics for gender progress that every board should monitor”:

- Representation by gender, race, and career level
- Hiring, promotion, and turnover rates by gender, race, and career level
- Pay data by gender, race, and role
- Health data by gender
- Employee engagement data by gender
- Number of sexual harassment claims
- Organizational climate (culture assessment) by gender.<sup>27</sup>

Understand the plan, says Ibukun Awosika. “Otherwise you may find that it doesn’t just happen organically. Whatever you don’t set as a plan and don’t measure in any way, may never get done.”

### Board oversight of supplier diversity

Supplier diversity has been a priority of many large companies for decades, and John Rogers says companies need to change their approach. “We have to get rid of the term supplier diversity,” he says. “The economy is moving to a professional services and technology-based economy. If you only work with black and brown people in construction and catering, and the wealth and jobs are being created in technology and professional services, then you’re failing at your purpose.” He meets with management at his companies to review their spending with minority-owned businesses by category, and says, “If a corporation says they care about diversity and inclusion, I’m doing my job as a good board member by making sure the company does what it promised to do.”

## Hold management accountable for inclusive leadership

Diversity is one thing, inclusion is another. As some commentators have described it, diversity is inviting someone to a party and inclusion is asking them to dance. Strikingly, half of all diverse employees responding to BCG's 2018 Global Diversity Survey stated that they see bias as part of their day-to-day experience at work. In addition, half said they don't believe that their companies have the right mechanisms in place to ensure that major decisions (such as who receives promotions and stretch assignments) are free from bias.<sup>28</sup> Hiltrud Werner suggested that companies heighten their focus on training and accountability of leaders for mentoring newly promoted employees. "If a man is promoted and struggles in the job after a year, then generally, he gets support because the manager does not want to be seen as someone who promoted the wrong person. But when this happens to a woman, very often she is removed from the job and the leader still gets credit, in the sense of 'you gave it a try and thanks for that,' so the incentive to ensure the employee's success is not the same."

Management can be expected to exercise leadership to create an inclusive environment that will maximize engagement and growth. The board may want to consider how leadership measures up against the recommendations in "6 steps for building an inclusive workplace" from Kathy Gurchiek of the Society for Human Resource Management:<sup>29</sup>

1. Educate employees and managers throughout the organization, including training on inclusivity and unconscious bias
2. Form an Inclusion Council, to gather feedback from deep into the organization, troubleshoot challenges, and serve as a communication bridge between the organization and the C-suite
3. Celebrate employee differences
4. Listen to employees
5. Hold more effective meetings to make the most of employee time and work around flexibility needs
6. Communicate inclusion goals and measure progress.

## A roadmap to gender equality

The board might consider setting aside time to read and discuss with management the relevant implications of "Women in the Workplace 2018." Based on data collected and analyzed over the past four years from 462 companies employing almost 20 million people, the report notes that women, particularly women of color, remain significantly underrepresented, and sets forth a "roadmap to gender equality," consisting of the following six actions:<sup>30</sup>

1. Get the basics right—targets, reporting, and accountability
2. Ensure that hiring and promotions are fair
3. Make senior leaders and managers champions of diversity
4. Foster an inclusive and respectful culture
5. Make the "only" experience rare
6. Offer employees the flexibility to fit work into their lives.

## Board members are looked up to as role models—consider how to leverage this position

"I think it is incumbent upon board members to make themselves visible, whether that's participating in town hall meetings, offering to spend time with affinity groups, or just wandering the halls and hanging out in the cafeteria," says Jan Koors. "Find the junior people in the company who would benefit from hearing a diverse voice and seeing somebody in a position of authority that embodies that diversity. It sends a much stronger message of a culture of diversity and inclusion than words on a plaque." Kapila Anand does just that. "On one of my boards, the women board members meet with the senior women in the organization. And it's been beneficial for both the senior women to see us as role models and for us to talk to them—we both learn from each other." Matt Fust experienced this when he marched in the company's contingent in the LGBT Pride parade. "By the time I got home, my email inbox was filling up with messages from employees who expressed how deeply important it was for them to see board-level representation at the event."

Marina Brogi uses her role as a committee chair to highlight executive women and to address unconscious bias when they present to the committee: "I always try to find a way to bring women in to speak to the committee on topics they have led within the organization, even if they are not at a C-suite level. I think it helps them grow. And I pay attention to the reaction in the room—if the woman knows her stuff but has a different, more humble style, I've seen committee members forget that these are top executives and they have a story to tell. I think we should be very, very conscious of giving credit where credit is due, and I'm very careful to see that the women who present are given compliments on the same basis as the men."

A Commissioner sums it up: "Don't be shy. Try to make a difference."

# Recommendations

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## Define:



Review and discuss the research on how diversity adds value in the boardroom.



Use company strategy and stakeholder lenses to establish board diversity goals.



Construct a board matrix that considers multiple dimensions of diversity—skill set, background, and decision-making style.

## Build:



Seek a diverse slate for every board director search.



Edit search criteria to remove bias while maintaining linkage to strategic needs.



Develop pathways for the board to tap into new, diverse networks of qualified board candidates.



## Harvest:



Consider how diversity and unconscious bias awareness can aid strategic insight.



Exercise inclusive leadership to harness the full collective intelligence of the board.



Be transparent.

## Sow:



Routinely review an organizational diversity scorecard.



Hold management accountable for inclusive leadership.



Board members are looked up to as role models—consider how to leverage this position.



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