The Changing Face of America and the Boardroom

Diversity. Inclusion. Belonging. By any name, corporate oversight requires a broad swath of experience and perspectives. Here’s where we stand.
Answering the burning questions of business

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Including New Faces

A recently published survey of corporate directors from PwC found that men and women hold vastly different opinions on the importance of board diversity. Just 35 percent of male directors surveyed think having a female board member is “very important” compared to 67 percent of female respondents. Is this surprising? I think so. It may help to explain at the most fundamental level why advancement in board diversity seems so difficult to attain. Let’s consider some additional perspectives.

The opening story in our third annual supplement to NACD Directorship magazine, titled The Changing Face of America and the Boardroom, provides a statistical snapshot of today’s corporate boardrooms. As you will read, just as there are differences in opinion about the importance of diversity to men and women, there is disparity between the actions of micro- and small-cap companies and large-cap companies when it comes to discussions about gender, race, ethnicity, and age. And because we want to applaud those companies that have made significant and demonstrable progress in diversifying their boards, we include the Top Ten Fortune 1000 companies whose board composition is almost or more than half women.

Author Michael S. Malone writes about the new science made possible by advanced technology and big data that provides a better understanding of what makes for great teamwork. KPMG spends time with two well-versed directors—Henrietta H. Fore and Alison A. Winter—and solicits their perspectives on which skills future directors will most likely need. Korn Ferry’s Nels Olson and Tierney Remick combine their collective wisdom to explain the board’s evolution and its new relationship to the CEO. Catalyst president and CEO Deborah Gillis reveals that black women are more likely to serve on multiple boards than their white sisters. PwC’s Paula D. Loop has some ready suggestions about how to find non-CEO director candidates. Pablo Schneider reports on what the diversity disclosures of Fortune 1000 companies tell investors. Carlos C. Campbell, who has diplomatically led more than a few discussions on why diversity matters, synthesizes his points into a few choice words.

I’d like to thank each of our contributors for sharing their expert views. —Judy Warner
Boards with directors who encompass a breadth of experience and talent will be an important factor in the sustainability and future success of U.S. companies—the conventional wisdom underscores just why diversity and inclusion are business imperatives as well as ethical issues. More boards are turning a critical eye to their composition—and boardroom conversations concerning diversity may be delivering a wider variety of skills and expertise into the governance of U.S. companies.

New findings from the 2015-2016 NACD Public Company Governance Survey attest that, although change is incremental, it is on the rise. NACD’s public company survey has charted governance trends for more than 20 years, and this year’s edition includes data from more than 1,000 respondents serving micro-, small-, mid-, and large-cap companies to create a statistical portrait of America’s boardrooms.

While the majority of boards of companies of all sizes are discussing diversity in terms of professional and industry experience, there is a greater disparity in discussions around gender, racial/ethnic, and age diversity—and larger companies were far more likely to raise these issues. Half of respondents serving micro-cap companies reported that in the past year they did not discuss gender, racial, or ethnic diversity at all in the course of their boardroom discussions. In contrast, 86 percent of large-cap companies reported that in the past year their boards discussed gender diversity and 81 percent discussed racial/ethnic diversity.

According to Equilar data, the average director is 64 years old; however, respondents to NACD’s survey indicated that more than half of mid- and small-cap companies discuss age diversity (see Figure 5). Additionally, more than half of public companies impose term limits; however, only 19 percent of respondents count the use of tenure-limiting mechanisms among the most-effective ways to improve board diversity.

