The Power of Difference

Putting the pieces in place to create a culture of inclusion

A supplement to NACD Directorship, November/December 2017
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Creating a culture of inclusion and a diverse boardroom is not a challenge that can be overcome all at once. Demographics change. Peer pressure hits peaks and valleys with the speed and intensity of a roller coaster. Investors develop new and ever-changing interests, needs, and preferences. And the business environment changes, too. All that said, all truly great leaders in the boardroom and the C-suite know that the job of improving boardroom effectiveness and boardroom diversity of thought and experience begins on the first day of his or her tenure.

Because the demand for progress will continue to grow, launching an organization into a steep trajectory of improvement means that all influential constituencies in the process at all levels of the organization will have to be continually excited and motivated by the prospect of success. And fixing the situation will take a blend of research and defined blueprints of action that are fully implemented and measured, a Rooney Rule-like system, and a Spike Lee-ism—directors and CEOs doing the right thing.

In that light, the contributions to the 2017 edition of “The Power of Difference” provide a valuable guide for directors regarding two of their key responsibilities, i.e. board composition and board vitality. Highlights from the newly released 2017–2018 NACD Public Company Governance Survey reveals the latest diversity trends. Mike Fucci, who chairs the board of Deloitte, defines the areas where boards should lead and not just at call of institutional investors. KPMG’s Susan M. Angele, a returning contributor, gets specific on how to build a strategic-asset board from recruiting with an eye toward diversity to showing your work. In turn, Orlando Ashford, president of Holland America, director of ITT, and chair of the Executive Leadership Council, calls on authentic leaders to place bets on outstanding candidates with non-traditional backgrounds. And last, but certainly not least, Phyllis Deiso of RSM continues her ongoing and proactive role in the diversity and inclusion arena by giving us her focused thoughts on company and board accountability.

As General Omar Bradley said, "In war there is no second prize for the runner-up." In that spirit, I hope the following pieces will embolden you to fight the good fight and accept nothing less than the absolute best. —Christopher Y. Clark
The Only Way to Go is Up

According to Board Monitor, Heidrick & Struggles’ annual report on board composition, there were 421 Fortune 500 company board seats that were filled by non-executive directors in 2016. While this could have been a harbinger of increased boardroom diversity, unfortunately, this was not the case. After seven years of increases in gender diversity, the proportion of seats held by women fell by two percentage points to 27.8 percent.

Those findings are echoed by data published in the 2017–2018 NACD Public Company Governance Survey. Of the 520 boards that responded to this year’s survey, 62 percent indicated that their boards added a new director in 2017, down from 67 percent in 2016 and 72 percent in 2015. In addition, according to data provided by Pearl Meyer for this year’s survey, gender diversity on Russell 3000 company boards varies greatly depending on market capitalization. Although 21 percent of large- and mega-cap board seats are held by women, women occupy only 10 percent of nano- and micro-cap board seats.

Looking at S&P 500 company data between 2006 and 2016, Spencer Stuart observes that 21 percent of board seats are held by women and that boards, on average, have 2.3 female directors. Only six S&P 500 boards have no women, down from 52 in 2006. Spencer Stuart also found a notable difference in boardroom gender diversity when looking at companies with female CEOs versus male CEOs. Where companies are led by women, on average, 31 percent of directors were women compared to 21 percent at boards of companies led by men. Looking at the ascendency of women in the C-Suite, the Rockefeller Foundation finds that the number of Fortune 500 company CEOs who are women is hovering at 6 percent.

Spencer Stuart also looked at African American, Hispanic/Latino, and Asian representation on boards during this same time frame and found that fewer minorities were appointed to boards in 2016 compared to 2015: 15 percent of vacant board seats were filled by minority candidates in 2016 compared to 18 percent the previous year. What’s more, there is little change in minority representation in the top 200 S&P companies. While 80 percent of boards had at least one African American director in 2006, only 75 percent of boards in 2016 could report the same. Similarly, 9.2 percent of S&P 200 board seats were held by African Americans in 2006, decreasing to 8.2 percent as of 2016. Representation of Hispanic/Latino directors increased slightly over that same ten-year period, standing at 4.8 percent of all S&P 200 board seats, up from 3.6 percent.

