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About the Publisher

National Association of Corporate Directors (NACD), an independent nonprofit organization founded in 1977, is the country’s only membership organization devoted exclusively to improving corporate board performance. NACD conducts educational programs and standard-setting research, and provides information and guidance on a variety of board governance issues and practices. Membership comprises board members from U.S. and overseas companies ranging from large publicly held corporations to small over-the-counter, closely held, and private firms. With chapters in many major cities providing educational programs and networking opportunities, NACD operates at both a national and local level.
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The NACD “Blue Ribbon Commission”
Report Series

For the past two decades, NACD has issued Blue Ribbon Commission reports on a variety of topics, updating them as necessary. Reports have covered the following topics (listed in order of original publication):

Executive Compensation:
Guidelines for Corporate Directors (1993)
Jean Head Sisco, Chair

Performance Evaluation of the Chief
Executive, Board and Directors (1994)
Boris Yavitz, Chair

Director Compensation:
Purpose, Principles and Best Practices (1995)
Robert B. Stobaugh, Chair

Director Professionalism (1996)
Ira M. Millstein, Chair

CEO Succession (1998)
Jeffrey Sonnenfeld, Chair

A.A. Sommer, Jr., Chair

The Role of the Board in Corporate Strategy (2000)
Warren L. Batts and Robert B. Stobaugh, Co-Chairs

Board Leadership (2004)
Jay W. Lorsch and David A. Nadler, Co-Chairs

Director Liability:
Myths, Realities and Prevention (2005)
Justice E. Norman Veasey, Chair

The Governance Committee:
Driving Board Performance (2007)
John A. Krol, Chair

Board-Shareholder Communications (2008)
Dennis R. Beresford and Richard H. Koppes, Co-Chairs

Risk Governance:
Balancing Risk and Reward (2009)
Adm. William Fallon and Dr. Reatha Clark King, Co-Chairs

The Audit Committee (2010)
Dennis R. Beresford and Michele Hooper, Co-Chairs

Performance Metrics: Understanding the Board’s Role (2010)
John Dillon and William White, Co-Chairs

The Effective Lead Director (2011)
Barbara Hackman Franklin and Irvine Hockaday, Co-Chairs

The Diverse Board:
Moving From Interest to Action (2012)
Curtis Crawford, Cari Dominguez, William McCracken, and Kathi Seifert, Co-Chairs
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The chairs acknowledge the work of the research staff of the National Association of Corporate Directors, including Kurt Groeninger, Kate Iannelli, Alexandra Lajoux, Adam Lee, and Cheryl Solis Martel, as well as additional research by Dr. Urmi Ashar.
Our hope is that this report will soon be obsolete.

Until recently, corporate boards have been predominantly homogenous groups—largely lacking in diversity of gender, race, and worldview—with seemingly little appetite for change. Today, after decades of relatively unvaried boardroom composition, we are at an inflection point. This composition model, long assumed to be effective, is now outdated.

Demographic, societal, and economic changes are rapidly shaping a future that looks very different from the past. Stakeholders of corporations, including shareholders, customers, employees, suppliers, and regulators are increasingly aware of, and often times reflect, these broad population trends. Board composition, however, has not always kept pace.

SLOW PROGRESS

The benefits of board diversity, both tangible and intangible, range from greater understanding of customers and employees to the value of having multiple perspectives around the table. Yet despite demonstrated openness to diversity, boards have been slow to incorporate it. The sluggish transition to more diverse boards has been antithetical to the pace of business, technology, and human progress in general. In fact, board diversity has lagged behind the increased diversity we see today in all other facets of society.

The world is changing, and it is happening faster than ever. As directors, we have a responsibility to prepare for the future of our organizations and to take the strategic actions necessary to adapt to the rapidly changing world in which our companies must compete. And that means being able to look at our companies and ourselves with a critical eye. This commission understands that change of this type is difficult—change always is. But good intentions alone have not worked; only sustained leadership by the director community will move our organizations in the right direction.

More than a few exemplary boards have seen the road ahead and made the necessary changes. This commission is composed of individuals who have had the good fortune to serve on such boards. Indeed, many of the commission members have led movements to bring diversity to their companies or organizations.

THE DIVERSITY MANDATE

In light of new global trends and business imperatives, the need for diversity of experience and perspective has become an unmistakable mandate. This issue is too important to be delegated entirely to management; it belongs to the board, which has a major role in unlocking the potential of the organization and its leaders.

Some who read this report may think that skills alone matter, and that diversity of gender, race, and background should not be an issue for boards. Others might argue that women and racially diverse
individuals are statistically underrepresented on boards and assert that companies need to “right” this situation.

This commission views diversity, first and foremost, as a business issue—as a means to competitiveness. A board’s performance relies on its understanding of the company and its operating environment. In today’s business landscape, the board cannot properly fulfill this responsibility without having directors who reflect the composition of its stakeholders, particularly its employees and customers. Put simply: corporations will not be able to build or maintain a successful enterprise that yields sustainable long-term shareholder value, without bringing a greater variety of perspectives into the boardroom.

Every director has a responsibility to set a tone at the top that embraces and leverages this new reality. The board has a unique role and responsibility in diversifying its own membership, and, ultimately, the leadership and workforce of the organization.

This report outlines the current state of boardroom composition, offers a road map to help improve board diversity, and identifies tactics to overcome the key barriers to broader diversity. Our hope is that every board embraces this message and acts on it.

Sincerely,

Curtis Crawford
Cari Dominguez
Bill McCracken
Kathi Seifert
October 2012
Executive Summary

Corporate boards face a new set of challenges in the years ahead as major economic trends transform the way our companies operate. Not only is global competition growing, but here at home we also see shifting demographics and new customer bases. How directors handle these changes can determine the success or failure of the companies they serve.

In light of these new developments, this commission believes that boards must strive for diverse composition as a means of strengthening their own ability to make wise and informed decisions. In particular, this requires gender, racial, age, and experience diversity to broaden the viewpoints, skills, and backgrounds of the individual board members. This is the essence of board diversity.

But building a diverse board is not always easy. Many boards aspire to be diverse, yet too few are able to achieve it. There are structural, social, and habitual barriers that have been unconsciously erected to prevent boards from obtaining the very best individuals for the board. These barriers are often not easily visible and operate slowly and subtly. The commission’s intent is to shed light on these hidden hurdles and provide some practical solutions.

Diversifying the board is possible, and this report highlights some action steps to accomplish it. Through strong and effective leadership coming from within their own ranks, boards should first discuss diversity and recognize any existing barriers, then select and implement the solutions to best address these obstacles, and finally disclose these actions.

1. DISCUSS

Candid, in-depth board discussions about critical topics are at the core of board contribution to any enterprise. The topic of diversity is no exception.

2. SELECT AND IMPLEMENT SOLUTIONS

Approaches to building a diverse board will vary. There are some actions, however, that this commission considers indispensable in overcoming any barrier. At a minimum, the commission believes the following four actions should be taken by all boards that face such barriers:

- **Review and evaluate board composition.** Diversity discussions should be rooted in company strategy and board evaluation. A candid exchange of views on both issues will be crucial to understanding the board’s composition and the company’s strategic needs.
- **Expand horizons for seeking candidates.** Boards should consider setting a nominee slate target for the nominating/governance committee and recruiters.
- **Improve director evaluations.** Board and individual director evaluations must be strengthened to hold the board accountable as an effective oversight body.
• Preserve, enhance, or consider adding tenure-limiting mechanisms. Boards should consider selecting the most appropriate tenure-limiting mechanism for their company. Moreover, boards must adhere to the outcome when a tenure-limiting mechanism is triggered even if the director is still an active participant.

3. DISCLOSE

This commission encourages boards to consider going beyond required disclosures and to provide shareholders with a thorough explanation of their director search process and the potential value it brings to the company.

