

## Corporate DE&I Oversight: Six Questions for Boards

Most boards have prioritized increasing their own gender, racial and ethnic diversity and have made progress in the past few years, particularly on gender diversity. But there has been less consensus on the board's oversight role on diversity, equity and inclusion (DE&I) in the business. In some U.S. boardrooms, DE&I has been a key board topic for more than a decade. In others, the racial reckoning of the summer of 2020 and health disparities seen during the COVID-19 pandemic elevated DE&I to the board agenda more recently.

To understand how boards are addressing the topic, we met with nominating/governance and compensation committee chairs to explore the challenges and best practices around oversight of human capital and DE&I programs.

### A board responsibility

Whether or not individual boards viewed oversight of human capital management and workforce diversity as part of their purview in the past, investors, other stakeholders and an increasing number of boards view it as a board responsibility today. Investors such as BlackRock, The Vanguard Group and State Street Global Advisors have explicitly communicated expectations for boards in these areas, including the oversight of diversity-related strategy and risks. As BlackRock wrote in its 2021 proxy voting guidelines, "A company's approach to human capital management is a critical factor in fostering an inclusive, diverse and engaged workforce, which contributes to business continuity, innovation and long-term value creation. As an important component of strategy, BIS expects boards to oversee human capital management."

Other stakeholders, including employees, customers, consumers, government and the general public also are looking to boards to lead in this area. And, increasingly, directors view DE&I as a business imperative for attracting and retaining the best talent and for achieving better business outcomes. While the management team is responsible for driving DE&I processes, board support and oversight is vital to the success of these efforts.

But increasing diversity and creating more inclusive, equitable organizations is a journey. The path depends on a company's DE&I maturity, culture and business strategy. As boards embrace their oversight responsibility in this area, here are six questions they can consider to help shape their approach and accelerate the pace of change at their company.

## Where does DE&I fit in the boardroom agenda?

Directors agreed that, as a best practice, the full board should own DE&I oversight, and ideally discuss it at every meeting. Some boards assign additional accountability to one or more committees, with nominating/governance committees discussing DE&I either as a separate item or as part of broader environmental, social and governance (ESG) discussions and oversight. Some compensation committees consider DE&I as part of their talent oversight and succession planning responsibilities.

While some boards consider DE&I as part of their ESG oversight responsibility, many of the committee chairs in our discussion advocated for maintaining a separate diversity and inclusion agenda so that the topic receives the attention required to make progress.

## How do we define diversity?

DE&I issues are global, and marginalized communities exist around the globe. As a result, DE&I issues transcend borders, but the issues may vary depending on the country and the culture. Directors advised boards to understand and define the diversity categories regionally that are most relevant to their business, customers, vendors, employees, investors and other stakeholders. Specificity matters: Avoid talking about diversity in vague or broad terms. Using specific terms (e.g., women, Black, Latino/Latina, LGBTQIA) centers and deepens the discussion.

## How do we understand the state of DE&I at our company today and evaluate progress?

Depending on company size and its maturity in the diversity journey, boards may have access to robust internal data on the diversity of the workforce at different levels of the company, retention and promotion rates, and compensation. Others may have more limited information. Boards can start in the U.S. by reviewing the company's EEO-1 filing, which includes demographic workforce data, including data by race/ethnicity, gender and job categories. Some directors said their boards compare workforce diversity data to community gender/racial/ethnic demographics to guide representation targets for the senior management level. Others review compensation data, performing pay equity studies, for example, and conduct internal reviews of the talent pipeline and development strategies. When looking at external benchmarks, it is useful to compare data against the best companies inside and outside the industry.

DE&I pulse surveys and focus groups can help the leadership team and board track sentiments and progress on diversity and inclusion efforts and goals. Increasingly, employees and investors expect transparency about the actions the company is taking to promote diversity and inclusion and the progress toward DE&I goals. At some companies, linking diversity goals to compensation may be effective and appropriate.