The most-effective way to increase boardroom diversity, according to respondents, is to expand director search criteria. “Increasing the size of the board” was the second-most-popular response, and interestingly the 2015-2016 survey data did find a positive correlation between board size and diversity. A larger portion of board seats were occupied by women directors and/or directors from racially or ethnically diverse backgrounds on boards with more total seats (see Figure 3).
FIGURE 3  Average Number of Total Board Seats Occupied by Women Directors or Directors from a Racial/Ethnic Minority Group

Average number of total board seats occupied by women directors
Average number of total board seats occupied by directors from a racial/ethnic minority
Average number of total board seats occupied by representatives of either category

FIGURE 4  Length of Director Recruitment Time Horizon

Women of color were 2.8% of board directors*

*Source: 2014 Catalyst Census: Women Board Directors

FIGURE 5  Use of Age Limits by Market Cap

Top Ten Fortune 1000 Companies by Percentage of Female Directors

- 67% Avon Products
- 54% Navient Corp.
- 50% The WhiteWave Foods Co.
- 50% Ulta Salon, Cosmetics & Fragrance
- 50% Ann Inc.
- 47% The Estée Lauder Cos.
- 46% Macy’s
- 46% The Procter & Gamble Co.
- 46% Alaska Air Group
- 46% Levi Strauss & Co.

Source: Equilar

*Source: 2015-2016 NACD Public Company Governance Survey
Brain Testing and Analytics Reveal the Power of Individuals in Groups

By Michael S. Malone

Great companies require great boards. And while it is relatively easy to identify great boards once they exist, the recipe for recruiting and composing such boards is elusive.

It is precisely because there has been no real prescriptive model for board composition that too often founders—and the board itself—give greater priority to such factors as harmony, common perspectives, lack of dissension, and shared backgrounds. Women and minorities who are asked to join the board are—despite any superficial differences—from the same schools, economic class, and career background as existing directors. And board meetings are designed to run smoothly; with little dissent; and, unless there is a crisis, with near-unanimous support for the CEO.

Look at any slate of board candidates presented to shareholders and most likely you will find that among the “official” candidates, all look far more like the current board membership than they do the average shareholder, company employee, or company customer. This is not to say that these candidates are the most qualified; nor that (as shareholder activists might claim) this is some kind of conspiracy to maintain the status quo; or that, if elected, they wouldn’t do a good job.

Ironically, homogeneous board composition, where diversity is superficial, poses a much greater risk than a comparable board of a much more volatile, heterogeneous composition. And while this latter board may be much more difficult for the chair to manage and the CEO to deal with, it will also be more resilient to change, much more creative in its response to challenges and crises, and much less likely over time to experience the boardroom scandals that have plagued many modern corporations.

This is not just speculation. Rather, this century has seen—almost invisible to the outside world—a revolution in the study of human groups and teams. These studies have emerged from multiple disciplines: anthropology, sociology, brain science, psychology, management theory, and remarkably, cultural history. Together, discoveries from these studies are poised to transform the nature of team composition, strategy, and leadership. Forward-looking boards will implement this knowledge now—not least because, thanks to geopolitical and technological change, the economic reality of the next decade or more is likely to bumpier, less predictable, and more challenging than even today.

One of the most stunning and unexpected features of this new research is that it combines some of the world’s oldest practical knowledge with discoveries that only now are made possible by the latest magnetic resonance imaging (MRI) machines and smart cerebral probes. Its scope jumps from the daily operation of the world’s largest organizations to the effects on individuals of microscopic droplets of specific brain chemicals. Soon to be added are the earliest findings of human behavior patterns from billions of people made possible by big-data analysis.

So, what are these findings? Let’s look at each key finding in turn—and then look at how, together, they can be applied to your board.

**Numbers count.** By trial and error, and over the course of thousands of years, human beings have learned that the most effective teams and other human groupings are best at certain optimal sizes: 2, 3, 7±2, 15±3, 50±10, 150±30, and beyond. These group sizes consistently reappear throughout human history and, in some cases, even among higher hominids. You can find these numbers in everything from the size of units in Roman legions to the size of medieval villages to the average number of an individual’s Facebook friends.

These connections are not coincidental; rather, they seem to manifest how the brain works, corresponding with, in turn, mates and best friends, close friends, near friends, acquaintances, people you recognize on sight, etc.

As a board member, these larger numbers can serve as a valuable heuristic when analyzing a company’s organization and growth. Thus, Bill Hewlett and Dave Packard instinctively knew to break up HP divisions when their populations reached one of these numbers: 1,500.

