THE POWER OF DIFFERENCE

An anthology of expert perspectives about how boards can build cultures of equity and inclusion.
Congratulations to our Board of Directors!

We thank the NACD for recognizing the myriad ways our Board of Directors leverages the power of Diversity, Equity, & Inclusion to strengthen FHLBank San Francisco, and extend our congratulations to their fellow nominees for the 2022 award.

The vision and support of our Board is vital to our ability to pursue innovative and sustainable ways of fostering DE&I in all aspects of how we engage with our member financial institutions, our workforce, our business and community partners, and our other stakeholders.

At FHLBank San Francisco, we work hard to cultivate a culture in which each of our 300 employees feels valued and respected, has a sense of belonging, and is inspired to be their best and promote DE&I throughout the organization.

We are very proud that because of our DE&I efforts, our cooperative reflects the diversity of the communities that we and our more than 330 member institutions serve.
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INTRODUCTION

In the past few years, there has been a renewed focus on diversity, equity, and inclusion (DE&I) throughout society—and the boardroom is no exception. There’s been remarkable progress in the past few years: Between 2019 and 2021, the average percentage of woman directors on the boards of Russell 1000 companies increased from 23.8 percent to 28.2 percent.1 The percentage of Russell 3000 companies with no racial or ethnic diversity on their boards went down from 38 percent in 2020 to 10 percent in 2022.2 And the S&P 500 reached a key milestone this year as well: all boards included at least one racially or ethnically diverse director.3

At NACD, we encourage directors to celebrate these successes, continue to deepen their knowledge and understanding of DE&I, and renew their efforts to leverage the power of DE&I in their boardrooms and across their enterprises. To support directors doing this work, the NACD Center for Inclusive Governance was established in September 2021, with three goals: (1) to create pathways for diverse talent to enter the boardroom, (2) to support directors in the creation of diverse and inclusive boardrooms, and (3) to convene key stakeholders in the governance space to execute on our commitment to boardroom DE&I.4

Diversity, as we know, has a positive effect on business outcomes. Research published earlier this year revealed that among S&P companies headquartered in California, those with 30 percent or more women directors on their boards had 29 percent higher revenue than those that did not have that percentage of women directors. Similarly, companies with higher gender and ethnic diversity among directors delivered greater year-over-year revenue

A Commitment to Inclusive Governance

NACD Celebrates Diversity, Equity, and Inclusion

AS PART OF NACD’S PLEDGE TO DIVERSIFYING BOARDS AND CREATING MORE INCLUSIVE BOARDROOM ENVIRONMENTS, WE ARE PLEASED TO BRING YOU THIS PUBLICATION, THE POWER OF DIFFERENCE, WHICH PROVIDES PERSPECTIVES FROM EXPERTS ABOUT HOW BOARDS CAN BUILD CULTURES OF EQUITY AND INCLUSION.
growth than companies with nondiverse boards. That’s why diversity continues to be a key component of board searches and skills matrices as boards seek to add directors with diverse experiences, backgrounds, and perspectives to their boardrooms. Boards must be mindful to evaluate candidates based solely on their value-add to an enterprise; candidates want to ensure that they are considered based on the same criteria. But beyond simply adding diverse directors to the boardroom, boards that see DE&I as not only a “thing to have,” but rather a competency to practice on an ongoing basis will be well positioned to address the impact that DE&I has on key boardroom topics such as human capital, risk, and shareholder and stakeholder engagement, as well as to ensure that DE&I is woven into an enterprise’s strategy from the C-suite down.

Stakeholders are increasingly holding companies accountable for their DE&I policies, practices, and outcomes: Last year, 76 percent of employees and job seekers said that they explicitly considered whether an employer had a diverse workforce when evaluating employers and job offers. Since 2020, several companies have faced shareholder derivative suits alleging that by failing to live up to DE&I claims made in proxy statements and other corporate communications, the companies suffered reputational harm and other losses. This is in addition to the Nasdaq board diversity disclosure rule that went into effect in August 2022, as well as the expectations of large institutional investors such as BlackRock, The Vanguard Group, and State Street. To support directors in developing a deeper understanding of DE&I in relation to shareholder and stakeholder expectations, we’ve included a piece by KPMG in these pages that discusses board diversity disclosures.