## What DE&I information should we disclose publicly?

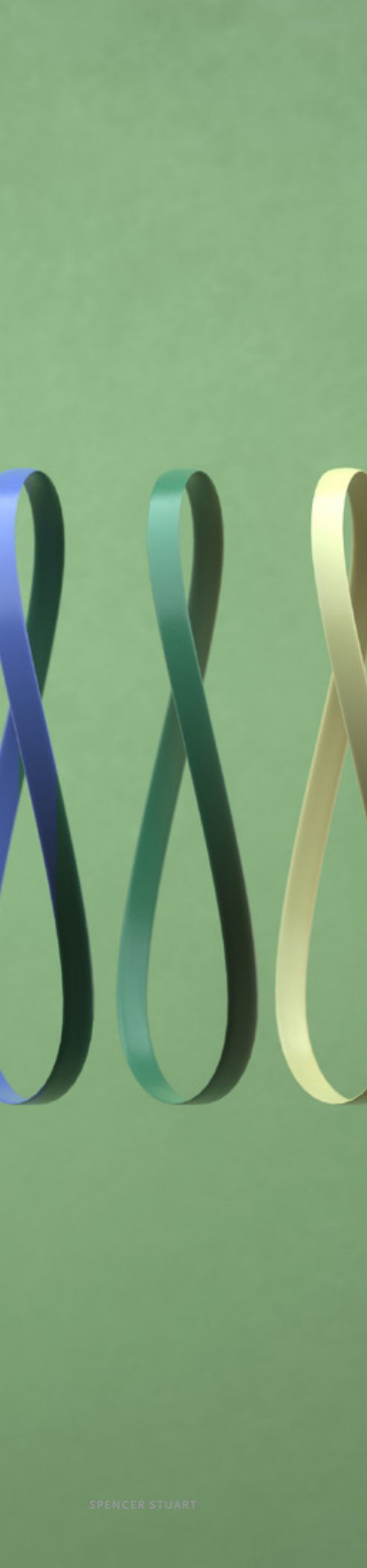
Another area for board consideration is disclosure, especially related to defining diversity for a global organization, determining the granularity of transparency and evaluating stakeholder expectations for information.

Investors are becoming more explicit in their expectations for disclosure.

- » BlackRock states: “We expect companies to disclose workforce demographics, such as gender, race, and ethnicity in line with the U.S. Equal Employment Opportunity Commission’s EEO-1 Survey, alongside the steps they are taking to advance diversity, equity and inclusion. Where we believe a company’s disclosures or practices fall short relative to the market or peers, or we are unable to ascertain the board and management’s effectiveness in overseeing related risks and opportunities, we may vote against members of the appropriate committee or support relevant shareholder proposals.”
- » Vanguard said it seeks “disclosure of workforce diversity measures (gender, race and ethnicity) at the executive, nonexecutive and overall workforce levels.”
- » State Street asks companies in its portfolio to provide communications to shareholders about the “role diversity plays in the firm’s broader human capital management practices and long-term strategy;” its diversity goals and “how these goals are managed and progressing;” diversity metrics (such as the EEO-1 Survey); and “how the board executes its oversight role in diversity and inclusion.”

## Do our succession planning processes incorporate DE&I goals?

DE&I programs must go beyond recruiting to include inclusion, retention and talent development. Recruiting people into the company won’t meaningfully increase diversity over the long term — especially if the culture discourages women and those from other under-represented groups from thriving in the organization and moving up through the ranks.



Boards should evaluate whether talent management systems and practices promote diversity and inclusion — or reinforce the lack of diversity. Board and executive management succession plans and pipeline planning; talent development strategies and practices; training and development programs; and sponsorship, mentorship and emerging leaders' programs all should include a diverse mix of employees and reflect DE&I principles.

Boards also should understand the corporate culture and whether it creates an inclusive environment where people of all backgrounds can thrive and ensure that affinity groups have a line of communication to management.

## How can we as directors help accelerate diversity and inclusion for the organization?

Directors advised companies to approach DE&I from the top down — e.g., increasing diversity at the board and top levels, modeling inclusive behaviors — and bottom up, by building the pipeline through high school/college internships, mentorship and scholarship programs, and affinity/employee resource groups. Boards can specifically do the following to accelerate progress on DE&I:

- » Encourage the connection of DE&I goals to the company values and purpose
- » Prioritize the recruitment of directors with diverse backgrounds
- » Add DE&I measures to the CEO's objectives and link DE&I goals to management compensation
- » Oversee regular talent and organizational reviews to understand the diversity of the leadership pipeline and the inclusiveness of the culture

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Diversity, equity and inclusion can be complex topics for board directors, but the more DE&I issues are discussed, the easier the conversation. Companies that embed DE&I throughout their business and talent strategies — without viewing these subjects as separate topics — will be better equipped to provide transparency to employees, customers, investors and other stakeholders about the company's progress.

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