NACD

Key Questions to Advance Racial Equity in Business Practices

Institutional racism continues to be present in our societies, and the systems and beliefs that contribute to it have been thrust to the forefront in recent months. As a critical part of our society, the onus is on corporations to dismantle practices inside their organizations that contribute to institutional racism. Many companies are now starting to probe their own long-standing businesses practices. The following questions will help directors to identify business practices that could contribute to perpetuating racial biases and institutional racism in corporations, and to provide oversight of racial diversity, equity, and inclusion initiatives within their companies.

Board Operations and Composition

When evaluating racial bias in the workplace, boards must first look inward to understand policies or practices that could create barriers to forming a racially diverse board. The following questions focus on director recruitment and boardroom practices that could reinforce racial biases:

- What are the board's racial diversity demographics?
- When evaluating the skill set of a potential director, does the board typically look for or favor traditional executive experiences, such as serving as a CEO or a chief financial officer?
- How does the board identify, recruit, and onboard new directors?
  - If the board is working with a search firm, is the nominating and governance committee insisting on racially diverse candidates?
- Does the boardroom culture foster inclusion by demonstrating that all board members listen to each other?
  - Does the board leader ensure that every voice is heard?
- Does the board have a mentorship program to pair newer directors of color with more experienced directors?
- What can/should directors do to help develop future directors of color for the board?

- Has the board articulated its oversight role regarding the risk of institutional racism or, more broadly, the company's diversity and inclusion efforts?
  - If so, which committee takes primary responsibility for this oversight role?
- Has the board established an effective risk-reporting process to help escalate incidents/issues related to racism inside the organization?

Human Capital Management Practices

To create and maintain a diverse corporation, the board should work with the management team, and in particular with the chief human resource officer (CHRO), to understand the hiring practices and assumptions, learning and development, and performance metrics that track the company's progress. The following questions will assist the board in gaining a broader understanding of institutional racism that may exist within their human capital management practices.

Hiring and Recruitment Practices

- Is the board expecting and incentivizing the CEO to create and maintain a racially diverse executive team and workforce?
- How do the management team and the human resources team define diversity in their hiring strategy? Do our hiring decisions drive racially equitable outcomes?
- What has the organization put in place to minimize the risk of bias in hiring decisions? For example, has the human resources team reviewed and taken steps (such as removing all information or clues that might indicate racial identity from a candidate's data or standardizing interview questions) to strengthen their hiring practices when considering candidates?
- Has human resources considered the racial diversity of its current candidate pool and explored other potential sources to ensure a diverse candidate pool?

Workforce Management

- Is there pay variance between people of color and other employees?
  - Is the starting salary for people of color the same as for white employees with similar work experience and education in the same position?
- Do our current compensation practices contribute to or aggravate pay inequities in the organization? If so, what's the risk of reputational harm and how would we address these inequities?
- Has the board probed whether management has minimized the risk of racial bias in promotion/advancement decisions for staff?
  - Are candidates of color consistently considered as internal successors for key senior or executive roles?
  - What percentage of nominated candidates of color reach the final consideration stage?

- Are people of color disproportionately impacted during layoffs/furloughs?
- Is there a training and disciplinary process in place to address micro inequities (actions that marginalize the target), micro aggressions (actions that stereotype the target), and racist behaviors?
- Has the company committed to trainings around diversity, equity, and inclusion and unconscious biases?
  - Are these trainings being used to inform the culture and values of the corporation?
  - How effective have they been in changing individual and collective behaviors? Is there mandatory training for first-time managers and above to promote a diverse and inclusive culture?
- How well equipped are leaders within the organization to have conversations around institutional racism?
- Are there resources in place for employees to report racist incidents anonymously?
- Has management benchmarked its diversity policies, processes, and performance against peers and aspirational peers?

Metrics

- What metrics do the board review to ensure performance on diversity and inclusion efforts, particularly regarding racial diversity?
  - Does the company report metrics on how often employees of color are promoted compared to their white colleagues?
- What is the breakout of employees of color at all levels of the firm (the executive level, the vice president and director level, the employee level, etc.)?
  - Is there an underrepresentation of employees of color and, if so, what has caused it?
- Is the company externally disclosing their racial diversity metrics?
- In addition to overall turnover metrics, is the board receiving metrics directly related to turnover of people of color within all levels of the company?
- What are the current external disclosure practices for diversity metrics, and how do they compare to peers?

Advertising, Marketing, and Sales Practices

As companies work to create pertinent messaging for all stakeholders and target different segments, its marketing and sales practices must reflect the diversity of its consumer base and minimize any racial bias. The following questions will assist the board in understanding the company's advertising and marketing practices in relation to institutional racism.

- Do our marketing and advertising practices appropriately reflect the needs of our diverse customer base?
- Have we had any issues where our marketing was insensitive to people of color or to people from particular cultures?
- Are our marketing and advertising departments racially diverse?
- Is the company's advertising and marketing practice engaged in ethnicity-based, targeted ads?
- If so, is the company ethically gathering the data to create the targeted ads?
- Does the corporation's external messaging around diversity (in ads and marketing statements), match the corporation's internal diversity strategy and value set?
- Are the corporation's ads showcasing racially diverse casts?
- For banks and other lenders, what percentage of approved loans are for Black applicants? How does that compare to approved loans for white applicants?

Suppliers, Contractors, and Third-Party Practices

Analyzing external company partners is a key method to combat institutional racism. Corporations should ensure that the company is supporting minority owned and run businesses. The following questions can assist boards in assessing whether the company's supplier and contractor base is sufficiently diverse.

- Does the company have any internal corporate policies regarding the racial diversity of its suppliers?
- How racially diverse is our current supplier base?
- Does the company collect data about its third-party suppliers' demographic makeup and metrics?
- What percentage of the company's suppliers and third-party providers are minority owned?
- Have targets been set for the percentage of minority owned and run third-party suppliers (including financial services, law firms, ad agencies, and manufacturing plants, among others)?

Political and Charitable Contributions

Public scrutiny of political contributions and lobbying has increased in recent years, driven by shareholder and stakeholder interests. Boards need to understand the potential impacts of corporate giving, and should ensure that careful consideration has gone into each donation decision.

- How is management evaluating corporate political and lobbying contributions?
- What type of due diligence is performed on potential contributions to political candidates?
- Is the company supporting political candidates who refuse to take meaningful action on reforming institutional racism?
- How do the company's donations align with corporate values and long-term interests?
- If the corporation donates to charitable organizations, do those charities represent racially diverse groups and causes?

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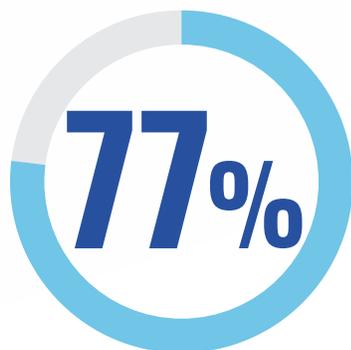
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