Diversifying the board may take many shapes, but it is more involved than simply adding more women or ethnically diverse candidates to the mix. Directors must approach the improvement of their board methodically, with the intent of finding the very best talent to complement the company’s strategy and needs.
Chapter 1: The Power of Diversity

Boards have a fundamental responsibility to advise senior executives and oversee their work. Having a diverse board can help in both respects, as a well-informed and thoughtful group of individuals can provide varying perspectives to decision makers. Such an approach has gained traction in recent years as an antidote to “groupthink.”

Prior to the 1990s, there was a less perceived need for diverse opinions as board work was considered a “rubber stamp” of approval by many. With today’s more active and accountable boards, a rich discussion driven in part by diversity is necessary to be optimally effective. This shift away from homogeneity has become a characteristic of forward-thinking companies.

The rising importance of board diversity has coincided with an increase in the complexity and velocity of business. With the growth of large, multinational corporations came more rigorous corporate activities to generate shareholder investment. After several major corporate collapses, a greater emphasis was placed on the role of the board. Today, directors are firmly in the spotlight, and shareholder activism—strengthened by a growth in institutional holdings—has reached new heights.

Societal changes have also played a major role in corporate governance since the “traditional” board—those with little to no diversity—was the norm. Women now represent a greater portion of the workforce, and a larger segment of the American populace is racially diverse. Successful corporations have adjusted their internal and external business practices to stay competitive in this evolving landscape.

Yet in the boardroom, diversity is relatively new. Despite progress on many fronts, some boards remain stuck in neutral—resulting in composition that lacks gender, racial, age, or ethnic diversity. Board searches, for example, have relied heavily on personal networking and word of mouth. This strategy of recruiting within networks, while protecting the board from exposure to unfamiliar and seemingly riskier directors, has led to the unintentional exclusion of many viable director candidates. In short, corporate boards have failed to change with the times.

Looking ahead, a company’s ability to remain competitive will rely on its understanding of global markets, changing demographics, and customer expectations. Diversity is a business imperative, not just a social issue. The new business landscape will require boards to cast a wider net to find the very best talent available. As a natural corollary, the board’s mix of gender, ethnicity, and experiences will likely increase.

Boards now have a choice: maintain the current course and risk being left behind, or restructure board composition and operate at peak efficiency. The challenge is to not only recognize but to utilize a much wider pool of talent, which can play a significant and powerful role in corporate
governance. While business acumen will always be a necessary skill set for directors, the board’s composition must now, in addition, reflect the environment in which the company operates. This process is a cornerstone of a “strategy of inclusion.” This strategy and the suggested methods to achieving it will be discussed later in this report. First, it is worthwhile to understand the current environment of board composition.

THE CURRENT ENVIRONMENT

Every board operates in its own unique way; the manner in which it approaches diversity is no exception. While some boards could be considered diverse, others have much room for improvement. The surprising fact is that many boards still possess little to no gender, racial, or ethnic diversity.

According to the 2012-2013 NACD Public Company Governance Survey, the average board has about nine members. Gender and ethnic diversity, however, on these boards still remains fairly limited. Figure 1 shows the percentage of public companies with women and minority directors. Women fare better overall with 72.6 percent of boards having at least one woman on board. Nearly 36 percent of boards have one woman while 36.9 percent have two or more.1

Racially or ethnically diverse directors have not yet attained the same representation as women. In 2012, less than half (48.2 percent) of all public companies have a minority director. More than 28 percent of boards have one racially or ethnically diverse director and only 13.1 percent have two.2

The diversity of skills and experience is also seemingly one-sided as the majority of directors come from the highest corporate leadership positions. As Figure 2 demonstrates, 43 percent of directors in the S&P 500 come from senior executive positions and another 21 percent occupy other corporate executive positions (division/subsidiary presidents or line and functional leaders).3

Further examination of board seats held by women or by racially or ethnically diverse candidates is enlightening. Of the Fortune 500, racially or ethnically diverse men hold 9.9 percent of the seats, of which African-American men hold 5.7 percent; Hispanic men held 2.3 percent; and Asian Pacific Islander men hold 1.8 percent. Racially or ethnically diverse women hold 3 percent of Fortune 500 seats; more specifically, African-American women hold 1.9 percent; Hispanic women hold 0.7 percent; and Asian Pacific Islander women hold 0.3 percent.


Source: 2012-2013 NACD Public Company Governance Survey.
DIVERSITY AS A BUSINESS IMPERATIVE

Diversity of human capital is an accepted business value today. The business need for diversity is evident in the rapidly changing demographic profile of the United States as well as the continuing rise in purchasing power of women and various ethnic/racial groups. If not already recognized, businesses and boardrooms will need to be prepared for this shift. From shop floor to the boardroom, diversity has been associated with a number of positive results, as shown in this report’s research appendix. These results include improved competitiveness and talent management, greater access to capital, more sustainable profits, and better relations with stakeholders.

Companies abroad are already learning this lesson. In the United Kingdom, for example, the Davies Report recommends FTSE 100 companies to have 25 percent female representation on the board.\(^4\) The reason for the Davies recommendation was simple: greater board diversity improves business performance (see Appendix G).

There is another factor pushing American companies to increase diversity—the implications of the global marketplace. With today’s global impact on a U.S. company, with respect to supply chains, markets, political/economic developments, customers, human capital, etc., it is increasingly important that a board look for individuals with business experiences beyond the U.S. border.

DEFINING DIVERSITY

The act of defining the term “diversity” is not something to be taken lightly. In 2009, the Securities and Exchange Commission (SEC) updated its proxy disclosure requirements to include the board’s consideration of diversity in the recruitment of new directors. By avoiding the assignment of a blanket definition...
definition to the term, the SEC deferred to companies so that each may “define diversity in ways that they consider appropriate.”

The SEC’s approach highlights the difficulty in articulating what diversity means for every company. Proponents of diversity often use one of two descriptions: identity—gender, race, ethnicity—or skills, such as professional experience. Those who champion identity diversity advocate for greater inclusion of women and racially or ethnically diverse individuals in the boardroom. Their argument is that increasing the representation of such diverse candidates will necessarily result in more diverse opinions, perspectives, and skills in the boardroom. Those who favor skill-based diversity hold that boards need to focus on an individual’s skills and experiences as they relate to corporate strategy.

A comprehensive definition of diversity must include both fundamental aspects—identity and skills. Given the nature of the business world today, neither aspect can be excluded from the other. Therefore, a flexible approach is required so each company can select a unique meaning of diversity based on its needs.

IDENTIFYING NEEDS

Before a board begins recruiting directors to improve diversity, it must first consider its needs in relation to the company’s specific characteristics. A regional U.S. bank, for example, will need a different set of directors than an international oil and gas company. These differences are based on each company’s profile, including its respective market, strategy, customers, vendors, investors, and employees. A thorough examination of these factors may point to an area where the board needs additional expertise or perspective.

The identification process also includes an internal analysis of the skills and experiences of the current board members. Proper oversight relies on a broad collection of professional backgrounds to understand an enterprise’s operations and marketplace. As such, a board should not place all of its recruiting efforts on those individuals with leadership or financial experience. Other candidates with backgrounds in information technology, marketing, or international business may serve effectively on future boards.

RECRUITING FOR VALUE

It is critical to avoid the perception of “tokenism” in the selection of new directors. Directors should not be selected solely on the basis of identity diversity. Foremost, a director should be selected for the value he or she can bring to boardroom discussions and decision making. Therefore, the consideration of a candidate’s identity diversity has to coincide with a determination that the individual possesses skills and experiences desirable by the board. This two-dimensional approach avoids placing excessive weight on a candidate’s identity, but still incorporates that attribute as part of a full appreciation of all that he or she can bring to the table.
Chapter 2: A Strategy of Inclusion

Most boards today are ready and able to move past barriers to achieve greater diversity in the pursuit of excellence. Yet, in many cases, identifying the impediments and implementing solutions can be difficult. The job of advancing diversity is a challenge that requires strategy and leadership.