Though much of the focus on the DE&I conversation is on diversity, creating an inclusive boardroom is also a critical matter for boards. To truly harness the power of a diverse boardroom, directors must feel safe to be engaged, constructively challenge one another, and bring their insights, perspectives, and life experiences to the table in service of their organization’s mission and goals, which is why NACD is committed to focusing on providing boards and directors with insights from leading subject matter experts and organizations, as well as practical tools and resources to support the creation of a diverse and inclusive boardroom and strengthen board oversight of DE&I. As part of NACD’s pledge to diversifying boards and creating more inclusive boardroom environments, we are pleased to bring you this publication, The Power of Difference, which provides perspectives from experts about how boards can build cultures of equity and inclusion.

3. Id.
Cummins Inc. would like to commend our Board of Directors for their unwavering support in progressing our global DE&I goals.

We are honored to celebrate all 2022 finalists.

WINNING WITH THE POWER OF DIFFERENCE

At Cummins, diversity, equity and inclusion (DE&I) power innovation and success among our employees and guide our actions and contributions to communities around the world.
The call for board diversity is growing louder. In 2020, social unrest magnified the need for equity, inclusion, and social justice. Nasdaq as well as the states of Washington and California responded by pushing these conversations to the forefront and pursuing board diversity mandates. Amid this societal shift, numerous studies have revealed the benefits of having diverse directors in the boardroom. To demystify how corporations can and should use diversity for better governance, let’s delve into the four pillars of board diversity: gender, age, geography, and race.

**BENEFITS OF DIVERSITY**

While most boards focus on shareholder value, diverse directors also reflect something equally significant: stakeholder value. Stakeholders are individuals and groups that are directly affected by and impact the organization, such as shareholders, employees, customers, suppliers, communities, and the government. When a board accurately reflects its stakeholders, the board will be interested in the organization’s financial performance as well as its long-term success and sustainability. This accurate and diverse representation leads to numerous benefits. In fact, we go as far as to say that diversity among directors that mirrors the organization’s stakeholders is crucial for success and maximum board performance.

On a homogenous board, there can be an abundance of blind spots. Directors of the same gender, age, geography, and race will likely come together with a more unified set of experiences, bring similar approaches to problem-solving, and represent only a portion of their stakeholders. With these shared perspectives, it can be challenging to acknowledge blind spots on the board, and it can become easier to ignore the need for turnover.

Studies have identified that increased diversity directly correlates to better board performance and increased revenue year over year. Overall, board diversity has several benefits, and each pillar brings something vital to the table. However, before diving into each pillar and its benefits, it’s important to understand what diversity actually means.
WHAT DIVERSITY IS NOT

It is not enough to have an assortment of demographics in a boardroom. A board must have directors with diverse thoughts, experiences, backgrounds, and skills to properly reflect the company’s stakeholders. Unfortunately, this is often mistaken for the diversity of physical traits, ignoring the need for cognitive diversity.

Hiring directors based on their gender, age, geography, or race without considering their backgrounds and experience is like checking a box. It satisfies a diversity “requirement,” but that doesn’t mean it will benefit a company in the long term, especially if these directors are not treated as equals in the boardroom. Nasdaq’s Board Diversity Rule has some tempted to “check the box” to meet regulations, but we think boards are responsible for doing more.

Recruiting diverse board members is an opportunity to identify and address weaknesses in a board by finding candidates whose backgrounds are more representative of the organization and its stakeholders, strategy, and industry. While demographic diversity alone may not create the necessary environment for better governance, cognitive diversity with directors of diverse races, ages, genders, and geographies can.

WHAT BOARD DIVERSITY IS

Board diversity is made up of four pillars: gender, age, geography, and race. Understanding what each pillar includes will help boards understand the value of cognitive diversity and give boards greater intentionality with their board search and assembly process.

Gender

Over the past two years, we’ve seen a slight increase in gender diversity, with women representing 21.9 percent of board members in the Russell 3000 in 2020 and 24.4 percent in 2021. In addition, boards with more women are seeing an increase in performance and revenue.

Women drive 70 percent to 80 percent of purchasing decisions, and their choices are often based on different factors than men’s. Significantly fewer men have been enrolling in secondary education since 2012, while women have been steadily enrolling in colleges and universities and completing their degrees for more than a decade. According to the National Center for Education Statistics, women received nearly 58 percent of bachelor’s degrees, 64 percent of master’s degrees, and 56 percent of doctorate degrees in 2018–2019. Due to the influence of women on various markets and within the workforce as a result of their buying power and higher education, having women represented on the board can increase the board’s accurate reflection of its stakeholders.

