

Board Diversity Snapshot: Six Recommendations for Becoming a More Diverse and Inclusive Board

With renewed attention to racial inequity, more and more companies are announcing initiatives aimed at promoting diversity and inclusion in the boardroom.

While driving gender diversity has been a major focus for boards in recent years — the share of women joining S&P 500 boards has more than doubled in the past 10 years — progress has been much slower for people of color. Between 2010 and 2020, female representation among new S&P 500 directors grew from 21% to 47%; over that same period, new minority director representation increased by just 10 percentage points to 22% in 2020 — attaining the same level of representation women reached 10 years ago.

We believe boards will face growing pressure to prioritize minority recruiting in the coming year. The pressure is coming from several fronts.

Investors and legislators are increasing their attention to board racial and ethnic diversity. State Street Global Advisors said it expects companies to disclose their goals and strategy related to the racial and ethnic diversity of the board, including how the board reflects the diversity of the company's workforce, community, customers and other key stakeholders. The New York City Comptroller's office is asking companies to require consideration of both women and people of color for every open board seat. Lawsuits have been filed alleging boards deceived stockholders and the market by repeatedly making false assertions about the company's commitment to diversity and inclusion at the same time their boards lack directors of color.

Some states also are passing legislation to advance racial/ethnic diversity in the boardroom. California-headquartered public companies must have at least one director from an underrepresented community by the end of 2021 and up to three depending on board size by the end of 2022, while Illinois-based public companies must disclose board diversity stats and practices for promoting DE&I in boardroom.

In contrast to gender diversity, assessing the racial/ethnic composition of U.S. boardrooms is challenging and imperfect at best. Current rules do not require companies to disclose the self-identified racial/ethnic attributes of individual directors or the full board, but expectations for greater transparency are growing. Institutional Shareholder Services (ISS), for example, is seeking details of the self-identified race/ethnicity of each director, and State Street is asking boards to disclose their diversity characteristics, including directors' racial and ethnic makeup. Pressure for change will continue to intensify.

This year, 123 companies in the S&P 500 included a statement in their proxy committing to considering diversity when recruiting new directors. However, with new independent directors representing just 8% of all S&P 500 directors, few board seats turn over in a given year, impeding meaningful year-over-year change. Further progress is likely to take time.

New Independent Directors

We examined the racial and ethnic backgrounds of the 413 independent directors who joined S&P 500 boards over the past year.¹ Here is what we found:

2020 Snapshot

413

22%

Total new independent directors

joined S&P 500 boards over the past year

- » 53% men
- » 47% women

of new directors are minorities —

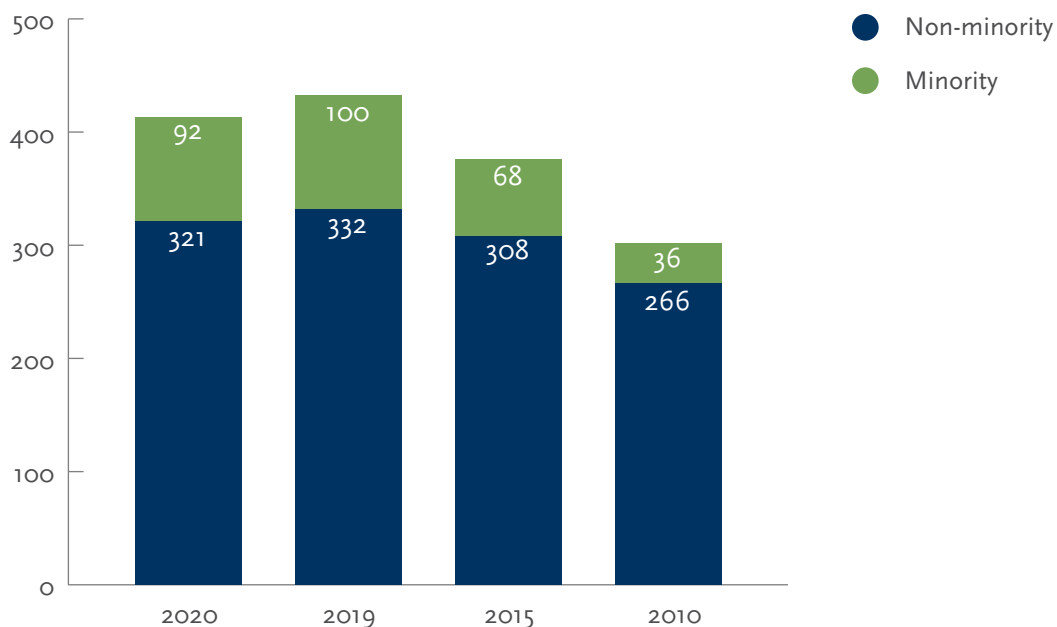
a slight decrease from 23% last year, but up from 18% five years ago and 12% 10 years ago

