

ALL THINGS WORK

Corporate Board Diversity: Moving Beyond Lip Service

As pressure mounts to add board members from diverse groups, slow but steady progress is being made.

By June D. Bell | January 16, 2021

Unilever executive Esi Eggleston Bracey is Black and female, but if that's why a corporate board wants to add her as a director, she's not interested. However, if the board wants to tap her decades of expertise in consumer products, management and operations, she'll be far more receptive.

When Six Flags Entertainment Corp. approached Bracey last year about serving on its board, she was intrigued. "They were looking for a seasoned business leader," says Bracey, Unilever's executive vice president and chief operating officer of beauty and personal care in North America. She knew she would learn and grow by advising a business forced to recalibrate during the coronavirus pandemic. "I thought it would be fascinating—fascinating—to be part of that," she says.

Last summer, Bracey became a Six Flags director, part of a surge of women and people of color who have joined corporate boards traditionally dominated by white men. Among the confluence of forces moving boards toward greater diversity: activism and protests by women and people of color, including the Black Lives Matter movement; pressure from investors and shareholders; and state legislation.

Despite recent advances, however, corporate boards still do not reflect the increasing diversity of the U.S. population.

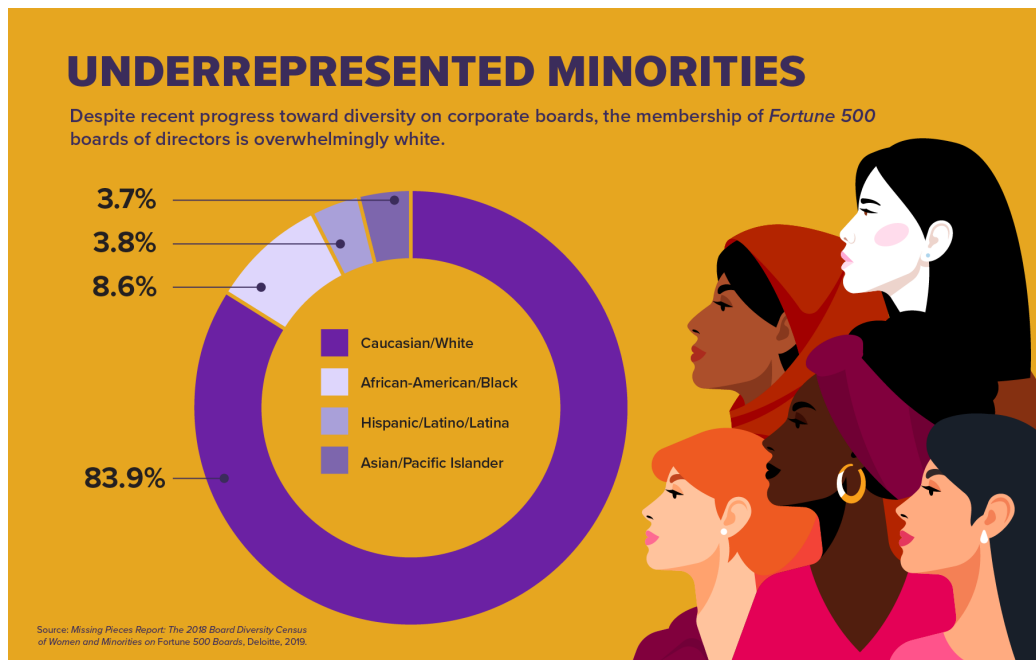
- White individuals account for about 60 percent of the population but hold 84 percent of *Fortune* 500 board seats.
- Latinos, the country's fastest-growing ethnicity, make up 18.5 of the population but fill just 2.2 percent of board seats on Russell 3000 companies' boards.
- Black individuals represent 12.5 percent of the population but hold just 4.1 percent of Russell 3000 board seats. In addition, 37 percent of S&P 500 companies had no Black board members in 2019.

Women have fared better, filling 45 percent of new Russell 3000 board seats and 46 percent of new S&P board seats in 2019. That year, however, women held just 19 percent of all Russell 3000 board seats and about 25 percent of seats on S&P boards.