Regarding boards themselves, it is in the smaller numbers where success and failure can be found. Thus, the actual size of the board can have a profound impact on its effectiveness. Odd-numbered teams, for example, seem to do better than even-numbered teams (primarily because of the deal-breaker vote); and seven-member boards/teams appear to be an especially optimal size. The famous
management to team recruitment. That is a mistake, because it typically leads, as we have seen, to boards composed of people who are very much alike. That in turn can lead to groupthink, premature agreement, blindness to outside opportunities, and conflict aversion. Look at any failed or controversial corporate board of the past decade and you’ll likely find beneath the bigger story a group of people who put harmonious relations above truthfulness, board harmony above company success, and conformity above dissent.

What researchers have found is that boards which start out happy are especially likely to fail. On the other hand, look around the boardroom, do you see representatives of all of those types—or a lot of people just like you?

Great leaders make great teams. The more diverse the team, the greater its volatility. Great success requires greater risks. That begins with the composition of the team itself. Needless to say, this puts a great responsibility on the chair of the board, who must not only perform his or her traditional duties regarding the company, shareholders, and CEO, but also must establish a board culture that enhances communication between directors, cultivates a diversity of views, and recognizes individual contributions.

Rather, our minds are specifically designed to work in unison with the minds of others. We are not only hard-wired to work together, but cognitive skills are actually improved by working with others. It turns out that “being of one mind” is not just a casual phrase; in fact, one reason for our large brains is to optimize this interaction.

Meanwhile, at the chemical level, oxytocin, the hormone of intimacy and birth labor, also increases social interaction and enhances in-group trust. We even have “mirror” neurons in our brains that enable us to experience the actions of others (the reason you jump to your feet when watching a halfback break into the open). Great leaders use this mirroring to bind followers to them, and, like with oxytocin, it is the glue that makes members deeply loyal to their team.

All of this suggests that, even in this age of e-mails and telepresence, regular in-person board meetings and gatherings remain vitally important.

Diversity is the difference. The biggest, oldest, and most-dangerous myth about teams is that they need to get along. This drive for harmony has inevitably led upstream from a focus on team diversity to operational satisfaction, if not happiness, are the most successful. These researchers also hasten to note that this diversity must be true diversity among the board/team members: gender, age, ethnicity, experience, tenure, personality, and cognitive type. A group of men and women of different colors who all went to the same Ivy League university and worked for Fortune 50 companies is not diverse while a group of men or women of the same color with very different life experiences, attitudes, and talents can be quite diverse.

How diverse should a team be? One researcher went so far as to suggest that a truly innovative team should be composed of up to 30 percent creative types, 20 percent conformist personalities, and 10 percent detail-oriented folks. As you look around the boardroom, do you see representatives of all of those types—or a lot of people just like you?

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That’s a lot to ask.

Yet, isn’t that why we honor—and highly reward—board chairs?

In the years to come, as global competition becomes ever more intense, traditional corporations will prove too big and slow to enter the fight. Rather, smaller, more nimble, and smarter teams inside those big companies will fight the battles. And among those teams, none will be as important as the board.

Is your board prepared to assume that new role? And, beyond the nice boardroom dinner and the presentations, is your chair prepared to lead your board into battle?

Aligning Talent and Strategy
For a Future-Ready Board

By Susan Angele

What makes a board great? That’s a difficult question to answer, particularly given each company’s unique challenges and a fast-changing business and risk environment. Will the board a company has in place today still be the right board 2, 5, or 10 years from now? How does the board ensure it has members with the skills, experiences, perspectives, and judgment necessary to bring value and insight to the boardroom dialogue—and perhaps most importantly, position the company for the future? KPMG recently spoke with directors Henrietta H. Fore (Exxon Mobil Corp., General Mills, and Theravance Biopharma, and co-chair, WomenCorporateDirectors Foundation) and Alison A. Winter (Nordstrom, and chair emerita, WomenCorporateDirectors) to get their thoughts on building and maintaining the right board amid a rapidly changing environment.