Spencer Stuart also found that, similar to trends in companies led by women, companies led by minorities were more likely to have minority directors on the board. Looking at the nine S&P 200 companies that had minority CEOs, 24 percent of each company’s board was comprised of minority directors. (However, if you exclude CEOs who also sit on the board, that number drops to 17 percent.)

While the above statistics are a sobering illustration of the current state of corporate diversity, the numbers also show that society at large is loath to accept the current state of affairs. The Rockefeller Foundation in partnership with Global Strategy Group surveyed more than 1,000 American adults and found that participants are keenly aware of the social biases and professional hurdles that present roadblocks to women’s advancement in the workplace. In addition, 65 percent of respondents said that CEOs have the most responsibility to increase women in leadership roles—followed by high level executives (61%), direct supervisors (55%) and corporate boards (51%).

Despite setbacks, it’s clear that the general public is aware that the lack of diversity is a problem—and that boards can be a part of the solution.
### Top 200 Boards with at Least One Minority Director

- **All Minorities combined**: 88% (2006), 88% (2011), 88% (2016)
- **African Americans**: 80% (2006), 78% (2011), 75% (2016)
- **Hispanic/Latino**: 35% (2006), 45% (2011), 47% (2016)
- **Asian**: 7% (2006), 16% (2011), 18% (2016)

**Source:** 2016 Spencer Stuart Board Index

### Minorities as a Percentage at Top 200 boards

- **All non-minorities**: 77%
- **African-American**: 8%
- **Hispanic/Latino**: 5%
- **Asian**: 2%
- **Non-U.S.**: 8%

**Source:** 2017–2018 NACD Public Company Governance Survey

### Most Desirable Director Candidate Traits

- **Specific Industry Knowledge**: 26%
- **Executive Presence**: 13%
- **Executive Experience**: 10%
- **Qualitative Financial Expertise**: 10%
- **Strategy**: 5%
- **Technology**: 4%
- **International/Global**: 3%
- **Government/Regulatory**: 3%
- **Corporate Governance**: 3%
- **Marketing**: 3%
- **Digital/Social Media**: 2%
- **M&A**: 2%
- **Audit/ERM**: 2%
- **Business P&L**: 1%
- **HR**: 1%
- **Legal/Compliance**: 1%
- **Cybersecurity**: 1%
- **Other**: 9%

**Source:** 2017–2018 NACD Public Company Governance Survey
Is Your Board a Great Team?

By Mike Fucci

Every organization wants to recruit the most talented leaders to serve on its board. Challenging as gaining that talent may be, it’s only a first step. Gather those talented leaders in a boardroom, and you can quickly appreciate how well they work together as a team.

Effective governance takes teamwork, and seeing the board as a team—as a coordinated unit—can be helpful when it comes to board composition and boardroom dynamics. It can change the character of the conversations we have in the boardroom and help improve collaboration.

In my 35-year career at Deloitte, I’ve led, contributed to, and admired a variety of diverse teams. As chair of the board, I’ve made teamwork one of my top priorities. I’ve made it a mission to enhance the sense of partnership among Deloitte’s partners, principals, and managing directors. For example, during a board retreat at West Point where we went through the Thayer Group’s leadership development program, we engaged with retired generals who shared stories of how they’ve navigated through volatile, complex, and ambiguous environments. Their stories inspired us and this shared experience brought us closer together as a unit.

My experience has taught me that there’s an important distinction between what makes a team good and what makes a team great.

First, good teams can deliver results and chalk up wins. Great teams go way beyond that. They don’t regard losses or failures as setbacks, but as opportunities to learn. That makes them resilient and innovative. Outcomes—whether good, bad, or indifferent—belong to the entire team, and all team members are mutually accountable and dedicated to learning from each other. Great teams can set aside official titles and assigned roles to discover new ways of working together. To stay great, they help people develop and grow.