- » 10% are women
- » 12% are men

Trends

- » The pace of racial/ethnic diversity progress has been sluggish, increasing only by 10 percentage points in the past 10 years. Today, 22% of new directors are minorities compared with 12% a decade ago.
- » Minority women have made greater gains (up 6 percentage points) over the past 10 years than minority men (up 4 percentage points).

S&P 500 New Independent Directors Breakdown



¹ This data draws on the latest proxy statements from 494 companies filed between May 30, 2019, and May 15, 2020.

New Independent Directors By Race/Ethnicity

2020 Snapshot: Minority Representation Among New Independent Directors

11%

Black/African American

A decline from 13% in 2019 but up from 6% 10 years ago

- » 26 men
- » 20 women

8%

Asian

Increased from 7% in 2019 and 3% 10 years ago

- » 14 men
- » 18 women

3%

Hispanic/Latinx

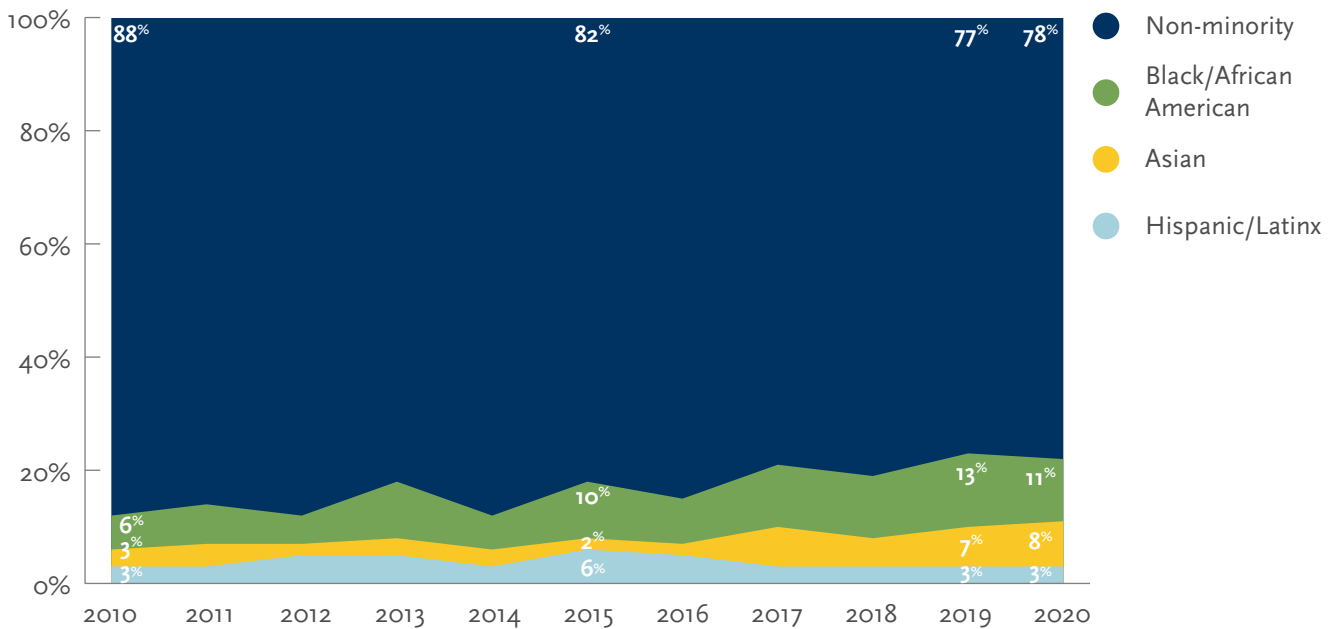
No change from 10 years ago

- » 10 men
- » 4 women

Trends

- » Half of new minority directors are Black/African American, and roughly one-third are Asian.
- » Over the past four years, representation of new Hispanic/Latinx directors has remained relatively flat while that of Asian directors has doubled.

Percentage of New Independent Directors by Ethnicity/Race



First-Time and Next-Gen Directors Board Experience

2020 Snapshot: Minority First-Time and Next-Gen Directors (age 50 or younger) Among All New Independent Directors

7%

Minority first-time

- » Up from 2% in 2015 and 4% in 2010.
- » Compared with 21% non-minority first-time directors.

7%

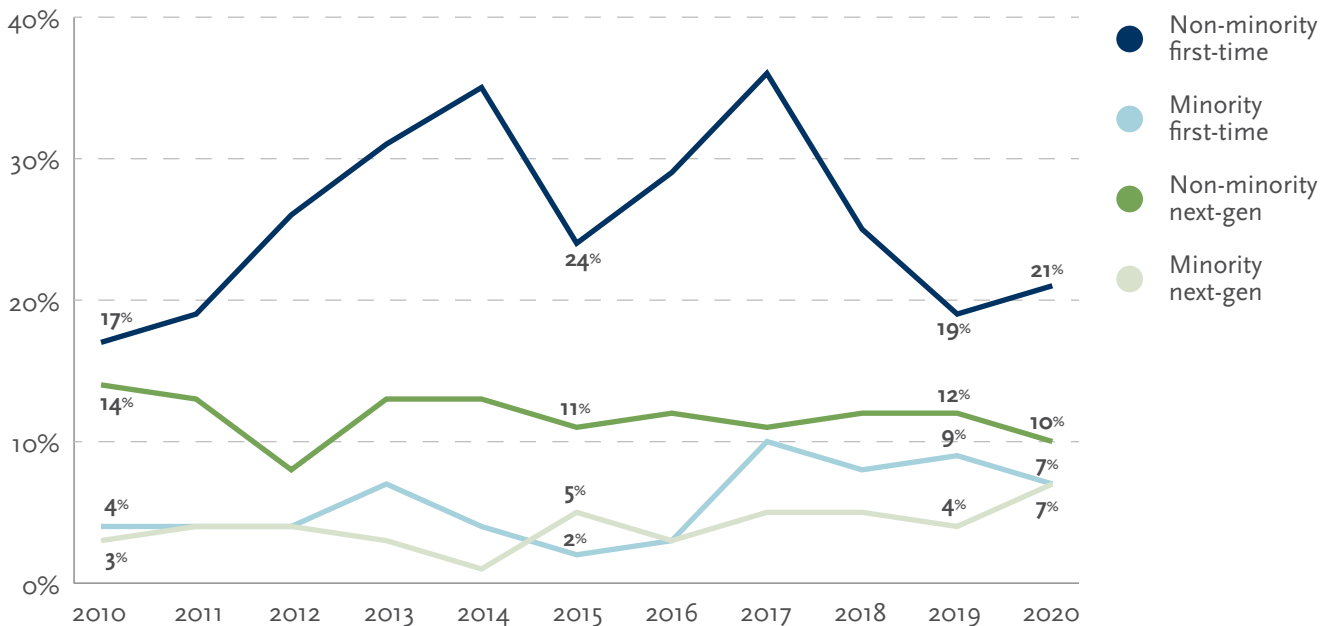
Minority next-gen

- » Up from 5% in 2015 and 3% in 2010.
- » Compared with 10% non-minority next-gen directors.