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What are you seeing and thinking about in terms of board composition and refreshment—particularly with investors sharpening their focus on board effectiveness and the competitive environment requiring ever-deeper engagement and insights from boards?

Alison A. Winter: I would say strategy is the number-one reason that boards are looking at their skill sets and composition. Where are the board’s gaps in relation to the company’s strategy? And very closely related to that is technology, which I think most boards now understand is not just about IT systems and operational efficiency. It’s about staying competitive, and it requires an understanding of what the company can and should be doing with technology. Finding directors with both seasoned business experience and an understanding of technology is a real challenge.

Henrietta H. Fore: Board composition is also being driven by the changing face of America, the trends of the American and global consumer, the technology and services of the business world, and investor expectations. Is our board reflective of our changing society? The other driving force is talent. Whether it’s addressing a gap around technology or finding people who have international experience, talent needs to be part of the strategy discussion that Alison mentioned. The good news is that there’s an immense, untapped pool of talent out there.

Winter: Strategy is no longer a once-a-year discussion, because you need to monitor how the strategy is being executed. And it’s in those regular strategy discussions that you begin to see where you don’t have the strong input from your board that you wish you had.

Fore: Finding a specific set of skills is important, but talent is also about judgment and experience. Liberal arts majors are doing very well in Silicon Valley because they bring critical thinking to a variety of areas. Boards also need this type of critical thinking. It’s important to think about the blend of general skills and very specific skills—like technology or cybersecurity—that the board needs. Whether it’s a lead director or a chair, leadership plays a critical role in bringing it all together to help the board become more than the sum of its parts and to create a synergy with management.

Beyond the attributes that many boards look for in a director candidate—current or recently retired CEOs, knowledge of the business or industry, experience serving on other boards—what other characteristics do you seek?

Winter: It’s important to find people who have had a variety of experiences. Over time, those experiences tend to result in really good judgment, which is critical to recognizing a really smart idea, or to sense when something may be off in terms of the rationale for a new direction the CEO wants to take.

Fore: That’s a great point. Judgment is critical—good judgment and experienced judgment. Some people are very strong on business judgment, with financial or operational skills. Others are good on strategic marketing judgment, knowing when a product or a service is going to catch on.
Others are very good on people judgment—for example, on who would be the best CEO or division head.

Finding the right director to fill an open seat on the board is challenging enough, but refreshing the board adds a whole other dimension. How do you make room on the board? Are term limits the answer? Are better board evaluations a solution? Leadership?

Winter: The concern about term limits is that you’ll lose some very good directors who are still sharp—they know the company well, and they’re contributing. And using term limits because it’s an easy way to get rid of directors isn’t a good reason, either. But I do think some kind of limit on board tenure may be needed. The longer someone is away from an operating role—given the pace of change—the harder it is to bring the right level of expertise to the board discussion.

Fore: There is no set formula. I’ve seen directors in their eighties who are extraordinary contributors, and I’ve seen 50-year-olds who are ready for a change. It’s not a set age. Every board should have a system in which a director can voluntarily step off—or the board could say, respectfully, “We’ve really valued your service. It’s just time for a change because it’s good for the company.” Solid annual board assessments should anchor a board-refreshment strategy.

In your view, are board evaluations an effective tool for identifying gaps and facilitating board refreshment?

Winter: I’ve seen a wide range in the quality of board assessments. Getting quality responses requires someone who has the people skills to conduct a conversation that solicits candor from each board member, and then using those insights to have a discussion with a board member who doesn’t seem as relevant as they once were to the composition of the board—and in such a way that the director doesn’t feel like he or she failed.

Fore: Board evaluations can be very useful in improving board meetings; for example, identifying the need for more strategy sessions, a better agenda process, or skills that are missing. But I think evaluations are less useful for changing board members. If a director is no longer making a meaningful contribution for whatever reason, the board should address that directly and respectfully.

How do you see diversity factoring into the boardroom equation?