Studies also find that boards with more balanced gender representation see a boost in effectiveness. Women are more likely to attend meetings and come prepared, which has shown to influence their male counterparts. Women are also more likely to hold CEOs accountable for poor financial returns and hold positions on monitoring committees. Additionally, women are more likely to pursue environmentally responsible practices and inspire career development for women in lower positions within the organization. Based on these few reasons, it’s easy to see why gender is a foundational aspect of board diversity.

Age

When a company goes out to recruit new directors, there is undeniable value in finding experienced candidates. Directors should have a thorough background in the industry, have a long list of valuable contacts, and bring a knowledgeable perspective that represents stakeholders. However, we often see this valuable emphasis on experience be mistaken for candidates within a certain age range.

In the Equilar 500 between 2014 and 2019, the median age of directors was 63 years old. Only 6 percent of younger directors, those 50 or younger, hold seats on S&P 500 boards. A little over half of these are younger than 47 years old. With more than 67 percent of the general US population roughly 57 years old or younger, younger directors are needed to help represent the majority of stakeholders.
While more than 30 years of experience in the industry is valuable, you don’t always want to wait until the end of someone’s career to get their advice. More than 95 percent of young directors actively engage in their industries through their jobs, making them more in touch with current industry trends and with contacts that could benefit your board. In addition, their unique visibility into new innovations and technology may allow them to think ahead and offer a fresh perspective for critical problem-solving. Adding younger directors to the board helps leverage the wisdom of multiple generations, allowing members to learn from the past and propel the organization into the future.

**Geography**

It’s often heard in the board search community that geography is the most overlooked pillar of diversity. Companies are most comfortable recruiting from where they started due to familiarity and ease. Depending on the organization’s size, they often choose directors from the same city, region, or country of their headquarters. But for multiregional, national, or international companies, lacking a geographically diverse board of directors means lacking visibility into where you do business.

The first way to address this is to recruit directors in the regions and countries where you already do business. This way, the organization can increase visibility, develop better operations in these markets, and gain pivotal contacts. The second way to leverage this is during times of growth: business is done differently in different places, so you can’t properly move into a market you have no experience in. By recruiting someone from the region where the organization wants to expand, who has the relevant industry experience and contacts, you will have a more successful launch and a higher chance of sustained success.

There are benefits outside of increased local visibility as well. For example, directors who are geographically remote from headquarters tend to be more mindful because they rely on hard information, such as stock prices, to keep them as well as their local counterparts informed.

All too often, however, there is pushback about pursuing geographically diverse directors. Excuses such as “It will cost too much to fly them in,” and “It would make scheduling meetings too complicated,” are the most frequent, but these logistical hurdles are easily budgeted and accommodated. From our experience, the benefits far outweigh the logistics discomfort and often pay off quickly.

**Race**

Most public company boards are primarily white and made up of men. Even with a more gender-balanced board, only 18 percent of women directors are not white. In the S&P 500, 21 percent of directors are Black or African American, Hispanic or Latino, Asian, American Indian or Native Alaskan, or multiracial. According to the US Census Bureau, the American population for most of the aforementioned racial groups has increased, meaning diversity is expanding naturally and becoming more commonplace. For any organization that operates internationally, the results seem obvious: most international organizations with boards based in the United States have an inaccurate representation of their stakeholders by not having geographically diverse directors.

Could you successfully move into a market culturally and racially different than your own? Possibly. But is it sustainable? Without directors that reflect the stakeholders and know that market, how can you truly understand it or adapt to its trends?

A white, 63-year-old man can hear about the effects of racial differences, but there is a barrier to how much he can understand without personally experiencing it. Even for the amount he can understand, he cannot represent that subset and often fumbles when trying to serve it properly. It isn’t enough to hear the differences. We have a responsibility to understand them as deeply as possible. Furthermore, we should be held accountable to bring those who do understand from personal experience into our boardrooms so that they can lead as directors in making critical decisions.

Mellody Hobson, co-CEO of Ariel Investments and chair of Starbucks Corp., said it well on April 21, 2021, in a virtual talk at Bowdoin College in Maine: “You can’t be a leading company in the world and not have a diverse board or have a real agenda around diversity without at some point dying as an organization.”