This chapter will provide the building blocks of a strategy, outlining the necessary steps for enabling change. In brief, the steps are to discuss diversity and recognize any existing barriers, select and implement the solutions to best match these obstacles, and disclose these actions.

But a strategy alone is insufficient; strong leadership will be required to see it through. On each board, someone must be willing to step up and start the conversation and ask the difficult questions. For the benefit of the organization, the board must be willing to push for the implementation of the following three steps.

1. DISCUSS

Candid, in-depth discussions among all the directors about critical topics are at the core of board contribution to any enterprise. The topic of diversity is no exception. Though committees can play a key role in improving diversity, all members of the board have a shared responsibility to discuss the topic in full.

Ensuring diverse viewpoints in the boardroom is a perennial task. Ideally, a discussion on director composition would follow the yearly board evaluation and succession planning. The findings from the review can provide a good starting point for addressing the skill sets and perspectives of the board members. Therefore, evaluations should include a question regarding whether the board is sufficiently diverse as defined by the company. Placing a diversity question into the annual board evaluation allows the facilitator to expose this issue and skillfully place it for board discussion.

2. SELECT AND IMPLEMENT SOLUTIONS

In Chapter 3 of this report, the commission identifies a variety of tactics to overcome the potential barriers to diversity. A board cannot, however, implement all the solutions at once. Attempting to do so would likely prove unwieldy and inefficient. Instead, boards should assess the barriers they face and then select the solutions for improvement.

There are some actions, however, that the commission considers indispensable in overcoming the structural, social, and habitual barriers as described in Chapter 3. At a minimum, the following four actions should be taken by all boards:

• Review and evaluate board composition. Diversity discussions should be rooted in company strategy and board evaluation. A candid exchange of views in both areas will be crucial to understanding the board’s composition and the
company’s strategic needs. This discussion may also include a critical analysis of the roadblocks that stand in the way of the board’s path to diversity—as the board defines this term.

- **Expand horizons for seeking candidates.** Boards should consider setting an expected “target” for nominee slates for the nominating and governance committee and recruiters. For example, if a board determines that women are underrepresented, the nominating and governance committee could ask its recruiter(s) to deliver a slate with half of the candidates being women. Another option may be to work with multiple recruiters to ensure the identification of a broader pool of talent.

- **Improve director evaluations.** Board and individual director evaluations must be strengthened to hold the board accountable as an effective oversight body. Evaluations should be designed with the intention of improving director performance. Where an individual is underperforming, mentoring and education may be appropriate. If an individual consistently underperforms or has unnecessary skill sets, the board should not renominate the director.

- **Preserve, enhance, or consider adding tenure-limiting mechanisms.** A key element to improving board diversity is to increase director turnover. Usually, boards are most effective when fresh and independent perspectives are routinely added over time. Therefore, boards should consider selecting the most appropriate tenure-limiting mechanism for their company. Moreover, boards must adhere to the outcome when a tenure-limiting mechanism is triggered, even if the director is still an active participant.

3. **DISCLOSE**

SEC regulations require a board to disclose whether, and, if so, how a board considers diversity during a candidate search. This commission encourages boards to consider going beyond what is required and provide a thorough explanation of the search process and the potential value it brings to its operations. The proxy statement can be used to refresh stakeholders’ knowledge about the company’s policies, philosophy, and accomplishments on diversity. Most importantly, the message should be clear: the board sought the most qualified directors possible from a broad pool of candidates.
Chapter 3: Barriers and Tactics for Improvement

Many boards aspire to be diverse, yet too few are able to achieve it. The barriers are often not easily visible—deeply ingrained structural, social, and habitual factors that operate slowly and subtly. The commission’s intention is to shed light on these hidden hurdles and provide some possible solutions.

The following chapter is organized according to the three factors listed above. In many cases, some barriers may be both structural and behavioral. Similarly, the possible solutions may address more than one problem.

In the sections below, this commission is aware that all boards do not need to implement all of the solutions. Some boards have identified their own specific barriers and begun to apply corrective measures; others have made much less progress.

STRUCTURAL FACTORS

Unfortunately, some of the processes boards have relied on for decades inhibit the creation of dynamic, diverse boards. Many common board features, such as the absence of any type of tenure-limiting mechanism, have led to unintended consequences.

Absence of tenure-limiting mechanisms, such as term limits. Fewer than 7 percent of boards have term limits. Of those that do, some are willing to bypass the limiting provisions in order to allow a director to serve for a longer period of time. These factors have decreased director turnover and prevented fresh perspectives from entering the boardroom.

The world of politics offers an interesting analogy to term limits and incumbency. In the political arena, it is often argued that term limits are unnecessary as politicians can be voted out of office at the next election. In reality, the power of incumbency is substantial and has led to many extended careers in politics. Similarly, boards cite shareholder voting as the instrument to force director turnover. However, voting directors off the board is rare.

Solution: Preserve, enhance, or consider adding mechanisms to increase director turnover. In general, this commission believes that more frequent turnover is beneficial to the board. However, currently more than 50 percent of boards do not replace a single director during the course of one year. Boards should use the tools already available to increase turnover, such as term limits, age limits, or resignation requirements upon change in job status. All of these mechanisms need not be used at the same time; rather, directors should select the most appropriate methods of turnover for their board.

Careful consideration of tenure-limiting mechanisms is crucial. Age limits, for example, may not be right for all boards, as older directors can bring the value of experience; this could, however, open the possibility to a lack of age diversity. The commission believes that the goal should be to work towards more diverse boards while carefully maintaining good governance.

Small board sizes. Corporate bylaws typically spell out a range for board size—generally from 5 to 15 directors. For reasons of effectiveness, cost,
and group dynamics, public company boards rarely exceed a dozen members. Subsequently, a lack of available board seats has often been cited as a reason for little or no director diversity—there just isn’t room to add diverse directors.

**Solution: Consider expanding the board’s size.** When a board knows in advance of an upcoming retirement, it can temporarily add new directors before the retirement occurs. These new directors will continue to serve after the retiring director has left, and the board will contract to its original size. A temporary increase in size allows for inclusion of directors of diverse backgrounds, without threatening the seats held by current directors. This practice may also help transfer “institutional” knowledge through the overlap of board members.

**Inadequate use of evaluations as a tool for board turnover.** Evaluations are an opportunity for boards to review their current composition and make changes reflective of current needs in relation to the corporate strategy. Concurrently, an evaluation can identify those individuals not contributing to company value. The results from board evaluations, however, are not always robust; at times, there may be a natural tendency to preserve the status quo. Effectively used, evaluations are a valuable tool for assessing board member performance, boardroom composition, and gaps in skill sets.

**Solution: Give evaluations traction.** Evaluations primarily enable a board to gauge performance and make adjustments consistent with the company’s strategic direction. Improving this process will only occur when evaluations are also used as a tool of director accountability.

Evaluations, and in particular individual director evaluations, should be designed to improve performance. However, a director’s consistent subpar performance warrants decisive board action. In these cases, the board should act on the evaluation results and lay out a performance improvement plan. If that fails to achieve the desired results, it may be necessary for the board to take action and either ask the director to resign or not nominate the director for reelection.

Third-party board evaluations may help make the evaluation process easier and more effective. Evaluation comments tend to be more candid and instructive when independent outside consultants are used. This way, board members may avoid potential social drawbacks but still retain evaluation effectiveness.

**Inadequate use of executive talent management to develop directors from within.** Many current executive talent management programs do not yet effectively prepare individuals with diverse backgrounds for the boardroom. While talent programs do and should have a management focus, exposure to boardrooms may still be limited.

**Solution: Enhance executive talent management programs in order to expand the pool of diverse directors.** Specifically, training programs could educate young executives on the roles and responsibilities of boards of directors. Additionally, executives should be encouraged to serve on outside company boards as well as nonprofit boards. Current CEOs could help pave the way for these individuals by making the necessary introductions and personal connections. Additionally, continuing education classes would familiarize the executives with board operations.