Winter: As Henrietta mentioned, diversity of experience is valuable. Gender is important, particularly when your markets are gender-related. There are some consumer products companies where 80 percent of the buying decisions are made by women, and yet there are no women on the board—or perhaps one. Are you really getting the right lens on your market if you don’t have that representation? I think gender can also bring a different perspective—a different approach to risk taking. It’s also good to have generational perspectives and ethnic diversity, especially if you’re a global company. But diversity shouldn’t be an end in itself. Ultimately, you want the best athlete.

Fore: I agree, and I would add diversity of industry and entity to that list. There are some very good board members who come out of academia and government and civil society. And there are some very good board members who are entrepreneurs or in family business.

Talk about diversity of thought.

Winter: If people aren’t comfortable having an open dialogue and taking different points of view, regardless of the diversity in the room, you probably don’t have a diversity of thought on those decisions.

Fore: For me, it goes back to talent. A talented person will raise alternatives and [different] scenarios. They’ll do it in a collegial way that gets the board thinking about different possibilities. I’ve found executive sessions to be an important forum for avoiding groupthink. It allows directors to shape their thoughts and work as a group of counselors without sending negative signals to a hard-working management team that may be grappling with an issue.

Real diversity of thought also requires that diversity of experience we talked about—whether it’s in mergers and acquisitions, needing directors who understand a new company or a new country, or in a large private company that’s thinking about going public and needing directors with public company experience to help navigate public issues and requirements. So, diversity is a much-larger issue than just gender or age. There’s a broader strategic context and importance to diversity that boards need to consider.

Susan Angele is senior advisor, KPMG’s Board Leadership Center.
The Mosaic That Is the Modern Boardroom

By Nels Olson and Tierney Remick

While we're cautious about discussing board development in a way that implies lockstep linear progression, it’s clear that corporate governance has evolved dramatically in the past two decades. Given the caveat that there are always exceptions to the rule and each board’s unique culture will be a significant variable in its development, let’s briefly trace the high-level evolution of the modern board.

For years, the boardroom was dominated by the CEO, with boards often assembled according to who knew whom rather than who knew what. While this was challenged by shareholder groups over the years, the model really began to shift following a series of corporate crises in the early 2000s, and shifted even further following the global financial meltdown of 2008.

Regulations now ensure greater oversight of corporate governance; and those who serve on boards are now more wary and watchful, and expected to actively fulfill their duties as representatives of shareholders. Greater recognition of both opportunities and risks in an era of rapid and constant change has pushed boards to broaden their skills and experience by recruiting directors with relevant expertise in industries, geographies, and functions, in addition to the traditional CEO profile.

In short, following an era that many viewed as that of the imperial CEO, the pendulum and power swung toward boards, but as in any effective relationship, each side provides something of essential value. Boards that work best understand and clearly define the unique role played by the CEO, carefully distinguished from that played by the board. This is a symbiotic relationship and one party cannot really operate effectively without the other to meet operational goals as well as the broader interests of all stakeholders.

Against a backdrop of many years of client engagements across a wide range of industries, we've learned a couple of fundamental lessons about increasing the effectiveness of the CEO/board partnership:

1. **The CEO needs the board.** The smartest CEOs work through many others in executing their duties, and rely more than ever on their boards for advice and counsel. The most-effective boards result from a wise selection process – one that links closely with strategic business objectives – as well as regular assessments and an ongoing education process. Even directors hand-picked for experience and skills that sync with a company’s industry and strategy need to continually learn, participate, and be challenged in active, open discussion with the CEO and other directors. With the daily demands on CEOs, intensified and shifting competition, activism, and continual public scrutiny, an engaged and informed board can be a great ally and resource.

2. **The board needs the CEO.** The CEO works full-time at the company, while even the most diligent directors have access to only a fraction of the information the CEO acquires. CEOs we talk with explain how crucial it is to have a board that is current on all developments, internally and externally, and brings the relevant skills and experience to bear, whether the topic for discussion is expanding into new markets, addressing the needs of new customers, growing an online presence, or a host of others. The CEO has to ensure directors have timely access to the information they require. That entails sending out board packets, with the right level of detail, in time to digest prior to board meetings; enabling directors with detailed questions to connect with top management; and encouraging directors to visit facilities with prior notice when appropriate. It also means that CEOs must invest their time in building relationships with individual directors, connecting on a regular basis outside of regular board meetings.

