



Diligent Insights

Resource hub powered by Diligent

Why Boardroom Diversity Matters

September 8th, 2020

Mary Fetherolf

Current events – including escalating racial and political turmoil — demonstrate the importance of diversity and inclusion in a rapidly changing world.

Consequently, Environmental, Social and Governance (ESG) principles have boards considering their companies' impacts on employees, customers, and the communities in which they operate. In fact, ESG has become a key driver behind institutional investors' support of companies that pursue board diversity.

Boards built from a narrow “whom you know” selection process run a risk of insular thinking. In a business environment characterized by globalization, digital transformation and changing global demographics, homogeneity hinders a board's insight and decision-making power. A well-performing board relies on the caliber and perspective of each board member. The dynamic between members drives effective governance, and when membership encompasses a broader range of attributes, boards govern more effectively.

The Benefits of Diversity and Inclusion

Diverse boards are better-equipped for a complex, ever-changing business climate – including digital transformation and overseas competition. When members hold wide-ranging views, boards are better able to consider the wide-ranging implications of their decisions. This expanded viewpoint also facilitates a critical board obligation: consideration of all constituencies. As boards experience the

benefits of diversity, they'll become greater advocates for it. Board diversity can lead to more effective risk management, better alignment with customers, employees, and trading partners – and a more innovative corporate culture. A 2018 McKinsey & Company international study found that more diverse businesses were 33% more likely to have higher financial returns.

“Boards with a diverse mix of genders, ethnicities, career experiences, and ways of thinking... are less likely to succumb to groupthink or miss new threats to a company's business model. And they are better able to identify opportunities that promote long-term growth.”

– Larry Fink, Chairman and CEO, BlackRock

Recent Advances Point the Way to Further Improvements

The recognized need to add fresh perspectives is driving a change in board composition:

- In 2019, ethnic diversity reached record highs, with approximately 10% of Russell 3000 directors belonging to an ethnic minority group and 15% of new directors were ethnically diverse, according to the Harvard Law School Forum on Corporate Governance.
- As of 2018, a third of new directors of S&P 500 companies were servicing on their first board, and most of them are not graduates from CEO or COO positions.

But there is room for more progress. Between 2016 and 2018, the “Missing Pieces Report” measured America's progress in adding women and minorities to public boards. Women's and minorities' Fortune 500 board representation inched from 30.8% to 34% – a gain of 252 seats. Women make up about 50% of the workforce;

as of 2019, they made up only 25% of S&P 500 board members. Only one-third of Fortune 500 boards have met the target of 40% diversity set by the Alliance for Board Diversity. (That said, the 2019 figure is triple what it was in 2010, so progress is being made.)

Authors of the “Missing Pieces Report” dug deeper to examine board diversity data by industry:

- Technology, media, and telecommunications fields show 42% board diversity.
- Energy, resources, and industrial sectors have only 20% board diversity.

Diversity and inclusion are often mentioned together, and for good reason. While diversity addresses acquisition of greater representation, inclusion covers the practices ensuring minorities and women are heard and respected once they get to the boardroom.

Creating board diversity won’t eliminate inequality. Only an inclusive leadership style elicits the board’s collective knowledge and intelligence. Boards must ensure every voice is heard and able to contribute equally. Board chairs must set the tone to ensure all directors participate in decisionmaking and encourage respectful dissent and debate.

“Multiple perspectives are an advantage and a hallmark of strong modern governance.”

– Dottie Schindlinger. Executive Director, Diligent Institute

Boards and senior leaders have a definitive role in shaping public sentiment. How can boards create opportunities to build representation of women and minorities in

the C-suite and the boardroom?

Taking Action to Improve Diversity and Inclusion

Today, boards have more tools to achieve diversity and inclusion than they ever had before. Tools and approaches might include the following action steps:

- Reach out to organizations that promote more diverse board membership:
 - [Black Board of Directors Project](#)
 - [WomenCorporateDirectors](#)
 - [Latino Corporate Directors Association](#)
 - [Ascend Pinnacle](#)
- Broaden searches using the [NACD & Diligent Nom Gov app](#), which enables searches based on criteria including demographics, skill set, location and expertise. Nom Gov provides real-time access to a global database of thousands of board director and executive profiles. Businesses seeking greater board diversity can start with a demo to experience Nom Gov's capabilities to search according to a full range of qualities, including experiential and personal attributes as well as demographic characteristics. The full scope of capabilities gives a full picture of how a prospect may contribute to a board.
- Increase the pool of female and minority candidates by facilitating the experiences that qualify them for board service. Arne Sorenson, the CEO of Marriott International, [encourages junior executives to join boards](#) to gain qualifying experience. Since he began, five employees have found such positions, including three women and a person of color.
- Prioritize [interpersonal skills](#). While these are important for directors under all circumstances, they're essential in diverse environments, where interpersonal skills support inclusion of diverse people and viewpoints.

All in all, boards are learning to value the diverse perspectives that new board directors can bring. They're aligning their attitudes and practices with the goal of

building board diversity, and they're creating environments where diverse views are heard, respected and welcomed. Additionally, a variety of tools and practices are now available to assist boards with these timely and worthwhile efforts.

Bring greater diversity to your board with Diligent's Nom Gov solution.

[Request a demo.](#)

Ms. Fetherolf writes about the impact of new technologies and regulations on business strategy and operations. This second career follows several years consulting with business and technology leaders on program management and governance in regulated industries. Topics of interest include corporate governance, cybersecurity, data privacy, regulation, compliance, and digital transformation.

ARTICLE TOPIC: BOARD DIVERSITY, BOARD RECRUITMENT, NOMINATING & GOVERNANCE COMMITTEE

RECOMMENDED





Stronger on the Other Side: Diversity & Inclusion at Diligent's Modern Governance Summit 2020

Speakers' remarks underscored time and again: If organizations are to attain and maintain competitive advantage, they must deeply believe in the benefits of board diversity – and strive to achieve them. In this post, we focus on practical advice and tools that not only help to further board diversity goals within organizations, but also promote board diversity throughout the corporate world.

Diligent Governance Cloud
World's #1 Software

REQUEST A DEMO

Diligent is here to help your

organization have the right tools, insights and analytics

Request a demo, pricing or more info to see how.

Or give us a call at:

1.877.434.5443

* First Name

* Last Name

* Company

* Business Email

* Country

United States 

* Phone

REQUEST A DEMO



DILIGENT

PRODUCTS

COMPANY

CASE STUDIES

NAVIGATE

VIDEOS

ARTICLES

WHITEPAPERS

FOLLOW

FACEBOOK

YOUTUBE

LINKEDIN

TWITTER

SUPPORT

1.866.262.7326

SALES

1.866.434.5443