Mandating Diverse Boards

To move the needle faster, California became the first state to require diversity on corporate boards, starting with women and followed by "underrepresented populations." A law that took effect in 2019 requires the boards of all California-based publicly held companies to have at least one female director by the end of that year and three by the end of 2021. Violators can be fined up to \$300,000.

The state of Washington passed a law, effective June 2020, requiring corporate boards to be at least 25 percent female. Other states, including Massachusetts and New Jersey, have considered mandating board diversity, and Illinois requires companies to disclose their female and minority board membership. Countries including Iceland, Israel, Norway, Italy, France, Belgium and Finland have quotas for female directors that range from 33 percent to 50 percent.



The California law boosted the number of women on corporate boards, but it has had little impact on the ethnic and racial diversity of board members. Though Latinos make up 39 percent of the Golden State's population, just 3.3 percent of the women on corporate boards are Latinas, according to the Latino Corporate Directors Association (LCDA). Of the 511 board seats filled at California public companies between 2019 and March 2020, only 17 went to Latinas.

Another California law, which took effect Sept. 30, 2020, requires the state's publicly traded companies to have at least one director from an underrepresented community (defined as people who are gay, lesbian, bisexual, transgender, Native American, Native Hawaiian, Alaska Native, Pacific Islander, Asian, Latino, Hispanic, Black or African-American). As of mid-2020, 35 percent of publicly traded companies based in California had boards of directors that were exclusively white, the LCDA found. Of the 429 boards considered racially diverse, 66 percent had at least one member who was Asian, 25 percent had at least one who was Black, 20 percent had at least one who was Latino, and 10 percent had at least one member who was nonwhite/other.



MORE WOMEN, FEW PEOPLE OF COLOR: NONPROFIT BOARDS FALL SHORT ON DIVERSITY

Nonprofit organizations are far more open than their for-profits counterparts to appointing women as chief executives, board chairs and board members. But nonprofits are still not equally welcoming to people of color.

"Broadly speaking, they have more gender diversity, but they are not very diverse from a race perspective," says Molly Brennan, a recruiter with Koya Leadership Partners, an executive search firm that specializes in nonprofit organizations. "Racial diversity is definitely lagging behind."

Women accounted for 72 percent of chief executives at 1,300 U.S. nonprofits, according to a 2017 BoardSource survey of nonprofit board practices. Women chaired 42 percent of boards and represented 48 percent of board members. Nonprofits—especially those that emphasize social services, youth development and education—often have a heavily female volunteer base that is a pipeline for leadership roles, Brennan says.

But the BoardSource survey found that nine in 10 chief executives and board chairs were White, as were 84 percent of board members, "with people of color and ethnic minorities never representing more than 18 percent of board membership." Twenty-seven percent of respondents said their boards were all white. Though board directors and chief executives said diversity was important, fewer than a quarter of those surveyed were willing to change their recruiting practices to boost diversity.