As a result of the board evolutionary process, the face of the modern board has morphed from one represented by the CEO, to one represented by the balance of power shifting to the board, and finally to one which, ideally, is a mosaic integrating both sides.

The best boards work as a team. They leverage constructive tension that naturally exists between insiders and outsiders, and engage in deep and rich conversation, examining all facets of issues to arrive at the best-reasoned decisions. On this team there is no bench and there is no room for spectators: Everyone must play an active role.

Nels Olson serves as vice chair and co-leader of the Global Board and CEO Services Practice at Korn Ferry. Tierney Remick is president of the firm’s Global Consumer/Retail Practice.
Barriers Still Steep for Women of Color

They are nearly absent from most Fortune 500 boards  By Deborah Gillis

In an era of increased efforts to diversify corporate boards, it is tempting to think that women of color—Asian American, African American, and Latina—would be highly sought after. But this isn’t the case.

Catalyst’s report, 2014 Catalyst Census: Women Board Directors, shows that women held only 19.2 percent of S&P 500 board seats in 2014. Only 26.2 percent of companies had 25 percent or more women board directors, and 3.6 percent of organizations had zero women on their boards. Zero.

These numbers are disappointing, but the statistics on women of color in the boardroom are even more discouraging. Although the U.S. Census Bureau projects that women of color will make up 53 percent of women in the United States by 2050, our recent report, Still Too Few: Women of Color on Boards, reveals they are nearly absent from most Fortune 500 boards, showing that barriers to advancement are especially persistent for these women.

Catalyst research finds that women of color who do serve on boards are twice as likely as white women to serve on multiple boards. In other words, selection committees are more likely to turn to the same women of color to fill open board seats, resulting in a unique Catch-22 for women of color: getting on a board requires already having served on one.

Lacking Opportunities

As Viola Davis said in her recent Emmy acceptance speech, “The only thing that separates women of color from anyone else is opportunity. You cannot win an Emmy for roles that are simply not there.”

Barriers include lack of access to influential sponsors and exclusion from professional networks, not to mention stereotyping and discrimination. We also know that these barriers and inequalities exist on all levels, from women in entry-level positions to those at the very top.

The lack of opportunity for women of color in Hollywood also exists in the boardroom. We’ll never achieve truly inclusive boards as long as women of color continue to face significant obstacles to leadership opportunities.

Relying on limited networks to fill board seats shrinks the pool of board-eligible women of color to a puddle.

Allies Needed

We need men of color, white men, and white women who are advocating for change and working together to create environments where all people can thrive.

Initiatives to address women’s persistent underrepresentation on boards have been implemented in countries around the world in recent years, which include mandated disclosure of diversity policies, voluntary initiatives led by business leaders, self-imposed objectives, and quotas for gender-balanced board representation. These initiatives are motivated by compelling research which shows that gender diversity can benefit corporate decision-making and improve overall business results.

Diverse boards enhance public trust by representing the interests of a company’s many stakeholders, from its shareholders and suppliers to its employees, customers, and the residents of the communities in which it operates. We know why women are crucial to a board’s success; now it’s time to focus on how boards can attract the best talent of all genders, races, and ethnicities.

Boards looking for new directors can disrupt the default by reaching beyond their regular network of contacts to find well-qualified candidates of different backgrounds.

Let me share one solution Catalyst is pursuing. Our Women On Board initiative is a high-level sponsorship program that pairs senior executive women with a seasoned board director for a two-year mentor/protégé partnership. Almost half of the program’s alumnae have been appointed to corporate boards. Begun in Canada, the program is expanding to the United States. Of the inaugural U.S. class of executive women, half are women of color.

We have the power to take action in pursuit of a common goal: to spark meaningful change for all women in the workplace and around the world.

Will you join me?