Second, the best teams are inclusive, combining different strengths and a diversity of thought to improve performance. They often feature a leader who recognizes the importance of building coalitions—a collection of personal ecosystems—to move critical strategies forward. Leading organizations see the value of inclusion when recruiting for the board. A 2016 survey conducted by the Alliance for Board Diversity together with Deloitte found that 65 percent of Fortune 100 boards now have greater than 30 percent board diversity. At the current pace of progress, that number will reach 40 percent by 2025.

Pressure from institutional investors on board composition might help accelerate this trend, but this is an area where boards should lead, not lag. Research from Carnegie Mellon University suggests strong correlations between inclusion and measures of collective intelligence, client or customer satisfaction, and financial performance. Diverse strengths are needed to address today’s complex challenges and plan for the future.

No matter the pace of change, as the composition of the boardroom changes, so will the interactions we have there. After all, inclusion means more than giving people a seat at the table. Is the boardroom a place where the team can test ideas, engage in messy conversations, challenge each other, and openly collaborate? Is it a place that encourages courageous thinking? On a great team, respectfully disagreeing or taking a contrarian stance can open up new perspectives that easy consensus or complacency will keep hidden from view.

Managing boardroom dynamics is a leadership responsibility shared equally by all members of the board. How well you work together as a team will have consequences for the performance of your organization now and will set the tenor of its governance for years to come. The greatest teams will be those that raise standards, move forward with courage, and prepare the way for the next generation of leaders.

Mike Fucci is chair of the board, Deloitte.

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Think differently. Together.

“If there are 10 members on a board, what would be a good mix for diversity?” That question, posed by an attendee following a September panel discussion about board diversity, shines a spotlight on the challenges and opportunities associated with board composition overall and diversity in particular. Given the fast pace and complexity of the business environment, it is critically important that the board include the right mix of skill sets and perspectives to help guide the company’s strategy and oversee risk.

For this reason, institutional investors and other stakeholders are increasingly scrutinizing the composition of the boards of the companies in which they invest and the level of diversity is a critical component of that scrutiny. As more companies move to make progress on diversity and the discussions become more robust, consideration of diversity becomes more nuanced and the question raised by that observer comes into play. When is a board sufficiently diverse? What is the best mix for the company? What do my stakeholders expect? What are the expectations as they relate to different types of backgrounds? Is a board sufficiently diverse if it includes three women but no minorities? What about a board with minorities but only one woman? Is sexual orientation relevant as an aspect of board diversity?

An easy answer to these questions would be that there is no magic formula and it depends on the company and the board. It goes without saying that, first and foremost, boards should be constructed to include highly qualified directors with a mix of skill sets that will help the board provide oversight of the present and vision for the future. While every company has different needs and different expectations placed on it by stakeholders, the following considerations may be helpful as a board works to develop a plan for enhancing diversity:

1. Does the board have an appropriate level of turnover?
2. Is the board making a sufficient effort to ensure that it is using board recruiting as an opportunity to add qualified candidates who not only provide the needed skill sets but also bring different backgrounds and add different ways of thinking into the boardroom?
3. Does the composition of the board include directors with backgrounds who can provide special insight into important aspects of strategy, such as a key international market or the demographics of a key consumer, employee, or other stakeholder base?
4. Are there other considerations that should be considered in building a diverse—and inclusive—board?
5. What message is the company sending to its stakeholders with regard to the composition of the board?

Build a Strategic-Asset Board

Over the past few years, average board turnover among Russell 3000 companies has remained fairly stable at a level of 10 to 11 percent, according to the 2017 Equilar Board Composition and Director Recruiting Trends report. Board turnover is a delicate issue that often is not discussed outside the context of director recruitment. Consider whether the board has incorporated this recommendation from the Report of the NACD Blue Ribbon Commission on Building the Strategic Asset Board: “Director renominations should not be a default decision, but an annual consideration based on a number of factors, including an assessment of current and future skill sets and leadership styles that are needed on the board.”

