

Seven Steps to a More Diverse Board

By Kim Van Der Zon

There is now broad consensus that having a diverse board, where directors are drawn from both genders and from an array of races and ethnicities, provides the breadth of perspective that is essential in today's global dynamic environment. But heightened awareness does not always translate to greater progress.

For example, it has taken the full decade from 2005 to 2015 for the percentage of women on the boards of S&P 500 companies to rise from 15 percent to 20 percent. The trend for racially and ethnically diverse directors is even more sobering: among the largest 200 S&P 500 companies, the percentage of board seats held by racially and ethnically diverse directors has remained at 15 percent for the last five years.

Many boards are now looking for concrete suggestions for successfully making diversity an integrated part of their agenda. In working with hundreds of nominating and governance committees around the world from a wide range of industries, we find that the boards that have made the greatest strides follow many, if not all, of the seven steps listed below:

Establish diversity as a priority from the top.

As the following points illustrate, fostering boardroom diversity is about more than filling a vacant seat with a diverse candidate—it reaches from the board's culture to the company's talent pipeline. Because of this, it is critical for the board chair, the lead independent director and the nominating and governance committee chair to be personally committed to diversity and to view diversity as an ongoing, multifaceted process.

Critically assess the board's current nomination process.

This goes beyond a review of the bylaws and director succession plan. The nominating/governance committee's track record in building a diverse board needs to be examined at each step, from the identification of possible candidates to the creation of a short list to the actual nomination and acceptance. Where

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diversity is below the desired level, the board must determine whether there is a process issue, like failure to reach beyond personal networks or unconscious biases in how candidates are evaluated. Boards wishing to jump-start their diversity momentum may consider mandating that diverse candidates be included in each director search (the so-called *Rooney Rule*, discussed further in *From the NFL to the Boardroom*).

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Leverage the focus on board composition.

Activist and institutional investors have placed a heightened emphasis on the alignment between the organization's strategy and the competencies and experiences around the boardroom table. This provides an opening for casting a net beyond the usual pool of current and retired CEOs to include diverse candidates who may be a rung below the CEO, yet who have the necessary perspectives and expertise aligned with the company's strategic imperatives.

Think far ahead. Identifying viable diverse board candidates below the CEO level requires a concentrated effort that continues between active board searches. The nominating and governance committee needs to gather intelligence on an ongoing basis as potential candidates move up the ranks and should forge relationships with them early. This will allow the committee to make a confident evaluation when the time comes and make it more likely that these highly sought after candidates accept a seat.

Take a hard look at board culture. The benefits of having diverse perspectives in the boardroom are considerable, but they can be realized only if the board's discussions and decision making incorporate and value a range of viewpoints. A board can fail to provide this inclusive environment without realizing it; for example, a board may emphasize consensus to the point that dissenting views are stifled. A third-party assessment by an experienced facilitator often can identify these roadblocks through confidential interviews, an examination of the board's workflow and procedures, and other diagnostic tools. (*Beyond the Annual Assessment: How Boards Can Build an Actionable Road Map for Greater Effectiveness* includes three short case studies that illustrate the board assessment process in action.)

Have a solid onboarding process. Ideally, a board is not just an oversight committee but a tightly knit group that relies on trust and collegiality inside and outside the boardroom. For the viewpoints of diverse directors to be given weight in the board's deliberations, those directors need to be integrated into the social fabric of the board and to be supported in building relationships with management. At least one senior board member needs to take responsibility to ensure that diverse members are not just invited but truly included in the board's informal gatherings and discussions.

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Tend to the pipeline issue at home. According to a recent McKinsey & Company study of 118 U.S. corporations, while women are approaching parity (45 percent) with men in entry-level management track positions, that figure drops to 32 percent at the mid-management director level and 17 percent in the C-suite—and other research shows many of those female C-suite members are leading support functions such as marketing or legal. Our observation has been that the state of ethnic and racial diversity in leadership pipelines is no better.

The percentage of Egon Zehnder's board searches filled by female directors rose from 27 percent in 2012 to 37 percent in 2015.

Achieving greater diversity in senior P&L positions is a key step in promoting greater diversity in the boardroom because P&L leaders form the bulk of the pool of future board members. But establishing a more diverse leadership pipeline is a complicated problem

involving broad societal issues like work-life balance, gender roles at home and the default tendency of people to gravitate to—and provide opportunity to—those most like themselves. Boards should ensure that management is promoting diversity in the development of the company's leadership ranks, and individual directors should exert their influence on boards on which they serve and the company where they hold a management position. Increasing the diversity of management pipelines is a joint problem that requires collective effort.

In Summary

While awareness of the importance of diversity continues to grow, actual progress has not kept pace. CEOs and boards that recommit themselves to greater diversity in the boardroom and the C-suite can become meaningful role models for others while achieving the benefits diverse perspectives bring to leading in a complex world.

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