Deborah Gillis is president and CEO of Catalyst.
Companies recognize the need for talent in order to stay relevant and move ahead, but finding that talent can be difficult for companies and corporate boards alike. More than three-quarters of U.S. CEOs are concerned about the availability of key skills, according to PwC’s 2015 U.S. CEO Survey, and boards regularly assess which attributes are most needed in director candidates.

Women account for about 19 percent of all S&P 500 directors, and the average S&P 500 board has only 11 members. That’s about two women per S&P 500 board. Women of color hold a mere 3 percent of board seats, according to Catalyst.

Worse still, some boards—5 percent—have no women at all, according to Spencer Stuart’s 2014 U.S. Board Index. Yet, according to the U.S. Department of Labor, women make up 47 percent of the U.S. workforce.

What’s going on?

It’s not that boards don’t believe in the idea of having a diverse board. Most directors, in fact, say that board diversity positively impacts both their board and company. But only 22 percent of directors in PwC’s 2015 Annual Corporate Directors Survey said they “very much” believe there are enough qualified

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potential board candidates still need some refreshment.

One of the standard criteria that boards look for in new members is whether the candidate has served as a CEO. If boards also want diverse director candidates, that makes for a very difficult task. Until recently, it was fairly rare to see a female or minority CEO.

Today, only about 5 percent of Fortune 500 CEOs are women, 2 percent are of Latino descent, and 1 percent is African American, research by DiversityInc. shows. So naturally, the pool of diverse CEOs has been very small. If CEO experience is going to be a criterion, there will never be solid diversity metrics in the boardroom.

So where should boards look to find qualified candidates? How about beyond the C-suite?

Some boards are already looking there: division/subsidiary presidents and other line and functional leaders made up 23 percent of new directors last year, almost double their representation a decade ago.

Among these new directors are business unit heads or leaders in technology, corporate development, corporate strategy, corporate planning, and human resources, Spencer Stuart’s Board Index reports.

Something the board needs to remember is that while these individuals may only be divisional presidents, they probably could have been great CEOs. In the current environment, they can certainly be great board members.

These other levels of business—which are often still untapped—are where you are going to find highly qualified, diverse candidates. Many women and minorities in these roles are functioning like CEOs and running large businesses. They have a wealth of experience that could benefit boards. They’re driving strategies, dealing with risks, and focusing on talent. Only 5 percent of S&P 500 CEO positions are currently held by women, according to Catalyst, but women hold 16.5 percent of the four positions just below CEO.

Looking past the C-suite can yield a bounty for boards.

The boardroom is one place where just one person can inject diversity of thought. And that individual might already be in the organization—just one level down from the C-suite.

Paula Loop is the leader of PwC’s Center for Board Governance and Investor Resource Institute.
Analysis of Diversity Disclosures Reveals Need To Cast a Wider Net

By Pablo Schneider

When seeking director candidates, is your board casting a wider net? Disruption and transformation are becoming the new normal. The change we’re experiencing now is likely the most rapid in human history, but also likely the slowest we’ll ever experience in the future.

Global, digital, and demographic trends are reshaping our lives and transforming the world. The U.S. Multicultural Economy alone is projected to grow from $3.4 trillion in 2015 to $4.3 trillion in 2020, an increase of nearly a trillion dollars in just five years, according to The Multicultural Economy 2015 report from the University of Georgia’s Selig Center.

Transformational trends are having a significant impact on the business-operating environment and in particular on the composition of customers, suppliers, employees, and management. How well aligned is your board composition with company strategies that address global, digital, and demographic transformation?

Diversity Disclosure

In December 2009, the Securities and Exchange Commission (SEC) approved enhanced disclosure rules about how diversity is considered in the director-nomination process. These rules went into effect in February 2010. An analysis of the board diversity disclosures of the Fortune 1000 companies yielded the following results.

- 845 companies said that their “nominating committee or the board has a policy with regard to the consideration of diversity in identifying director nominees.”
- 59 companies described “how this policy is implemented.”
- 134 companies described “how the nominating committee or the board assesses the effectiveness of its policy.”
- 63 companies did not report having a board diversity policy but described instead an assessment of effectiveness, presumably of their board-diversity efforts.