If implemented, this approach could potentially increase the overall pool of director candidates as well as expose the individuals to a broader view of the business world. This benefit will only enhance their performance at their current positions.

**SOCIAL FACTORS**

There are certain inherent social behaviors that apply to every individual, regardless of race or gender. For example, individuals will often prefer or relate with people who are similar to themselves. These basic human behaviors are, in part, determining the outcome of boardroom composition.
Little knowledge of where to find candidates. More than 77 percent of director candidates are identified through personal networking or word of mouth. This recruitment style may encourage sitting directors to select those they know without reaching outside their personal networks. For example, boards may ask the question: “Who do we know?” as the first step in a director search. From this method, resulting candidates may come from similar social circles, geographical locations, or professional relationships. This selection style therefore is prone to perpetuating the status quo with respect to board composition.

Knowledge of an individual is also an issue for search firm candidates. As explained above, boards will generally prefer a candidate if they have had some previous positive contact. Subsequently, a search firm’s candidate may face an uphill battle if he or she lies outside the sitting directors’ personal networks.

Solution: Expand horizons when seeking candidates. Rather than making general statements about diversity, nominating and governance committees should establish an expected “target” for nominee slates presented by recruiters—for example, no less than one-third of candidates for new board seats should match the board’s definition of diverse. If the diverse candidates on the slate are not appropriate for addition to the board, then the committee must insist that the recruiter cast a wider net for talent.

Additionally, just as the audit and the compensation committees are encouraged to attend outside training to stay current, members of the nominating/governance committee could be encouraged to network with potential directors. NACD and other organizations offer many opportunities for committee members to look beyond their current horizons.

Overboarding of certain “star” board members. Regardless of gender or ethnicity, director searches often turn up with the same directors’ names time and time again. Boards and recruiters frequently work with the people they “know,” most often proven directors that currently serve on other boards. Thus, the pool of diverse talent on boards is not expanded, just recycled from board to board.

Unfortunately, the director world is already small; the added requirement for a diverse member further limits the field. Naturally, certain diverse directors are sought after because they are high-performing individuals. While the commission does not object to proficient directors taking on a greater number of board seats, this does raise a concern about time commitment. The possibility of overboarding can decrease the effectiveness of these directors.

Solution: Move beyond the “star” diverse board members. Go beyond the crowd of known people. Use third-party references or a search firm to identify candidates who, while not already on boards, are otherwise qualified.

Reluctance of sitting directors to leave a board. Directorships are coveted positions. The prestige, network, and compensation are valuable aspects of a directorship. As such, it can be expected that few directors would voluntarily give up their seats to make room for a diverse director. As boards do not often change composition, a stigma can be associated with being removed from a board—even if it is for a reason entirely unrelated to performance. In order to avoid this stigma, boards rarely remove directors, thus opening fewer board seats to diverse directors.

Solution: Adhere to term-limiting mechanisms to build turnover acceptance. Making turnover routine will help remove much of the stigma of change, as well as bring about more diverse and stronger boards. Use of practices such as term or age limits, when adhered to, can facilitate this process. In some cases, boards may want to designate directors who are rotating off as ex officio or emeritus. This model may allow for a more gradual, easier transition off of a board.

Consolidating diversity into one category and related stereotyping. When categorizing all racial and ethnic groups together as “minorities,” boards
miss a chance to find the best candidates for their companies. Essentially, diversity means openness to all candidates. Is a board with women but no racial diversity, or vice versa, sufficiently diverse? By adding two Hispanic directors to a board, will the nominating committee believe the “diversity job” is done and miss a good skills match with the next candidate?

Solution: Do not “check the box.” Do not assume that once you have one woman, African-American, or European member that your quest for an optimally qualified, diverse board is accomplished. Remain open to a variety of candidates—including those who correlate to your customer base. Above all, avoid developing a quota mentality; instead search for excellence in performance.

HABITUAL FACTORS

Habits are one aspect of human behavior that prove particularly difficult to change. Generally, people adhere to routines and often resist attempts to deviate. In the boardroom, extending this practice to composition can decrease its effectiveness. The following illustrates some of the habits hindering board diversity.

Failure to put diversity on the board’s agenda as a discussion topic. Too often diversity is perceived as an issue of compliance rather than strategy. Also, some directors may be hesitant to bring up an issue seen as “too political.” In other cases, directors have experienced difficult board conversations about the issue and hesitate to bring it up again.

Solution: Place diversity on the board’s agenda as a topic for discussion and education. Diversity should be a continuing topic of discussion on the boardroom agenda. For productive dialogue, it is imperative that directors are not reluctant or fearful to speak on the topic. Chief executives should also share responsibility of putting diversity on the agenda if board members fail to act.

Tendency to seek only CEOs and experienced public company directors for board seats. Generally, CEOs are the most highly sought for board openings. In one NACD survey, 53 percent of individuals ranked “leadership experience” as their most important attribute when recruiting directors. By limiting the search to CEOs, boards miss out on many other aspects of diversity—gender, race, perspective, and professional background.

Solution: Move beyond CEOs in seeking to fill board seats. Searches can be extended to include those who do not yet serve on a board but have the qualifications to become successful directors. This list could include entrepreneurs, rising high-performance executives with large P&Ls, nonprofit leaders, prominent investors, and a variety of other individuals whose expertise can benefit a board on an ongoing basis.

Existing lack of diversity on the nominating/governance committee. In recent years, the nominating and governance committee has become increasingly responsible for pursuing new director candidates. Committee composition, however, has largely not been a principal issue for most boards. If the committee composition reflects a narrow perspective, new director searches may be limited.

Solution: Diversify nominating and governance committee composition. Committee members can exert a great amount of influence on the director selection process. Just as independence breeds independence, a diverse committee can play a significant role in increasing diversity on the board. At a minimum, nominating and governance committee members should encourage greater participation from diverse directors during the search and selection of candidates.
Chapter 4: Beyond the Boardroom: Into Action

Boards play a unique and important role in moving toward diversity, but they cannot do it alone. Candidates, recruiters, and investors also play a part.

WHAT THE DIVERSE CANDIDATE OR NEW DIRECTOR CAN DO

Boards will be unable to find the diverse talent they need without action on the part of each potential director. These recommendations may seem self-evident, but their importance warrants a brief mention.

Devote time to networking and education. As mentioned earlier, directors are still found predominantly through personal networks, although there are equally effective recruitment measures to find diverse directors. Sitting directors will typically look for individuals they know to fit the role. Therefore, those seeking director positions can increase their own visibility and improve their understanding of board work by participating in educational events, governance sessions, and conferences.

Understand boardroom dynamics. Regardless of gender, race, or ethnicity, board newcomers often do not fully understand the dynamics of a boardroom until they have obtained a directorship. Transitioning from a management role to an oversight role can be a challenge. There are new skills to learn, including active listening and the ability to articulate a position divergent from others.

Learn to influence without being the leader. New directors are often elected to a board after spending a considerable amount of time in a position of operational leadership. As noted above, the transition from management to oversight can be difficult. In most cases, a new director will not be assigned as chairman or lead director. Despite this fact, every director still has a leadership responsibility as demonstrated through constructive skepticism, courage to make tough decisions, and maintenance of high ethical standards.

WHAT RECRUITERS CAN DO

Recruiters can have an enormous impact on building a diverse board. A firm with experience in board recruiting can be a dispassionate intermediary when conducting the board search, and possess the necessary sensitivity needed when introducing, positioning, and socializing the diverse candidate. It is important for recruiters to cast a wider net in bringing more diverse perspectives into the boardroom. Boards tend to look for CEOs and CFOs, but there are functional heads who are also broad business thinkers and should be included as part of the candidate pool—this includes those in marketing, human resources, and law.
Executive/director search firms should:
• Work with the nominating and governance committee to create a slate that includes a significant percentage of diverse candidates.
• Demonstrate the importance of searching for suitably diverse individuals to the nominating and governance committee.
• Help boards understand the director succession-planning processes with regard to developing tenure-limiting mechanisms; these allow corporations to reinvigorate the ranks of their boards with individuals with fresh perspectives.
• Go beyond the nominating and governance committee to ensure more open participation by the entire board.
• Educate boards in best practices with respect to candidate recruitment and selection.
• Expand the search for individuals below the C-suite with P&L experience.