Quota Opposition

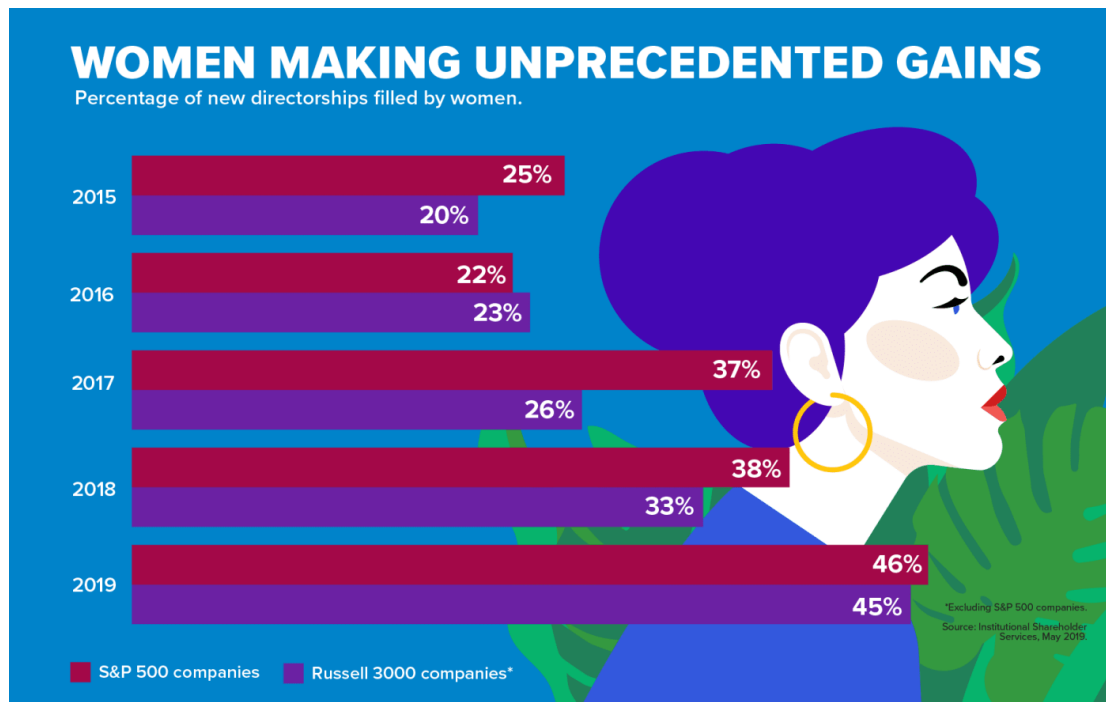
Laws that dictate the composition of corporate boards have come under fire. The libertarian nonprofit Pacific Legal Foundation and conservative activist nonprofit group Judicial Watch claim quotas violate the tenet of equal protection under the law. The groups have filed lawsuits to stop them.

"You can't have the government forcing us to take race and gender into account" for board appointments, says Daniel Ortner, a Pacific Legal Foundation attorney.

He and other opponents say pressure from investors, shareholders and the public are better, legal alternatives to quotas. That pressure is mounting. BlackRock Inc., the world's largest money manager, told its portfolio companies in 2018 that it wants boards to have at least two female directors. Vanguard Group last year began asking the boards of companies it invests in to report back on the gender, age and race of their board members. And Goldman Sachs announced that starting July 1, 2020, it would no longer underwrite initial public offerings of American and European companies that were not diverse.

In December 2020, Nasdaq proposed new rules requiring most companies listed on its U.S. stock exchange to have, or explain why they don't have, at least one female director and one director who self-identifies as an underrepresented minority or as LGBTQ. Additionally, all Nasdaq-listed companies would have to publicly disclose diversity statistics regarding their boards of directors.

Civic leaders, business activists and advocacy groups such as 2020 Women on Boards and the LCDA have also been outspoken about the need for change. A consortium of Latino leaders is demanding that public company boards triple Latino representation by 2023, asserting that the push for diversity has benefited women and Black individuals but eluded Latinos.