The report also recommends that boards include a mix of long, medium, and short-tenured directors (under five, five to 10, and more than 10 years of
service), with strong continuous improvement processes—and tenure-limiting mechanisms as needed—to maintain a board that continues to be fit for purpose over time. Implementing the recommendations in the report, particularly as they relate to board tenure and turnover, may open opportunities for the board to recruit new board members who will add new and valuable perspectives through diversity of background as well as skill set.

**Recruit With an Eye Toward Diversity**

Recruiting for a board that is diverse on a number of levels—skill sets, backgrounds, and perspectives—takes careful planning, relentless focus, and a willingness to use a broad lens to find the best candidates. In a survey by WomenCorporateDirectors Foundation, in association with Spencer Stuart and Harvard Business School, directors were asked to rank, in order of importance, the most effective ways to build diverse boards. Not surprisingly, the top answer was “board leadership (chair, lead director, nominating and governance committee chair) serving as champions of board diversity.” When asked about the biggest challenge to board diversity, the number one answer varied by age and gender. Men over the age of 55 responded that lack of talent was the biggest issue, while men age 55 and younger and women of all ages believe the biggest issue is not making diversity a priority.

As a supplement to the board members’ own networks and the recruiter’s (if one has been engaged), numerous resources exist that can help boards to broaden their recruitment efforts to build a diverse board. Membership organizations with highly qualified, diverse board members are often eager to connect with boards seeking to recruit new directors. WomenCorporateDirectors Foundation, Latino Corporate Directors Association, Ascend/Pinnacle, Black Directors Conference, and Quorum are some examples of organizations with highly qualified, diverse members. In addition, both the Equilar database and NACD’s own director database include highly qualified candidates from a wide range of backgrounds.

**Make Diversity Strategic**

When building a diverse board, a strategic approach can help bring an understanding of communities that are critical to the company’s success to the boardroom. For example, according to Bloomberg Businessweek, the purchasing power of the LGBT community in the U.S. is estimated to be $917 billion. In addition, LGBT Capital, an investment and corporate advisory firm that focuses on the LGBT market, estimates that LGBT global purchasing power stands at $5.7 trillion. According to *Latino Gross Domestic Product (GDP)* Report, released in June 2017, the GDP produced by Latinos in the United States in 2015 was $2.13 trillion and Pew Research Center projects that the Hispanic share of the U.S. population is expected to reach 24 percent by 2065. In addition, Pew released a study in September 2017 that finds that Asian Americans have the fastest growth rate of any major racial or ethnic group and will be the largest immigrant group by about 2065 (38 percent). Their median annual household income is 36 percent higher than the median U.S. household. And the consulting firm Female Factor reports that women drive 70–80 percent of all consumer purchase decisions, either directly or through influence.

Inclusion in the boardroom of qualified directors who bring to the discussion the lenses of these communities, or others as applicable, can provide a competitive advantage to the company, both from the valuable perspective that the director will bring to the boardroom and also from the message that it sends about the company’s values and priorities to current and prospective employees and consumers.

**Build an Inclusive Board**

Susan Stautberg, the founder and CEO
of WomenCorporateDirectors Foundation, is often quoted as saying “One woman [on a board] is a token, two women is a presence, and three women is a voice.” According to The 30% Club, “Research suggests that 30% is the proportion when critical mass is reached—in a group setting, the voices of the minority group become heard in their own right, rather than simply representing the minority.”

Building a truly diverse board requires attention to the dynamics of an inclusive environment so that top boardroom talent will be able to contribute to the fullest. For a board that includes (or wants to include) global talent, also consider cultural norms and how they may influence an individual board member’s contributions. Consider the language used as it relates to LGBT board members. Does every staff member in the corporate secretary’s office who develops questionnaires or interacts with board members have a sensitivity to types of language that would be more—or less—inclusive to all of the members of the board? Are generational differences and working styles in a diverse group of board members taken into account? Are the board and committee chairs sensitive to cultural norms and unconscious biases that may impact the dynamics of a discussion? Board leaders who make an extra effort to consider these factors will create an environment that maximizes the value that each board member individually—and the board as a whole—brings to the table.