In 2020, S&P 500 companies with boards composed of at least 30 percent non-white directors experienced an average of 54 percent year-over-year revenue growth. Utilizing race as a pillar of diversity provides a more intimate understanding of stakeholders, new perspectives on issues at hand, a broader network of contacts, reduced blind spots across industries, and increased performance that we cannot ignore.

**MOVING FORWARD**

Board diversity is our best tool for instating better board governance. Boards with multidimensional diversity have thrived in recent years and even experienced growth throughout the pandemic, according to Lessons From the Pandemic: Board Diversity and Performance, a 2021 BoardReady report.

We have seen increased diversity in age, race, gender, and geography in recent years. It is better than it was, but our goal is not to be better than our past. Adding board diversity is our chance to continually improve, to achieve greater understanding and growth for our future. We have enough data to see the benefits of the four pillars of board diversity in action. We also have the responsibility to strive for more deliberate board diversity so that we can deliver better results for our organizations and our world.
Our purpose is to make an impact that matters by creating trust and confidence in a more equitable society.

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Board Diversity Disclosure: The Time Is Now

By Annalisa Barrett and Susan M. Angele

In today’s business environment, boards need directors with diverse backgrounds and perspectives. Transparency about board composition is key to building trust. Investors, employees, and other stakeholders are demanding increased disclosure on many aspects of board diversity to hold companies accountable, measure against their policies, and track progress over time.

Amid this environment, the KPMG Board Leadership Center (BLC) has been tracking public company board diversity disclosures since January 2021 through the KPMG Board Diversity Disclosure Benchmarking Tool, powered by ESGAUGE. We have found that:

- While gender is almost always evident through the use of pronouns in director biographies, a large and increasing majority of companies now also disclose their board’s racial and ethnic diversity.
- Disclosure of the presence of members in the boardroom who are LGBTQ is nascent and rising. (As a note, different entities use different terminology around sexual orientation and gender identity: LGBTQ+, LGBTQ, LGBT, and others. This article’s use varies depending on the source language.)
- California-headquartered and Nasdaq-listed companies have more specific and higher disclosure rates in certain areas than other companies.

DISCLOSURE OF RACE AND ETHNICITY

Almost all S&P 500 companies (90 percent) disclose board racial and ethnic diversity in some form. Stakeholders interested in board racial and ethnic diversity may find this information difficult to discern with any degree of certainty in the absence of publicly available disclosures based on voluntary self-identification. Researchers often rely on surnames and photos—an imprecise and potentially misleading process. Likewise, LGBTQ diversity is impossible to determine accurately without voluntary self-identification and disclosure. The following analysis is based on data ESGAUGE sourced solely from corporate disclosures.

As seen in Figure 1, 90 percent of S&P 500 and Russell 3000 companies disclose racial and ethnic diversity by index (2021–2022).

FIGURE 1: DISCLOSURE OF BOARD RACE AND ETHNICITY BY INDEX (2021–2022)

Source: KPMG Board Diversity Disclosure Benchmarking Tool, powered by ESGAUGE

Annalisa Barrett and Susan M. Angele are senior advisors with the KPMG BLC. The authors would like to thank Katie Keally, BLC manager, for her invaluable contributions to this article.
69 percent of Russell 3000 companies now disclose the board’s race and ethnicity by individual category (e.g., “Mr. Smith is Black”; “Two of our board members are Asian”; “Ten percent of the board is Latino”), by aggregating racial and ethnic categories (e.g., “Thirty percent of the board is racially and ethnically diverse”), or both. This represents a significant increase since January 2021 among both S&P 500 and Russell 3000 companies.

It is particularly notable that the smaller companies in the Russell 3000 that make the disclosure are now more likely to disclose the board’s race and ethnicity by individual category (51 percent do this) than in aggregate (34 percent). In a twist from the typical finding that larger companies are first to adopt leading governance and disclosure practices, the ratio for S&P 500 companies is flipped. Among these larger companies, the predominant form of disclosure is in aggregate (68 percent, compared to 57 percent by individual category).