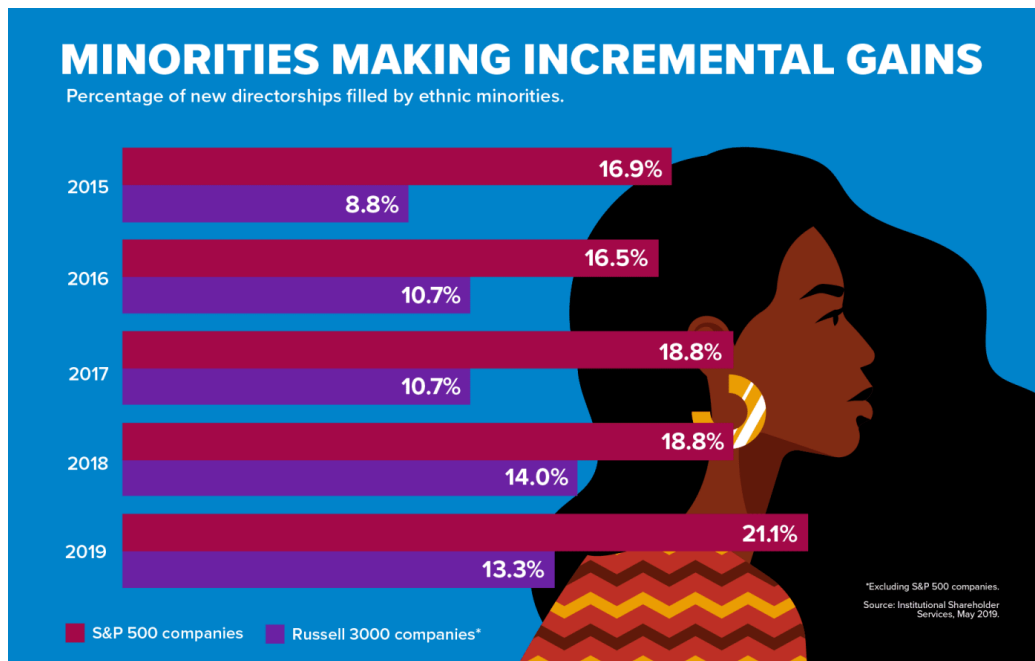
Latinos are significantly underrepresented on corporate boards, says Ana Dutra, co-chair of the Latino Corporate Directors Education Foundation. The LCDA runs a training program to prepare executives and leaders for board service and maintains a referrals list. "The bottom line is that there's no excuse" for homogenous board leadership, she says.

Executives should tap those advocacy groups for board candidates who aren't typically members of their often-homogenous networks of CEOs and CFOs, says Lyndon Taylor, managing partner of executive search firm Heidrick & Struggles' global diversity and inclusion practice. "Board members should ask each other to build the pipeline and think about the board's needs in one, three and five years down the line," he says. "That will lead to a much broader range of candidates," including trailblazers in academia, community organizations, nonprofits and the military.

Effective Recruitment and Engagement

When a board seeking a diverse pool of candidates contacts Egon Zehnder recruiter Charles "Chuck" Gray, Gray asks what expertise the leadership lacks. "You want someone who joins a board for their skill set, and they just happen to be a woman or a person of color," says Gray, who leads the firm's technology officers, board and diversity practices. "You want to layer diversity on top of those areas of expertise."

Candidates can quickly suss out whether they're being courted for their business acumen or the color of their skin. "If [race] is the only way they're contributing, those executives are not going to feel valued," Gray says. What they need to hear, he maintains, is "We're calling because you have incredible supply-chain experience ... and it's great that you're a person of color."

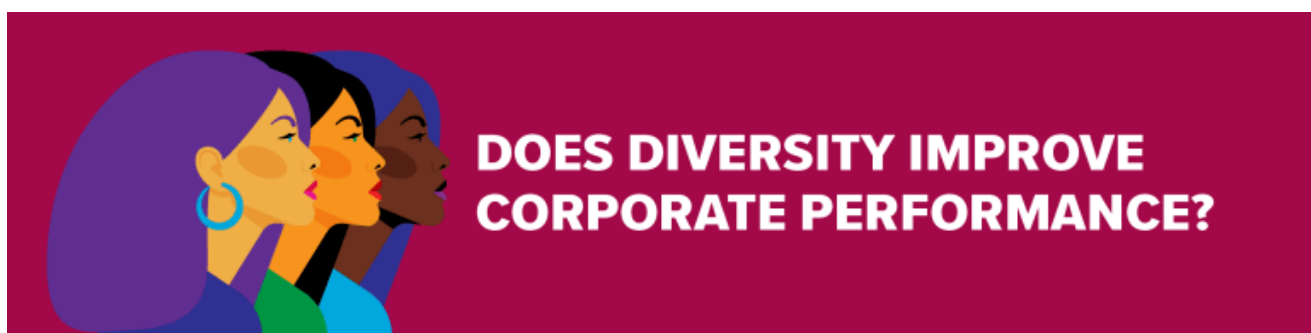


Dutra, who serves on several boards and is CEO of management consulting firm Mandala Global Advisors, rejects board roles that don't tap her knowledge of growth, globalization and management. "If I ever felt like I was a token, I wouldn't take it," she says. "I have to believe I was being recruited for more than that and that I have value to add. I want to be a super-effective director who happens to be a woman and happens to be a Latina."