Show Your Work
The number of institutional investors placing an emphasis on assessing and engaging with companies on board diversity continues to grow. Early this year, both State Street Corp. and BlackRock issued public letters emphasizing the importance of board diversity, and brought the conversation around gender diversity to a new level by indicating that if engagement with a company did not yield what they considered to be sufficient progress, they may exercise their proxy votes against the chair of the nominating and governance committee. In August, Vanguard issued an open letter to directors of public companies indicating that it is prepared to use proxy access as a tool to drive engagement around board composition and diversity, and requesting disclosure of a board skills and experience matrix that includes gender, race, and ethnicity as required dimensions and sexual orientation as an optional dimension.

Companies are increasing the information they disclose about board composition. The Equilar report examined the proxy disclosures of public companies including a group of 500 large-cap companies designated the “Equilar 500.” A majority of those companies disclosed that they consider gender or ethnicity in board or director candidate assessments (64% and 62%, respectively). A smaller but still significant number of these companies disclosed the actual composition of the board by gender (45%) and/or ethnicity (40%). And while disclosure of a board skills matrix is less frequent, it is a growing trend: over 18 percent of Equilar 500 companies disclosed a board skills matrix in their 2017 proxy statements, an increase of nearly seven percentage points compared to the previous year. The message is clear: institutional investors want the companies they invest in to be governed by diverse boards, and they are prepared to take action if they do not see sufficient progress.

As I’ve interacted with board members on the topic of diversity, I’ve noticed common themes. The first is that building a diverse board takes leadership and persistence. A number of nominating and governance committee chairs have related stories about pushing back on the first, second, third, and even fourth group of potential board candidates in order to arrive at a pool that is sufficiently diverse. To return to the original question about what the right mix for diversity is, the right mix is the one that includes a combination of experiences and perspectives that maximizes the ability of the board collectively to guide the company in its pursuit of long-term value. Under the scrutiny of investors, boards will want to demonstrate that they have given careful thought and taken appropriate action to achieve the right mix of diversity for their company.
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Legal Momentum applauds NACD’s strong commitment to diversity.
Looking Beyond the C-Suite

By Orlando Ashford

The competitive landscape of today’s business environment is rapidly changing, and as it does, organizations that are able to respond with shifts in their hiring strategies are those who will see the greatest success. Advances in technology, globalization, the growth of shared work spaces, younger cohorts who expect a higher purpose to be evident in their work, and older cohorts who often have had multiple careers and a range of experiences are among the many factors driving this change. Organizations and boards will have to determine how they will build the processes and programs of the future through which they can identify non-traditional talent.

By non-traditional talent, I mean breaking long-held organizational paradigms and hiring directors from a diverse range of experiences and backgrounds. This might require a more extensive search than was historically the case. It might also ask leadership to expand its definition of what capabilities they need on the board to add value. In addition, most boards traditionally look for sitting CEOs and CFOs as ideal candidates; however, a person is never truly qualified for a C-suite role until he or she has been in a C-suite role, and the same is true for many board positions as well. But ultimately, the extra effort paid to finding qualified candidates across a range of ethnicities, backgrounds, and skills will set successful companies apart from the competition.

I look to my own experience as an example of how powerful it can be when an organization taps non-traditional sources of talent. I had never been the head of a human resources organization before I was the chief human resources and communications officer for Marsh & McLennan Cos. I came to that role from The Coca-Cola Co. where I was group director for human resources of Eurasia and Africa. I was fortunate that the CEO of Marsh & McLennan at the time was confident and comfortable enough to give me an opportunity. Once in the role, he provided many opportunities to build skills in new areas. I led marketing, social responsibility, and communications, which were not my areas of expertise. I was forced to use my leadership skills and figure it out. It worked out very well for the business, and I went on to lead a consulting unit with Mercer Consulting focused on corporate board, CEO, and C-Suite effectiveness.