This may reflect the influence of Nasdaq’s Board Diversity Rule, which requires disclosure of the board’s diversity statistics, broken down by category, by August 8, 2022, or the company’s 2022 proxy filing date. A majority of Russell 3000 companies are listed on Nasdaq, which may have contributed to more disclosure of board racial and ethnic diversity data in the Russell 3000 index during the 2022 proxy season.

Companies based in California or listed on the Nasdaq are more likely to disclose director race and ethnicity by individual category. Under Nasdaq’s Board Diversity Rule, most companies listed on its US exchange are required to disclose a board matrix that includes the number of directors voluntarily self-identifying with each listed racial and ethnic category, in addition to gender and LGBTQ+ status. Subsequent deadlines under the rule will generally require boards to include at least two directors from underrepresented groups (or explain why they do not), with at least one director self-identifying as a member of a designated underrepresented group or as LGBTQ+, and at least one self-identifying as female.

Several states, such as Illinois, now require board diversity reporting for public companies headquartered there. However, California’s laws mandating board diversity—SB 826 on gender and AB 979 on underrepresented communities—were the most far-reaching before being ruled unconstitutional. (The decisions are currently facing appeal.) AB 979, relevant to the racial and ethnic diversity disclosures discussed here, had required public companies headquartered in California to include at least one board member from an underrepresented community.

Figure 2 shows disclosure of board race and ethnicity by stock exchange listing and headquarters location. Although overall disclosure levels are reasonably consistent, the type of disclosure varies. Disclosure of individual race and ethnic category is much more prominent among Nasdaq-listed companies, and should be near 100 percent by the end of 2022 to comply with the new disclosure requirements. California-headquartered companies are also more likely to disclose on an individual category basis, though the difference is not as dramatic. It is possible that boards identified their diverse directors individually more often in California in order to publicly show evidence of compliance with AB 979.
Half of S&P 500 and Russell 3000 companies disclose race and ethnicity on an individual category basis. Despite the increase in disclosure since 2021, only half of companies in both the S&P 500 and Russell 3000 currently disclose their directors’ race and ethnicity on an individual category basis (i.e., caucasian/white; Black/African American; Hispanic/Latino; Asian, Hawaiian, Pacific Islander; other). This incomplete picture of the racial and ethnic composition makes it difficult to judge the progress made by distinct racial and ethnic groups without more information.

While there is a long way to go to achieve full disclosure, there has been significant growth in the number of board seats with the corresponding race and ethnicity of the board members disclosed, increasing from 894 to 3,056 seats in the S&P 500 and from 1,657 to 13,834 seats in the Russell 3000 from January 2021 to August 2022. Given that these disclosures are based on self-identification, more than 10,000 corporate directors have shared information about their demographics in response to calls for more transparency and diversity in the boardroom.

The utilities (67 percent), health care (64 percent), and information technology (55 percent) sectors are most likely to disclose individual race and ethnic category. The health care and information technology sectors had the most significant increases in the percentage of companies making these disclosures from September 2021 to August 2022—increasing by 55 and 41 percentage points, respectively.

DISCLOSURE OF LGBTQ STATUS

Disclosure of directors’ LGBTQ status is on the rise in both indices. Overall, disclosure of directors’ LGBTQ status in any form has not yet gained the same traction as board racial and ethnic disclosures. Twenty-two percent of S&P 500 companies and 30 percent of Russell 3000 companies now disclose directors’ voluntarily self-identified LGBTQ status by individual (e.g., “Courtney Smith identifies as LGBTQ”), in aggregate (e.g., “Ten percent of our board self-identifies as LGBTQ”; “None of our directors self-identify as LGBTQ”), or both. This is a significant gain since April 2021 when such disclosure was almost nonexistent (see Figure 3). This includes companies that disclosed that none of their directors self-identified as LGBTQ. However, individual disclosure of directors’ LGBTQ status (i.e., by name) remains low: 5 percent of S&P 500 companies and 2 percent of Russell 3000 companies do this.