Because being the sole woman or person of color on an otherwise homogenous board can be challenging, recruiters suggest boards add two or three directors from diverse groups at a time, when possible. "It makes the experience better and richer," says Molly Brennan, a recruiter with executive search firm Koya Leadership Partners in Boston.

But someone has to be the pioneer, says Bracey, the Six Flags board member. "If I shied away from boards because I didn't want to be the first person of color," she says, "I'd never be on a board."

When people of color and women join boards, they should not be tasked with spearheading training around diversity, equity and inclusion—unless that's their area of expertise and they have offered to lead that initiative. "Just because you're a woman or person of color, it doesn't mean you are by default the expert on diversity," Gray says. "But a woman or person of color will bring attention to issues that are previously not addressed." A woman, for example, may be more likely to call attention to the lack of women in leadership roles in the organization.



Diversity Matters, an often-cited 2015 McKinsey & Co. report, claims that diversity on corporate boards benefits the bottom line. In a study of 366 public companies in Canada, Latin America, the U.S. and the U.K., companies with boards that ranked in the top quartile for racial diversity were 33 percent more likely to outperform those in the bottom quartile. Those in the top quartile for gender diversity were 21 percent more likely to outperform those in the bottom quartile, the report said.

A less homogenous board doesn't necessarily guarantee higher profits, but McKinsey report noted: "More diverse companies, we believe, are better able to win top talent and improve their customer orientation, employee satisfaction, and decision making, all that leads to a virtuous cycle of increasing returns."

In December 2020, Nasdaq proposed new rules requiring most companies listed on Nasdaq's U.S. stock exchange to have at least one female director and one who self-identifies as an underrepresented minority or LGBTQ+. Part of the rationale for the new rules, Nasdaq officials said, was an analysis of over two dozen studies that found an association between diverse boards and better corporate governance and financial performance. "Nasdaq's purpose is to champion inclusive growth and prosperity to power stronger economies," Adena Friedman, president and CEO of Nasdaq said when the rules were proposed.

But Katherine Klein, a management professor at the University of Pennsylvania's Wharton School, has concluded that gender-diverse teams give companies a financial edge. "Depending on which meta-analysis you read, board gender diversity either has a very weak relationship with board performance or no relationship at all," she wrote in an article published by Wharton in 2017.

Klein analyzed dozens of academic studies on the subject. She concluded that "there is no business case for—or against—appointment women to corporate boards. Women should be appointed to boards for reasons of gender equality, but not because gender diversity on boards leads to improvement in company performance."

Moving Forward, Slowly

Today's emerging U.S. workers are growing up in a country that's far more diverse than what their parents and grandparents experienced. White individuals account for just under 50 percent of U.S. residents under age 16, a drop of about 11 percentage points from 2000. The decade of 2010-2020 is likely to be the first since 1790—when the first U.S. census was taken—that the white population did not grow, according to the Brookings Institution

Meanwhile, the percentage of Latino/Hispanic teens jumped by nearly 9 percentage points to 25.8 percent in 2019 from 17.2 percent in 2000. The percent of Black individuals under age 16 dipped to 13.7 percent in 2019 from 14.6 percent in 2000. During that same period, the percentage of under-16 Asian-American teens rose slightly to 4.5 percent from 3.4 percent.

Recruiters and executives are cautiously optimistic about change. Taylor, of Heidrick & Struggles, says 52 percent of the placements he made in 2020 were women and people of color. In 2018, his executive search firm committed to presenting more diverse slates of board candidates.

Gray, of Egon Zehnder, says he is pleased by the changes he's seeing, "but we are a long way from the ideal."

Meanwhile, consumers, stockholders and the public are watching—and demanding that executives and companies do more to promote board diversity faster.

"This is an age of transparency," says David Rodriguez, Marriott International's executive vice president and global chief human resources officer, and a member of the board of directors of cabinetmaker American Woodmark. "There's going to be pressure on companies, and there's no hiding these days."