This analysis indicates a high degree of interest in board diversity; that is, 84.5 percent of Fortune 1000 companies’ nominating committees consider diversity when identifying nominees for director. And, conversely, the analysis also indicates a lesser degree of action, with only 7.1 percent of Fortune 1000 boards reporting that it has a board diversity policy.

From Interest to Action

In a speech at a luncheon in November 2010, SEC Commissioner Luis A. Aguilar provided three examples of concrete steps that could be included in a company’s board diversity policy:

- “Interview one or more candidates who is a minority and/or a woman.”
- “Retain a search firm that has been specifically instructed to seek candidates that are minorities and/or women.”
- “Solicit recommendations from organizations that have a reputation for identifying candidates with diverse backgrounds.”

Have your board or nominating and governance committee members and search firms ever reached out to Catalyst, WomenCorporateDirectors, Black Corporate Directors Conference, Pinnacle, Leadership Education for Asian Pacifics, or the Latino Corporate Directors Association?

When seeking director candidates, is your board casting a wide enough net?

What instructions about candidates are being given to search firms being used by your boards?

Pablo Schneider is CEO of The Wider Net, a firm dedicated to advancing diversity in top leadership roles.
Behind the Secret Handshake: Corporate Culture and the Diversity Challenge

By The Hon. Carlos C. Campbell

The February 1971 issue of CITY magazine contained the following observation: “Decisions are, for the most part, made in a vacuum and reflect a SWEMM (suburban-oriented, white, economically advantaged, middle-aged male) bias. There is a noticeable absence of blacks, young people, and females in decision-making positions at all levels of government.” This was also the reality in corporate America. I know this because I authored that article.

While the federal government has made strides to diversify its ranks, 44 years later the business sector lags far behind, and is showing no sign of catching up any time soon.

Breaking from traditional cultural patterns is a formidable challenge, but absolutely necessary. Refusing to change will only undermine the fortitude of our companies.

There are three compelling reasons for diversity: the economic case, based on ethnic representation and buying power; the political case, because directors are the face of U.S. corporations, particularly in this age of globalization; and, the ethical case, because denying diverse representation is discriminatory.

Power tends to favor the status quo, which is why leadership from both the C-suite and the boardroom is required to turn the tide.

In the United States, Americans of African, Latino, and Asian origin represent about 33 percent of the total population, with a combined annual buying power of $3.5 trillion. Also consider that, according to the International Monetary Fund, the United States is the world’s largest economy, holding a 22.53 percent share of the global gross domestic product. Customer bases are incredibly varied and to effectively meet current and future market demands, company leadership needs to reflect those demographics.

Institutional investors are becoming more vocal about their opinions. Earlier this year, nine pension funds approached the Securities and Exchange Commission about requiring public companies to disclose diversity data and information about board nomination processes. “As their investors, we need better information on the makeup of our portfolio companies’ boards so we can assess whether they’re prepared to meet challenges or are letting groupthink creep in,” New York State Comptroller Thomas P. DiNapoli told Pensions & Investments.

The need to diversify is apparent, but what can businesses do to effect change?

Some corporate executives may say they cannot find diverse candidates, but this is a lame excuse. Start by examining how current policies might inhibit bringing in a variety of talents and perspectives—and how implementing new policies can help. Consider the unmitigated success of the National Football League’s Rooney Rule, that requires team management to interview and consider non-white candidates for coaching and senior management positions.

Looking specifically at the board, directors need to consider the tone at the top. If there is a need for diversity on the board, but fellow members are not responding to that need, directors need to exercise their independence and make that call for greater inclusion a boardroom priority.

While the challenge is formidable, results are achievable through committed leadership and dedicated performance by those that are selected to represent the interests of shareholders. Capitalism is the backbone of our democratic system of government, and greater boardroom diversity will make this great nation greater.

The Hon. Carlos C. Campbell is a member of the PICO Holdings board, where he chairs the compensation committee and serves on the audit and corporate governance committees. He is the president of Global 21, a strategic advisory firm, and Initiative Films.
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