Having said that, a greater percentage of Russell 3000 companies disclose directors’ aggregate LGBTQ status (which includes those companies disclosing that they have no directors self-identifying as LGBTQ) and the percentage of Russell 3000 companies that disclose director LGBTQ status in any form outpaces the S&P 500. This may be attributable to the higher percentage of Russell 3000 companies listed on the Nasdaq and the impact of Nasdaq’s Board Diversity Rule, which, as noted above, includes a call for disclosure of the number of members of the LGBTQ+ community serving the boards of listed companies.
Nasdaq-listed companies are far more likely to disclose the board’s LGBTQ status in the aggregate, including those disclosing they have no directors who self-identify as LGBTQ, compared to NYSE-listed companies (50 percent versus 4 percent)—although the same percentage for each exchange disclose it on an individual director basis (2 percent). California-headquartered companies had a greater rate of disclosure of the board’s LGBTQ status in any form compared to companies headquartered in other states (39 percent versus 28 percent), which could be due to the impact of AB 979 before it was ruled unconstitutional. It may also be due to California’s inclusive culture: As reported by the US Census, California has one of the highest percentages of adults who identify as LGBT.

The number of board seats held by LGBTQ directors is on the rise. The number of board seats disclosed as being held by LGBTQ directors is extremely low, though a year-over-year comparison does show an increase. Among Russell 3000 companies, 198 board seats are held by individuals who voluntarily self-identify as LGBTQ, up from 30 seats in April 2021. Among S&P 500 companies, LGBTQ individuals hold 43 board seats, up from 13 in April 2021. It is worth noting, however, that self-identifying LGBTQ individuals still represent a small percentage of overall board seats: they fill less than 1 percent of both S&P 500 and Russell 3000 board seats, compared to 7 percent of the US adult population, according to a Gallup poll.

Since 2009, the US Securities and Exchange Commission has required public companies to describe if and how they incorporate diversity into director search criteria. All S&P 500 companies and 99 percent of Russell 3000 companies reference diversity generally in their search criteria, and 95 percent of S&P 500 companies and 82 percent of Russell 3000 companies specifically include a reference to gender diversity.

Nevertheless, women only held 32 percent of S&P 500 board seats and 28 percent of Russell 3000 board seats as of August 2022. Equilar has projected that Russell 3000 boards will not reach gender parity until 2032. California SB 826 likely had some impact before it was struck down in May 2022. One third of the board seats of S&P 500 and Russell 3000 companies headquartered in California are held by women, compared to slightly more than one quarter of the board seats at companies headquartered elsewhere. It is worth noting, based on our prior research, that the women who joined boards in California were highly educated and experienced business leaders.

As our data show, state mandates and stock exchange listing requirements correlate with a greater rate of board diversity disclosure. However, companies that wait for mandates may be missing an opportunity. Diversity enables broad perspectives and better decision-making. As investors and other stakeholders continue to focus on board diversity, companies that tell their stories are not only able to showcase their commitment to board diversity but also demonstrate their dedication to transparency. We look forward to seeing an increase in the rates of board diversity disclosure and will continue to track and report on progress going forward.
Different perspectives spark new thinking

Change the boardroom conversation around Diversity, Equity & Inclusion

The KPMG Board Leadership Center engages with directors to explore the critical issues driving corporate DEI and board agendas.

Learn more at KPMG.com/us/BLC
Boards that are intentional about promoting diversity in the boardroom may need to consider whether unconscious bias in board search processes is inhibiting progress.

Unconscious bias is the brain’s tendency to make snap judgments, delete or prioritize information, categorize, and make assessments before a person is consciously aware of doing so. These split-second decisions and judgments can become problematic when they create advantages for some or disadvantages for others. It may be difficult to envision how a board could achieve diversity in the boardroom if decisions on selecting new members may be influenced by unconscious bias.

Several types of bias have the potential to affect board search processes in ways that may impede a board’s ability to recruit diverse candidates. Some types of bias to be aware of include the following:

- **In-group/out-group.** People naturally show affinity for groups to which they belong. If recruiting is confined to people from Ivy League universities, for example, or people who have served previously as CEOs, that may present a bias in the search process.

- **Affinity.** People tend to associate with individuals whom they perceive to be similar to themselves. If a candidate is regarded as a potential misfit with the boardroom culture, the dissonance could be more associated with a perception that the candidate is not enough like current board members, perhaps due to differences in gender, race, or ethnicity.
**Confirmation.** People tend to give more consideration to information that confirms rather than challenges what they know. In a board search process, this could lead to candidates being dismissed if they present a point of view that contradicts prevailing thought.

**Perception.** Stereotypes and assumptions about certain groups of people in relation to, for example, hairstyles, accents, or manner of dress can act as obstacles to individuals in those groups. Perception bias can lead to conclusions that a candidate is not a good fit for a board based on such attributes.