I am also fortunate to sit on the board of global manufacturing company ITT Corp. When they asked me to join, I was not yet the president of Holland America Line, but had a successful background in human resources, and had lived and worked internationally. They saw the significant value that my international and human resources experience, competencies, and background would bring to the table, plus the board’s charter stipulated that my age would allow me to serve for at least 10 years. The fact that I represented diversity was a bonus.

I encourage today’s boards to expand beyond CEOs and CFOs in their recruitment to include people from non-traditional functional areas such as cybersecurity, sales, and human resources.
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Diversity Must Be Nurtured to Be Effective

By Phyllis Deiso

The presence of a diverse and inclusive workplace culture is perhaps the greatest business catalyst that exists to tap the potential and profit of emerging markets, broaden the talent pipeline, and enhance brand and corporate reputation. For diversity and inclusion to be successful, however, it must be planted, nurtured, and exposed to the right conditions over time, which is where boards play an important role.

For diversity and inclusion to become strategic business drivers, all of the leaders in the organization must integrate these values into the core of the company’s operations and track both quantitative and qualitative measures in the areas of workforce, workplace, marketplace, and community.

Commitment to diversity and inclusion strategies that impact the bottom line begins with the board, CEO, and top management. Together they set the tone and must hold the organization accountable for achieving its diversity and inclusion goals. Leading companies often have an executive diversity and inclusion council that supports and guides the chief diversity officer in developing, reviewing, and measuring these goals while ensuring integration across the organization’s operations.

Broadening the diversity of a company’s workforce requires close partnership among its diversity professionals and recruiting and human resources functions. A board member with a background in diversity and inclusion can be very helpful in steering these different groups. Together they can look outside of the company’s traditional recruitment strategies to identify, hire, and cultivate a diverse workforce that is aligned with the organization’s talent needs, its markets, and its financial goals.

Developing a more diverse and inclusive workplace requires the support of multiple functions across the organization. Employee resource groups (ERGs) continue to be at the heart of this effort, as they provide forums for building understanding, igniting change, and mentoring and sponsorship that help diverse professionals achieve their best. When operating effectively, ERGs bring together not only a group of professionals with similar backgrounds and interests, but also professionals and leaders whose different backgrounds create both a deeper understanding of the marketplace and organization-wide support systems.

Tapping into the true potential of today’s diverse suppliers and markets requires the company’s communications, marketing, procurement, product development, and research departments to engage with each other. Whether a company seeks to diversify its supply chain or customer base, it must begin by understanding the culture and customs of the marketplace it wants to do business with. A diverse employee base is one of the best ways to connect to these business opportunities.

Finally, a company must make a positive impact on the diverse communities it wants to do business with, which is why a connection between a company’s diversity strategy and its corporate social responsibility strategy is crucial. When the diverse communities a company wants to serve and recruit from are supported by the company, it will be more successful in its business objectives.

The Board’s Role
Outside of providing support from the top, what is the board’s role in helping to drive an integrated diversity and inclusion strategy?

First, it is important that boards reflect the myriad backgrounds, cultures, and experiences that comprise a company, its customer base, and the communities in which it does business. Similar to talent acquisition strategies for staff, companies are looking beyond traditional recruitment sources in an effort to find directors who bring a greater variety of knowledge, experiences, and work styles—and who can help them think differently about diversity.

Second, boards must hold a company accountable for its performance against its diversity and inclusion goals and metrics. For diversity to take hold, it must be tracked with meticulous analysis. Actual numbers on recruitment, retention, supply chain, customers, and community involvement activities should be assessed at least annually by the board to ensure sufficient progress is being made to achieve diversity goals. Diversity metrics should also be a key component of performance management and compensation for top leaders within an organization.

Through strong governance and accountability, boards can help companies realize the full potential that diversity and inclusion can bring to an organization.

Phyllis Deiso is a partner and the National SEC Practice Leader for RSM US LLP.
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