While working with recruiting firms, the board’s nominating and governance committee should insist on candidates who match their diversity needs. If the presented slates do not feature high-quality diverse candidates, work with the recruiting firm to find more suitable individuals.

Pro-diversity investors can:
• Seek to educate other investors about the economic value of diversity.
• Prioritize board diversity as an important criterion when choosing companies to invest in.
• Consider being an advocate for diversity not only at the companies they own directly, but also at companies with shares traded through major index funds.

WHAT INVESTORS CAN DO

Shareowners, too, can be a significant force in advancing boardroom diversity. Some major institutional investors—for example, the large public pension funds, CalPERS and CalSTRS—are already advocating diversity on corporate boards, through shareholder proposals and negotiations with companies they own.
Conclusion

After 20 years of little to no change in the demographic traits of U.S. boards, enlightened corporate leaders are recruiting directors with a range of professional backgrounds, skills, experiences, nationalities, and abilities. These changes in composition are not driven by quota or moral obligation. Rather, the desire for sustainable corporate performance and growth demanded this evolution.

While this commission believes that a diverse boardroom will bring about better discussion, decision making, and critical oversight, some obstacles still impede the achievement of this goal. These obstacles are not insurmountable but will require strong leadership. Where will this leadership come from? As corporate leaders, it is our responsibility to steer our boards and companies in the right direction. The challenge, therefore, is upon each of us.
Appendix A:
Research on Board Diversity

Diversity on Boards:
Census Reports

Studies Showing or Advocating a Positive Correlation Between Board Gender/Racial Diversity and Company Performance
Carter, Nancy M. and Harvey M. Wagner. The Bottom Line: Corporate Performance and Women’s Representation on Boards (2004–2008). New York: Catalyst, 2011. The top quartile of Fortune 500 companies measured by the percentage of women on the board of directors experience 26 percent better return on invested capital and 16 percent better return on sales than the bottom quartile of Fortune 500 companies. Based on company stock performance between 2004 and 2008. Fortune 500 companies with three or more women on the board of directors reported 84 percent better return on sales, 60 percent better return on invested capital, and 46 percent better return on equity than Fortune 500 companies with zero women on the board of directors.

Desvaux, Georges, Devillar-Hoellinger, Sandine, and Pascal Baumgarten. Women Matter: Gender Diversity, a Corporate Performance Driver. New York: McKinsey and Co., 2007. Based on a study of companies in Europe, companies with three or more women in their governing bodies (including senior managers serving on the board) perform better in nine key areas than do companies with fewer women at the top. Areas studied were work environment, direction, coordination and control, leadership, external orientation, motivation, capability, and accountability.


Jehn, Karen A., Northcraft, Gregory B., and Margaret A. Neale. “Why Differences Make a Difference: A Field Study of Diversity, Conflict, and Performance in Workgroups.” Administrative Science Quarterly 44, no. 4 (Dec. 1999). A multi-method field study of 92 workgroups explored the influence of 3 types of workgroup diversity (social category diversity, value diversity, and informational diversity) and 2 moderators (task type and task interdependence) on workgroup outcomes. Informational diversity positively influenced group performance, mediated by task conflict. Value and social category diversity, task complexity, and task interdependence all moderated this effect. Social category diversity positively influenced group member morale. Value diversity decreased satisfaction, intent to remain, and commitment to the group; relationship conflict mediated the effects of value diversity.


Rhode, Deborah and Amanda K. Packel. “Diversity on Corporate Boards: How Much Difference Does Difference Make?” Working Paper Series No. 89. Rock Center for Corporate Governance, Stanford University, Sept. 2010. When diversity is well managed, it can improve decision making and enhance a corporation’s public image by conveying commitments to equal opportunity and inclusion. To achieve such benefits, however, diversity must extend beyond tokenism and corporations must be held more accountable for their progress.

Trautman, Lawrence J. “Boardroom Diversity: Why It Matters.” Working Paper. Sept. 16, 2012. Diversity gains have been slow because the concept of diversity is not sufficiently well defined. Nontraditional board candidates can cultivate the skills necessary to make themselves attractive and productive board directors, and nominating committees and boards can define their needs, explore their options, and spark constructive dialogue and action about diversity.

Studies Indicating a Mixed or Negative Correlation Between Board Gender/Racial Diversity and Company Performance

Adams, Renee B. and Daniel Ferreira. “Women in the Boardroom and Their Impact on Governance and Performance.” Working Paper. European Corporate Governance Institute, Oct. 22, 2008. Women are more likely to join monitoring committees; thus gender-diverse boards may devote more effort to monitoring. However, the average effect of gender diversity on firm performance is negative. This negative effect is driven by companies with fewer takeover defenses.

Ahern, Kenneth R. and Amy K. Dittmar. “The Changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation.” Quarterly Journal of Economics 127, no. 1 (Jan. 2012). The constraint imposed by a 2003 quota in Norway mandating female representation caused a significant drop in the stock price at the announcement of the law and a large decline in Tobin’s Q (market value/assets replacement cost) over the following years, consistent with the idea that firms choose boards to maximize value. The quota led to younger and less experienced boards, increases in leverage and acquisitions, and deterioration in operating performance.

Carter, David et al. “The Diversity of Corporate Board Committees and Firm Financial Performance.” Working Paper. Oklahoma State University, Mar. 15, 2007. Board diversity has a positive influence on financial performance as measured by Tobin’s Q (the market value of a firm divided by the replacement cost of its assets). However, the process through which gender and ethnic diversity impacts financial performance is subtle and complex. Some functions of the board may benefit from diverse directors while other functions may actually suffer. Furthermore, the type of diversity appears to matter.

Dobbin, Frank and Jaiwok Jung. “The Competence Gap or Institutional Investor Bias?” North Carolina Law Review 89, no. 3 (2011). Institutional investors promote gender diversity on boards through shareholder proposals favoring it. Increases in board gender diversity do not affect subsequent profitability, suggesting that firms that add women to boards do not experience losses in board efficacy, or perhaps confirming what previous studies have implied; that boards don’t much matter. But an increase in gender diversity on boards is followed by a significant decrease in stock value. The fact that board diversity has no influence on profits, but a negative effect on stock price, lends support to a thesis that institutional investors are biased against gender diversity.


Hussein, Kassim and Kiwia, Bill. “Examining the Relationship Between Female Board Members and Firm Performance—A Panel Study of U.S. Firms.” (July 27, 2009) African Journal of Finance and Management (2009), available only online at papers.ssrn.com/sol3papers.cfm?abstract_id=1596498. The results find no positive and significant relationship between performance measures (of ROA, ROE, Tobin’s Q ratio and price at close) with gender influence, pool of employed females, gender participation, and gender mix. On the other hand, the Shannon index which measures the level of female representation inside the boardroom shows positive and significant relationship between gender and firm value. Therefore, different measures may give different results.
Langevoort, Donald C. “Commentary: Puzzles About Corporate Boards and Board Diversity.” North Carolina Law Review 89, no. 3 (Mar. 2011). Claiming and documenting the economic value of diversity seems to be strategic necessity but the value added by board diversity is hard to prove with any rigor.
Appendix B:
A Guide to Board-Level Diversity Discussions

This report is intended primarily for boards in the earliest stages of conversation about board diversity; it can help jumpstart the dialogue. This report can also be helpful to boards that have already begun discussing diversity but need to refocus their conversation.

1. PREPARE FOR DIVERSITY DISCUSSION

- Place diversity on the meeting agenda as a discussion topic.
- In advance of the meeting, send out copies of reference materials, such as this Blue Ribbon Commission report and any others deemed important by the chair of the governance/nominating committee.
- Also in advance of the meeting, send out a list of questions and/or topics to be discussed. The outline below lists questions/topics that may be discussed.