In contemplating the board’s director candidate profile, consider how criteria for desired skills, competencies, and experience are defined. Boards may indicate that they require “leadership experience in finance,” which may be more relevant and less prone to bias than seeking “former chief financial officers.” A matrix may become a helpful tool for defining and evaluating the various factors and criteria.

To help mitigate unconscious bias as part of a comprehensive strategy for learning related to diversity, equity, and inclusion, training for the board and the broader organization may help cultivate cognizance of how bias may show up in the boardroom and board processes, such as during due diligence interviews where board members and C-suite leaders vet director candidates.

Training may also help embed this awareness into each step of the decision-making process for identifying new directors. Another step may be to establish accountability practices, such as creating a board culture that drives expectations to recognize and challenge when bias might be present.

When boards proactively commit to a process for bringing in new members while mitigating the potential for bias in the recruitment process, they may be more likely to build boards that are equipped with the broad range of skills and characteristics that are critical for leading companies in today’s environment.
In Board Interviews, Prepare and Steer Focus to Leadership Capabilities

By Carey Oven and Audrey Hitchings

It is critical for board candidates to prepare for interviews. As corporate boards strive to expand boardroom diversity with a greater variety of experiences and attributes, diverse candidates need to spend time understanding the company, considering how they can add value, and evaluating whether the opportunity is a good fit.

Matrice Ellis-Kirk, CEO at executive search firm Ellis Kirk Group and a public company board member, points out that it’s essential for both companies and board candidates to understand how candidates can add value. “Companies should focus on what critical leadership experiences, attributes, and perspectives they aspire to bring to the boardroom dialogue,” she said. “Candidates similarly can perform due diligence on the company to understand how they can help the company achieve its purpose and mission.”

Before interviews, board candidates should have a good understanding of the company and the industry in which it operates. This likely requires extensive proactive research and interaction with the company’s current board members and C-suite leaders throughout the interview process, where possible. “Candidates should be prepared to demonstrate that they are knowledgeable about the company’s business, current board members, and C-suite leaders, industry dynamics, and key risks,” said Ellis-Kirk.

Preparation might include a review of at least the last few annual reports and proxies, earnings reports, and press releases as well as profiles or biographies of C-suite leaders and current board members. The search should include reports or statements by proxy advisory firms and rating agencies as well as news articles that are about or that mention the company.
Candidates should anticipate the question: “Why do you want to be on this board?” with responses that focus on how the candidate can contribute to the company’s success. Candidates should challenge the company with a similar question: “Why do you want me to be on this board?” If the response is focused on one specific skill or attribute, the candidate can ask more probing questions to understand how their skills and experiences could benefit the company more broadly, which may be important to evaluating whether the opportunity is a good fit.

Interviewing for a board position is a two-way interaction, says Irene Chang Britt, who serves on five corporate boards; she also chairs one of those boards and two board committees. “The company is evaluating the prospective board member, but the candidate is also evaluating the company and its board,” she says. As a board director who is a woman and Asian, Chang Britt says it’s important for her to understand where there’s an authentic remit for the skill set that she has to offer.

“I have significant experience in turnarounds and strategy transformations, and I like to work with companies that are pivoting, so I ask a lot of questions about the company’s position and strategy to understand how I can add value,” she says. Similarly, she expects those who are interviewing her to be able to say clearly and with conviction why her skills fit a gap in the board’s skills matrix and how the fit relates to the future success of the company.

Board candidates can bring some intentionality to the interview experience to demonstrate their authenticity and steer the dialogue toward their leadership capabilities, said Ellis-Kirk. To the extent the conversation leans into a candidate’s potential to expand the board’s diversity, candidates can focus on how their particular attributes may bring insights into the boardroom about how people who share those attributes may be impacted by topics the board is discussing.

Prospective board members can also assess the company’s approach to inclusion, orientation, and mentorship to enable a successful transition, adds Chang Britt.

Candidates who demonstrate their capabilities to bring these critical leadership qualities to the boardroom may position themselves for many years of meaningful service.

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Creating belonging
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We congratulate our Board of Directors for being named an NACD DE&I Awards Finalist, and for governing with a belief that diverse experiences, perspectives, and backgrounds lead to better outcomes for our associates, our clients, and the millions of people they serve each day.

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