Trends

- » Boards are more willing to hire younger and first-time non-minority directors.
- » Among all new independent directors, there are three times as many non-minority first-time directors (21%) as minority first-time directors (7%). This emphasizes the hurdle that minority executives have ahead of them.
- » Looking at minority representation among next-gen directors (those who are 50 or younger), we see less of a variance, although non-minority next-gen directors (10%) still outnumber minority next-gen directors (7%).

First-Time and Next-Gen Directors Among All New S&P 500 Independent Directors



New Independent Director Professional Backgrounds

Given there are so few minorities who are CEOs — only 10% of S&P 500 CEOs are racially or ethnically diverse — it's no surprise that minority directors are less likely to be CEOs. Only 11% of minority directors are current or former CEOs, compared with 34% of non-minority directors.

Minority directors bring other types of corporate leadership experience to the boardroom: 25% of the minority directors are current or former functional or other line leaders, compared with just 13% of the non-minority directors.

Top 3 Professional Backgrounds of New Independent Directors

Non-minority	Retired CEO (19%)	Active CEO (15%)	Financial executive/CFO (14%)
Minority (All)	Functional & other line leader (25%)	Financial executive/CFO (14%)	Division/subsidiary president (13%)
Black/African American	Functional & other line leader (24%)	Division/subsidiary president (17%)	Financial executive/CFO (13%)
Asian	Functional & other line leader (34%)	Financial executive/CFO (19%)	Active CEO (9%)
Hispanic/Latinx	Investment management/investor (29%)	Retired CEO (21%)	Active chair/president/COO (14%)



This is a Moment of Opportunity for Boards

A board's ability to provide appropriate oversight over strategy and risk — ensuring the strategic plan aligns with the opportunity and the company's ability to exploit that opportunity — **requires the right set of skills, experiences and perspectives in the boardroom.**

To help ensure that different perspectives are integrated into the boardroom, here are six actionable steps boards can take to begin the process of becoming more diverse and inclusive:

1. Diversity is more than a numbers game — create and promote an inclusive culture in the boardroom

Boards should ensure boardroom policies and procedures reflect an inclusive culture of trust, belonging and respect for all perspectives by creating an environment in which all directors are encouraged to participate and suggest ideas. To help create this environment, boards can provide a robust onboarding program for all first-time directors to help them get comfortable in the new role.

- » **Ask:** How does the board define its culture and is it where it needs to be in terms of inclusiveness?
- » **Ask:** Who is our board culture going to attract?
- » **Ask:** What is the board's working definition of inclusiveness?

2. Use the annual assessment process to evaluate the board's contribution, drive refreshment and raise performance

Having the right diverse group of directors on the board is the single most important factor in good governance. Boards should continually consider whether they have the optimum composition given the company's strategic direction, and also regularly evaluate the contributions of individual directors as part of the board effectiveness assessment. The annual assessment process serves as a mechanism for surfacing and addressing issues and can be a catalyst for refreshing the board as new needs arise.

- » **Ask:** What are the costs of our status quo?
- » **Ask:** What skill sets are we missing given our future strategy?
- » **Ask:** Does the annual assessment include an evaluation of diversity on elements beyond skills and qualifications? Is it also about gender, race/ethnicity?

3. Elect board leadership, especially the lead independent director and nom/gov chair, who understand how to and want to drive diversity and inclusion

Every member of a board can influence the progress of DE&I in the boardroom, however nom/gov chairs have the most direct impact given their role and influence on future board composition. Equally influential is the independent board chair, or lead director, who can serve as a champion for greater diversity and ensure that the board has resident insights, capabilities and access to experts to help the board increase its own diversity and provide the appropriate oversight over DE&I in the organization.