2. HOLD DIVERSITY DISCUSSIONS

Sample questions to help a board prepare to discuss, select and implement, and disclose diversity goals.

**DEFINE DIVERSITY**

- How does this board define diversity? Does our definition include gender and race/ethnicity? If not, why not? Do we wish to change our definition of diversity?
- What type of perspectives or backgrounds will help in the formulation and fulfillment of strategic objectives?
- Does our company value diversity as a means to competitiveness?

**DISCUSS DESIRED OBJECTIVES**

- Given an agreed upon definition of diversity, is our board sufficiently diverse according to how we understand diversity?
- What goals will we set for diversity?

**DECIDE PROCESS**

- If we are sufficiently diverse according to our definition, what processes do we have that will ensure continued diversity?
- If we are not sufficiently diverse according to our definition, what processes do we have in place that will bring about and maintain the desired level of diversity?
- What milestones will we set to measure progress?
ASSESS PROGRESS

• How have we advanced in diversity since our last discussion?
• What milestones have we met?
• What are the challenges for “retention of diversity” or “sustaining the progress achieved?”

DISCUSS DISCLOSURES

• What kinds of disclosures should we make about our board’s diversity?
• Where should the disclosures be presented? Proxy statements? Shareholder and other constituent meetings? Other forums and reports?
Appendix C:
Actions Speak Louder Than Words:
Frontier CEO Discusses Value of Diversity

While some boards are talking about increasing diversity in their organizations, Frontier Communications, one of nation’s largest rural exchange carriers, has taken action to establish diversity as a key tenet throughout the organization and is reaping the benefits of the talent the company has attracted. Frontier Chairman and CEO Maggie Wilderotter shares some key insights about the value of diversity and some ideas for how other boards can follow Frontier’s example.

Frontier Communications has a strong commitment to a diverse workforce, which carries over to the board. What led Frontier to make diversity a priority in the company and the boardroom?

My responsibility as chairman and CEO is to make sure we hire great people and attract terrific board members who together reflect the composition of our customers. We have close to four million residential and business customers—every one different, with unique needs and wants. Having diverse points of view about how we make day-to-day decisions and board-strategic decisions is critical and a competitive advantage. (Add in that I am one of four sisters raised by parents who told us nothing was impossible for girls and women and you’ll see why diversity is especially important to me. It’s very personal!)

How did Frontier achieve a diverse board—what steps were taken, goals put into place?

I’m a great networker and through my work, board memberships, and professional associations over the years, I have met and continue to meet many talented people. I truly make an effort to connect with executives in and outside our industry who have a portfolio of experiences that could help Frontier. Good leaders want smart people who will have a passion for the company and enhance our decisions. Frontier is also fortunate to have a strong nominating and corporate governance committee that considers many forms of diversity in choosing board members, including experience, skills, ethnicity, race, gender, and cultural values.

What can other company boards learn from Frontier’s experience?

Isn’t it amazing to be having this conversation in 2012? But I hope boards learn from Frontier, and from great companies like Procter & Gamble and Xerox, that diversity is not just a value add, but a value in the truest sense of the word. It’s part of our moral compass. Employees, shareholders, customers, and the financial community expect it—in fact, they should demand it. Some businesses need that push—I am on the board of Catalyst, the leading nonprofit membership organization expanding opportunities for women and business, and it is astonishing how many Fortune 500 companies still lack a single female board member. Diversity is good business!
What tangible and intangible benefits have you seen result from having a diverse board?

We hear different points of view and have “robust” discussions. Our board represents varied parts of the country and includes current and former CEOs, investment bankers, experts in communication, marketing and strategy, auditors, lawyers, former CFOs, and business people of different race, gender, ethnicity, and general background. Our directors help us make better decisions as a company. An intangible benefit and an extremely important one is that employees see that leadership really embraces diversity. We don’t just talk about it—we live it.

In your experience, does having women in the C-suite help to drive diversity in the boardroom?

I think it certainly helps. My board knows I am not only open to diversity—I expect it! I also realize people need to find a comfort level, and the best way I know to do that is to work in the trenches together. When you are united in a common cause—doing the best for customers, employees, and shareholders—you stop seeing people in terms of gender, race, or being differently labeled. What matters are the results of good processes that help you make decisions that add value. “Value” doesn’t have a gender or race or creed—it just “is.”

What programs or initiatives are in place at Frontier to foster a diverse workforce?

It is part of our on-boarding for new employees, our values, our annual employee opinion survey, and much more. We have a hiring program dedicated to military veterans and reservists and are part of the 100,000 Jobs Mission and The Employer Partnership of the Armed Forces, two major coalitions designed to assist men and women transition to civilian employment. The technological, communications, and leadership skills they possess are assets for any company. In addition, we work with local colleges, some in economically depressed areas of the country, to support careers in telecommunications.

We offer hands-on experience, too. In colleges in Middletown, New York, and Kearney, Nebraska, we have TechLabs that allow students to learn essential work skills in a real-life environment—together with some of our great vendors we actually built central offices in the school buildings. We’re pretty proud of that and our other educational efforts. I think one of the best ways to foster a diverse workforce is to equip young adults with the skills they need to get a job and advance. We also hire more than 150 interns every summer—from all walks of life and from a variety of colleges. It lets us scout talent and lets talent scout us. Our success is measured by how many interns come to Frontier when they graduate. We are doing pretty well on this metric.

What advice do you have for companies and boards that are looking to recruit diverse candidates?

Part of me wants to echo my parents and say: “Don’t ask; just get on with it!” But really, this isn’t neuroscience—there are hundreds upon hundreds of thousands of talented people waiting for a chance for a good job and a rewarding career, especially in this economy. If your human resource team isn’t bringing you those candidates, then it’s time to change your team. With all of the networks, job boards, professional associations, nonprofits, and more just bursting to place qualified people, the time for talk is long over. Action is all that counts. Take a chance. All decisions have risks, but so many studies and companies have shown women and diverse boards improve results that it’s a low-risk proposition with great upside.

Maggie Wilderotter was named chairman and CEO of Frontier Communications Jan. 1, 2006. She joined the company Nov. 1, 2004, as president and CEO and a member of the board. Before this, she...
was senior vice president of the worldwide public sector at Microsoft. Wilderotter was president and CEO of Wink Communications, executive vice president of national operations for AT&T Wireless Services, CEO of AT&T’s aviation communications division and a senior vice president of McCaw Cellular Communications. She serves on the boards of Xerox and Procter & Gamble and a number of nonprofit organizations. In 2011, she was named to the Directorship 100, and is a member of the board of advisors of BoardroomIQ and the WomenCorporate-Directors Global CEO Task Force. Fortune magazine included her in its ranking of the “50 Most Powerful Women in Business” in 2009, 2010 and 2011. In November 2011, The Financial Times named her as one of “The Top 50 Women in World Business.” That same month she received “The Business Media Award” from the Women’s Media Center. On Oct. 4, 2010, President Obama announced Wilderotter’s appointment as vice chair of the President’s National Security Telecommunications Advisory Committee.
Appendix D: Moving Beyond Discussion: Intel Values Diversity as Core Business Tenet

As a global leader in computing innovation, Intel, which designs and builds the essential technologies that serve as the foundation for computing devices, has made diversity part of its business foundation. A worldwide perspective helps Intel anticipate the needs of a changing marketplace, and Intel President and CEO Paul Otellini shares how the company has integrated diversity into the way it conducts business, recruits employees and fosters diversity as an ongoing part of its corporate culture.

Intel is focused on employing a workforce that is as diverse as its customers, vendors, and colleagues. What impact has this global perspective had on the company? Have there been tangible/intangible benefits to having a diverse workforce?