June D. Bell is a San Francisco-based journalist who covers California legal developments and labor and employment issues for SHRM.

Explore Further

SHRM provides advice and resources to help business leaders promote and achieve diversity on corporate boards of directors. **Emerging Trend Aims to Improve Diversity on Corporate Boards** (www.shrm.org/resourcesandtools/legal-and-compliance/state-and-local-updates/pages/dei-trend-corporate-boards.aspx?_ga=2.35077473.113269602.1610374794-1773632542.1591208976)

The recent focus on gender and racial equity in the workplace has prompted state-level legislation to encourage or require diversity on corporate boards.

California Law Aims to Add More Minorities to Corporate Boards (www.shrm.org/resourcesandtools/legal-and-compliance/state-and-local-updates/pages/california-law-aims-to-add-more-minorities-to-corporate-boards.aspx)

Following the passage of laws that boosted the number of women on California corporate boards, those boards will be required to add members of underrepresented groups.

New York Corporations to Report Number of Women on the Board (www.shrm.org/resourcesandtools/legal-and-compliance/state-and-local-updates/pages/new-york-to-require-corporate-reporting-on-women-on-the-board.aspx)

New York state mandates a study of the proportion of female members on the boards of corporations authorized to do business in the state.

Illinois Law Aims to Promote Corporate Board Diversity (www.shrm.org/resourcesandtools/legal-and-compliance/state-and-local-updates/pages/new-illinois-law-aims-to-promote-corporate-board-diversity.aspx?_ga=2.189583851.113269602.1610374794-1773632542.1591208976)

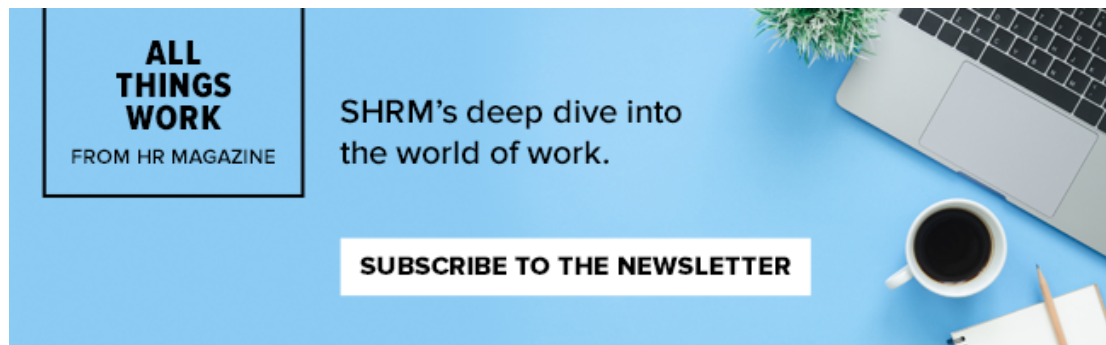
Certain Illinois-based businesses are required to report to the state data on female and minority board membership.

Report: Diversity on Boards Growing Slowly but Steadily (www.shrm.org/ResourcesAndTools/hr-topics/behavioral-competencies/global-and-cultural-effectiveness/pages/report-diversity-on-boards-growing-slowly-but-steadily.aspx?_ga=2.238801923.2051381810.1563808079-920689375.1491920969)

The boards of Fortune 500 companies are expected to achieve gender parity among the incoming class of directors by 2023.

A Dozen Ways Boards Can Become More Diverse (www.shrm.org/ResourcesAndTools/hr-topics/behavioral-competencies/global-and-cultural-effectiveness/Pages/A-Dozen-Ways-Boards-Can-Become-More-Diverse.aspx?_ga=2.90689754.113269602.1610374794-1773632542.1591208976)

Here are 12 recommendations on how boards of directors can diversify their membership from Diversity in the Boardroom: Pushing Forward, Reaching Back, a report from the WomenCorporateDirectors Thought Leadership Commission.



(https://lp.shrm.org/preferences.html?_ga=2.226593365.954608487.1597587765-1474510536.1594306739)

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