- » **Ask:** Do we embrace the importance of board refreshment?
- » **Ask:** Is our board and committee aligned on the prioritization of having diverse directors?
- » **Ask:** Is board composition a high priority for our chair?

4. Accountability is key: What isn't measured, isn't managed

Just as they hold the CEO and management team accountable for developing and measuring the progress of diversity and inclusion initiatives throughout the entire organization, boards can also take concrete measures to set the tone at the top by improving their own reporting. They should expect that investors will continue to press for more disclosure about the diversity of the board and the ethnic and racial backgrounds of directors. Boards can get ahead of the curve by telling their diversity story affirmatively with all its multi-dimensional nuances.

- » **Ask:** Is the board disclosing its diversity metrics fully to investors?
- » **Ask:** Are we overseeing DE&I metrics throughout the whole organization?
- » **Ask:** How can we enhance our oversight of DE&I metrics?

5. Reassess your search approach and criteria

Boards should recognize the potential weaknesses in traditional networking as a recruiting strategy and seek opinions and recommendations from a wide range of stakeholders. In addition, since so few minority executives are in C-suite roles, boards should be open to candidates with other backgrounds, such as military, professional services or a legal/regulatory function, to develop a more diverse slate. Moreover, having a disciplined research-based approach to board identification and a longer recruiting timeline will allow boards to develop a more thorough approach to pipeline talent mapping, improving coverage of networks beyond the board itself.

- » **Ask:** Are we engaging outside help to expand our reach and ability to increase our diverse candidate pool?
- » **Ask:** What diverse members of the management team can we get to know better?
- » **Ask:** Are members of the board engaging directly with investors?
- » **Ask:** Are we conducting both board and individual annual evaluations to hold ourselves accountable, both individually and collectively?
- » **Ask:** Are we developing a pipeline?

6. Avoid defining seats as “diverse”

As boards begin to diversify, it is important for all directors to recognize their own biases and avoid viewing diversity as a check-the-box response to external pressure or as filling the gaps.

Building and maintaining a diverse board is an ongoing journey. Boards that are most successful on this journey will embrace a mindset that views every director search as an opportunity to enhance boardroom diversity and commit to considering a qualified diverse slate of candidates for every search, rather than viewing diversity in terms of one or two seats.

- » **Ask:** What are we doing to ensure that diversity is always included as a core part of board refreshment?
- » **Ask:** How will we define diversity for our board?

Boards can influence change beyond the boardroom by providing oversight over management’s diversity efforts

In its oversight role, the board can make sure it understands the CEO’s vision for DE&I at the company, including the diversity of the leadership pipeline across all dimensions — gender, race and ethnicity, and sexual orientation — and the inclusivity of the culture. This includes having data on the current racial/ethnic and gender makeup of the workforce (the company’s EEO-1 report is a good place to start) and what DE&I programs are in place, including employee resource groups and affinity groups. Board members should understand how the company is viewed by customers, suppliers, employees, shareholders and the communities in which it operates, and the degree to which the management team reflects the diversity of its stakeholders. Directors also can consider whether compensation plans should include diversity metrics or goals.

- » **Ask:** What does diversity mean for the company and what does it mean for us as directors?
- » **Ask:** Are we overseeing D&I metrics throughout the whole organization?
- » **Ask:** How can we enhance our oversight of D&I metrics?
- » **Ask:** Could including diversity metrics or goals in compensation plans help us make progress in DE&I?

For more than 30 years, Spencer Stuart has helped boards increase the diversity of perspectives and backgrounds in the boardroom. We will continue to track trends in board composition as boards evolve to respond to the changing demands of their business. With thoughtful intention to increasing diversity and creating a more inclusive board culture, boards will be able to shift their composition over time, while ensuring they have the skills and experience that align with the company’s long-term strategy. Absent intent, however, no change will happen.

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