At Intel, our vision is to create and extend computing technology to connect and enrich the lives of every person on earth. We can only achieve this vision with a globally diverse workforce. Across design, development, and go-to-market strategies, we need our global presence to be anchored by diverse and local insights. The most recent example is the Ultrabook. Without cooperation and partnerships across Intel teams worldwide and our industry partners, the first generation of Ultrabooks would never have come to market in such a short period of time. Within six months of unveiling our vision for this new computing category, our customers had products commercially available. Our employees take real inspiration from the ways that they impact our products and the impact our products have on the world.

What factors led Intel to make boardroom and management diversity a priority?

Intel is a business that is at the cutting-edge of technology and manufacturing, so it should be no surprise that we also recruit and nurture the best global talent. The wide range in perspectives that we gain by hiring and developing talent from a diverse, global labor pool gives us a better understanding of the needs of our customers, suppliers and communities, and helps us advance our leadership in both technology and corporate responsibility. From the boardroom to management to the sales teams—diversity enhances every aspect of our business.

What can other company boards learn from Intel’s experience?

Intel’s achievements with a diverse workforce offer lessons not just to company boards, but to management and employees at every tier of any organization. In fact, I think it is a mistake to think of diversity as only a boardroom issue. It must be a value that is embraced by everyone in the organization. At Intel, we are in the business of innovation, and to be at the forefront of innovation you need to draw from the experience and insights from a broad sector of employees. In the four decades that we have been operating globally, we have learned that innovation is driven by different voices, experiences, and ideas.
Intel has a director of diversity. How has instituting a formal diversity office helped to achieve a diverse corporate culture?

Our director of diversity is Rosalind Hudnell, and she and her team provide the focus and the leadership that is needed in order to ensure that diversity remains at the core of our business. Her team develops annual diversity action plans that are monitored quarterly, with rigorous indicators related to recruitment and performance management.

To achieve their goals, our diversity team has put in place powerful programs for building stronger pipelines for employees pursuing technical and leadership careers. They’ve also developed programs that build multi-cultural awareness and build external alliances with national diversity organizations to enhance our learning.

Our 20 chartered employee affinity groups are one such program. These groups are organized around ethnicity groupings, national origin, military service, religious beliefs, gender, sexual orientation, as well as other affinities such as parenthood and disability. They provide a powerful means of integration for our employees, and actively influence our corporate culture. We take great pride in the success of these programs, but, Roz and I both agree, there is always more to be done.

What advice do you have for companies and boards that are looking to recruit diverse candidates?

I think it is inevitable that any great business will by necessity have a diverse workforce. If you want to recruit diverse candidates, then you need to prove that diversity isn’t a talking point or a do-good initiative. It must be embedded at the fundamental core of the company’s vision and culture.

Paul S. Otellini is president and chief executive officer of Intel. He became the company’s fifth CEO on May 18, 2005, succeeding Craig R. Barrett. Otellini previously had served as Intel’s president and chief operating officer, positions he held since 2002, the same year he was elected to Intel’s board of directors.

Since joining Intel in 1974, Otellini has managed several Intel businesses, including the company’s PC and server microprocessor division and the global sales and marketing organization.

In 2002, Otellini was elected to Intel’s board of directors and promoted to president and chief operating officer. He was named CEO in May 2005, a role in which he’s focused on driving the company’s growth and mission to deliver innovative, energy-efficient products. Under Otellini’s guidance, Intel also aims to usher in a new era when portable wireless computing is available anytime, anywhere. The company also is focused on bringing the next billion people online with affordable computers tailored to their needs.

Otellini received a bachelor’s degree in economics from the University of San Francisco in 1972, and an MBA from the University of California, Berkeley in 1974. Otellini serves on the board of directors of Google. He also serves on the President’s Council on Jobs and Competitiveness.
Appendix E:
Global Approach to Diversity Drives
GM Forward in Marketplace

As a leader in the automotive market, General Motors has placed diversity at the top of its agenda both in the workforce and in the boardroom. Chairman and CEO Dan Akerson explains how GM’s long-term commitment has enhanced the company’s internal, external, and global operations.

GM has defined diversity in broad terms. How did the company go about developing this definition, and has it been a useful tool when it comes to recruiting employees or boardroom directors? Does it also play a role in identifying dealers and suppliers?

GM’s commitment to diversity goes back decades. We were among the first Fortune 500 companies to have an African-American officer in addition to establishing the industry’s first supplier diversity program, the first U.S. minority dealer development program, and the first women’s dealer development program. We currently have more than 200 minority and nonminority women-owned suppliers.

We think our success has been driven by our definition of diversity, which is based on the “whole person” concept. This includes race, ethnicity, gender, generational, cultural expertise, language, regional expertise, ethnicity, functional skills, and learning styles.

As a philosophy, the concept helps us connect with the very best talent we can find, and recruit employees, executives, directors, dealers, and suppliers who reflect the global market place and our consumer base.

Have there been tangible/intangible benefits to having a diverse workforce and board?

We are a more savvy and formidable competitor and much more responsive to the marketplace where we operate as a result of our commitment to diversity.

I am more keenly focused on capability than factors like gender, but our “whole person” strategy has allowed us to create a very diverse board and leadership team.

For example, 4 of our 12 non-employee directors are women including 2 who have been CEOs of large companies.

At the board level, diversity will help us build and sustain a competitive advantage for the simple reason that different perspectives drive the kind of thoughtful discussion and analysis that leads to better decision making. Study after study backs that up.

It applies equally to our operations. We have very capable women running major parts of our business, including the heads of GM do Brasil, GM Argentina, Chevrolet Europe, North American manufacturing and labor relations, human resources, global product development, and more.

What factors led GM to make boardroom and management diversity a priority?

GM can’t be mono-cultural. We have a manufacturing presence in 30 countries, and we sell in more than 120 countries. We’re the market leader in the United States and China, and we are one of the
five largest marketers in the world, based on global spending.

Just look at the influence women have in the U.S auto market. Women purchase at least 60 percent of all cars and trucks and influence at least 80 percent of new vehicle sales. They order 54 percent of the service work done at dealerships and spend more than $300 billion on vehicle sales and service annually.

All of this makes diversity a business imperative.

What can other company boards learn from GM’s experience?

The GM lesson is pretty straightforward. It takes diversity of thought, opinion, experience, and culture to succeed in the global marketplace and sustain a competitive advantage. If your company doesn’t embrace diversity, you won’t be as successful. All of this makes diversity a business imperative.

What advice do you have for companies and boards that are looking to recruit diverse candidates?

I think the best recruiting strategies are relationship driven, and the foundations are employee ambassadors and partnerships with professional organizations. But to build a diverse organization from top to bottom, the leadership must be committed and accountable. Otherwise, your plan is nothing more than a collection of well-meaning words.

Daniel F. Akerson is chairman and CEO of General Motors. He joined the company in July 2009 as a member of the board of directors.

Prior to joining GM, Akerson was a managing director and head of global buyout for The Carlyle Group in Washington, D.C. He also served as CEO or president of several telecommunications and technology companies, including MCI, Nextel Communications, XO Communication, and General Instrument.

Akerson serves on the boards of the U.S. Naval Academy Foundation, the Tsinghua University School and Economics and Management Advisory Board, the International Business Leaders Advisory Council of Shanghai, and is a member of the Business Council. He received the T.C. and Elizabeth Cooke Business Medallion from the College of William & Mary in 2004.

He co-chaired the “Leaders to Serve the Nation” capital campaign, which raised a record $254 million for the U.S. Naval Academy. Akerson chairs his family’s Blue Earth Foundation, which is dedicated to providing financial assistance to programs serving young people. In 2011, he was named “Humanitarian of the Year” by So Others Might Eat (SOME) which serves the Washington, D.C. metropolitan area.
Appendix F:
Examples of Director Criteria With Regards to Diversity

General Criteria for Nomination to the Board of Directors of Johnson & Johnson

1. Directors should be of the highest ethical character and share the values of Johnson & Johnson as reflected in the Credo.
2. Directors should have reputations, both personal and professional, consistent with the image and reputation of Johnson & Johnson.
3. Directors should be highly accomplished in their respective field, with superior credentials and recognition.
4. In selecting Directors, the Board should generally seek active and former chief executive officers of public companies and leaders of major complex organizations, including scientific, government, educational, and non-profit institutions.
5. At the same time, in recognition of the fact that the foundation of the Company is in medical science and technology, the Board should also seek some Directors who are widely recognized as leaders in the fields of medicine or the biological sciences, including those who have received the most prestigious awards and honors in their field.
6. Each Director should have relevant expertise and experience, and be able to offer advice and guidance to the chief executive officer based on that expertise and experience.
7. All outside Directors on the Board should be and remain “independent,” not only as that term may be legally defined in the SEC and New York Stock Exchange rules and regulations, but also without the appearance of any conflict in serving as a Director. In addition, Directors should be independent of any particular constituency and be able to represent all shareholders of the Company.
8. Each Director should have the ability to exercise sound business judgment.
9. Directors should be selected so that the Board of Directors is a diverse body, with diversity reflecting gender, ethnic background, country of citizenship and professional experience.
10. The Board also reconfirms the mandatory retirement age of 72.
Appendix G:
Recommendations for Board Diversity in the United Kingdom

Report of Lord Davies of Abersoch to Edward Davey, the Business Minister of the United Kingdom, and Lynne Featherstone, the Minister for Women of the United Kingdom, Progress Report of May 2012.

Recommendation 1. All Chairmen of FTSE 350 companies should set out the percentage of women they aim to have on their boards in 2013 and 2015. FTSE 100 boards should aim for a minimum of 25% female representation by 2015 and we expect that many will achieve a higher figure. Chairmen should announce their aspirational goals within the next six months (by September 2011). Also we expect all Chief Executives to review the percentage of women they aim to have on their Executive Committees in 2013 and 2015.

Recommendation 2. Quoted companies should be required to disclose each year the proportion of women on the board, women in senior executive positions, and female employees in the whole organization.

Recommendation 3. The Financial Reporting Council (FRC) should amend the UK Corporate Governance Code to require listed companies to establish a policy concerning boardroom diversity, including measurable objectives for implementing the policy, and disclose annually a summary of the policy and the progress made in achieving the objectives.

Recommendation 4. Companies should report on the matters in recommendations 1, 2, and 3 in their 2012 Corporate Governance Statement whether or not the underlying regulatory changes are in place. In addition, Chairmen will be encouraged to sign a charter supporting the recommendations.

Recommendation 5. In line with the UK Corporate Governance Code provision B.2.4, “A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments.” Chairmen should disclose meaningful information about the company’s appointment process and how it addresses diversity in the company’s Annual Report including a description of the search and nominations process.

Recommendation 6. Investors play a critical role in engaging with company boards. Therefore investors should pay close attention to recommendations 1-5 when considering company reporting and appointments to the board.

Recommendation 7. We encourage companies periodically to advertise non-executive board positions to encourage greater diversity in applications.


**Recommendation 8.** Executive search firms should draw up Voluntary Code of Conduct addressing gender diversity and best practices, which cover the relevant search criteria and processes relating to FTSE 350 board-level appointments.

**Recommendation 9.** In order to achieve these recommendations, recognition and development of two different populations of women who are well qualified to be appointed to UK boards needs to be considered:

- Executives from within the corporate sector, for whom there are many different training and mentoring opportunities; and
- Women from outside the corporate mainstream, including entrepreneurs, academics, civil servants, and senior women with professional service backgrounds, for whom there are many fewer opportunities to take up corporate board positions.

A combination of entrepreneurs, existing providers and individuals needs to come together to consolidate and improve the provision of training and development for potential board members.

**Recommendation 10.** This steering board will meet every six months to consider progress against these measures and will report annually with an assessment of whether sufficient progress is being made.
Appendix H:
International Diversity Information

Many countries have signaled to companies that board diversity is an important component of good corporate governance. This is undertaken through quotas or regulatory reporting requirements. The charts below demonstrate the actions taken by countries with respect to board diversity.

*The following tables are reproduced with permission from Corporate Women Directors International.*

**The Quota Legislative Strategy for Women Directors: A Global Overview (as of 2012)**

<table>
<thead>
<tr>
<th>Countries With Quotas for Publicly Listed Companies</th>
<th>Countries With Quotas for State-Owned Companies (Year of adoption)</th>
<th>Proposed Quotas</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Norway (2003) requires boards to be at least 40% women</td>
<td>• Israel (1993)</td>
<td>• European Commission</td>
</tr>
<tr>
<td>• Spain (2007) requires boards to be at least 40% of each gender</td>
<td>• South Africa (1996)</td>
<td>• Brazil (state-owned companies)</td>
</tr>
<tr>
<td>• Iceland (2010) requires boards to be at least 40% of each gender</td>
<td>• Denmark (2000)</td>
<td>• Germany (publicly listed companies)</td>
</tr>
<tr>
<td>• France (2010) requires boards to be at least 40% women</td>
<td>• Finland (2004)</td>
<td>• Canada (publicly listed companies)</td>
</tr>
<tr>
<td>• Netherlands (2011) requires boards to be at least 30% women</td>
<td>• Ireland (2004)</td>
<td></td>
</tr>
<tr>
<td>• Malaysia (2011) requires boards to be at least 30% women</td>
<td>• Iceland (2006)</td>
<td></td>
</tr>
<tr>
<td>• Italy (2011) requires boards to be at least 33% of the underrepresented gender</td>
<td>• Austria (2010)</td>
<td></td>
</tr>
<tr>
<td>• Belgium (2011) requires boards to be at least 33% women</td>
<td>• Slovenia (2011)</td>
<td></td>
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</tbody>
</table>
Countries with Board Diversity Language in Corporate Governance Codes, Stock Exchange Listing Requirements, or Securities and Exchange Commission Reporting Requirements (as of 2012)

<table>
<thead>
<tr>
<th>Stock Exchange Commissions (Year adopted)</th>
<th>Corporate Governance Commissions (Year adopted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Australia (2011)</td>
<td>• Finland (2003, 2008)</td>
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<tr>
<td>• Italy (2011)</td>
<td>• Sweden (2004)</td>
</tr>
<tr>
<td>• Singapore (2011)</td>
<td>• Norway (2004)</td>
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<tr>
<td>• Japan (2009) (inclusion of independent directors)</td>
<td>• Netherlands (2008)</td>
</tr>
<tr>
<td>• Poland (2010)</td>
<td>• Belgium (2009)</td>
</tr>
<tr>
<td>• Hong Kong (2012) proposed</td>
<td>• Luxembourg (2009)</td>
</tr>
<tr>
<td>• New Zealand (2012) proposed</td>
<td>• Germany (2010)</td>
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<td></td>
<td>• France (2010)</td>
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<td>• UK (2010)</td>
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<td>• Austria (2010)</td>
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<td>• Denmark (2010)</td>
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<td>• Morocco (2010)</td>
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<td>• Malawi (2011)</td>
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<td></td>
<td>• Nigeria (2011)</td>
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<tr>
<td></td>
<td>• USA (SEC, 2010)</td>
</tr>
</tbody>
</table>
Endnotes


2 2012-2013 NACD Public Company Governance Survey.

3 Spencer Stuart Board Index, 26th ed., Nov. 2011.


6 Id.

7 2012-2013 NACD Public Company Governance Survey.

8 According to NACD’s governance survey, 58.6 percent of boards did not replace a director during the period of June 2011 to May 2012. Just over one-quarter (25.2%) replaced one director and 11.4 percent replaced two directors. Id.

9 Id.


12 2012-2013 NACD Public Company Governance Survey.

13 Id. Survey respondents were asked to choose their top two most important attributes when recruiting directors.

14 All annotations are excerpted (and when needed paraphrased) directly from the sources.

15 See Appendix G for the executive summary of the Lord Davies of Abersoch report.