



ISSUE 135

# BOARD PERSPECTIVES: Risk Oversight

## DISPEL THE MYTH OF “FIT”: IMPROVE DIVERSITY ON YOUR BOARD

A diverse, equitable and inclusive board culture contributes to the organization’s success by positioning directors to advise the CEO and add value in evolving markets. Does your board measure up?

Diversity in the boardroom encompasses all dimensions of the human experience, including education, life experience, gender, race, ethnicity, sexual orientation, geography, age and specific areas of knowledge and expertise (such as digital savviness and mergers and acquisitions). Compelling research asserts that a diverse board leads to improved performance and innovation. For example, one study found that boards with greater gender diversity — particularly those with at least three women members — are more likely to prioritize innovation and technology.<sup>1</sup>

Equity and inclusion are also important attributes of board culture. Inclusion entails onboarding previously excluded parties and facilitating an open environment conducive to dialogue and feedback. Equity requires

fairness, access and a commitment to breaking down barriers, both real and perceived, in order to achieve diversity and inclusion.

Accordingly, the market is driving more attention to the topic of diversity, equity and inclusion. Institutional investors, led by BlackRock and State Street Corp., are sounding the bell not only for gender diversity but for racial diversity as well.

Interestingly, Nasdaq recently asked the U.S. Securities and Exchange Commission to allow it to require listed companies to have at least one woman director and one director who self-identifies as an underrepresented group and to potentially delist companies failing to disclose board diversity information. If other exchanges were to follow suit, they would align with the recent changes Institutional

<sup>1</sup> “Gender Diversity at the Board Level Can Mean Innovation Success,” by J. Yo-Jud Cheng and Boris Groysberg, MIT Sloan Management Review, January 22, 2020: <https://sloanreview.mit.edu/article/gender-diversity-at-the-board-level-can-mean-innovation-success/>.

Shareholder Services made to its proxy voting recommendations and with developments in certain countries around the world on the gender diversity front.

Some boards have received the message. In the five months following May 2020, 130 Black directors have been appointed to Russell 3000 corporate boards, an increase of 239% over the previous five months.<sup>2</sup>

Is your board doing enough to improve diversity? Have the chair and CEO agreed on the diversity goals given the company's strategy, markets, digital maturity and circumstances? Is there a timeline for achieving those goals? Is progress toward adding diversity to the board and ensuring equity and inclusion monitored, and are you satisfied with that progress?

Whatever the answers to those questions, below are six suggestions for making demonstrable progress in improving diversity in the boardroom.

**Dispel the myth of “fit”; it’s time to get uncomfortable.** “Fit” has long been part of the lexicon when evaluating board candidates. A candidate may have the desired technology expertise, but will he or she be an appropriate “fit” on a board replete with current and former CEOs? Granted, board candidates must bring broader business acumen to the table than a specific domain of expertise. However, “fit” cannot be an excuse to sustain the status quo, nor should it be a cover for unconscious bias or other barriers to the participation of women and underrepresented groups in the boardroom.

**Expand your candidate horizons.** It all starts with the board's requirements when seeking candidates. If the screening criteria stipulate “a retired CEO who ran a large company at scale in the technology industry” or “a former CEO who managed through a crisis,” the available

candidates will likely be mostly white males. However, with expanded search criteria, a broader pool of candidates will emerge. For example, a leader of a significant division within a larger company may fit the requirement. So may a departmental executive who has demonstrated exceptional leadership capabilities through periods of significant growth and disruption.

Life experience, recent and relevant executive experience, skills, and a strong commitment to continuous learning should open the door to the boardroom for women and underrepresented groups. To find women, racially diverse individuals or other candidates who meet the board's diversity objectives, take a close look at how new directors are sourced and qualified. Is there evidence of unconscious bias? If the search firm(s) and other channels used to identify candidates can't come up with viable, diverse choices, should other avenues be explored?

Improving diversity may require thinking out of the box and disrupting the “tried and true” processes used in the past. Consider accessing talent pools developed by organizations such as Women Corporate Directors, Ascend/Pinnacle, the Registry of Black Corporate Directors, the Executive Leadership Council or the Latino Corporate Directors Association.

**Be courageous.** Boards exemplify their true character in how they pursue diversity, equity and inclusion goals. Don't expect a single diverse board member to have a disproportionate impact, which could potentially set up this person for failure. Recognize the research that says meaningful change comes with three such members.<sup>3</sup> In addition, intentionally create an environment in which different perspectives are welcomed and dialogue is encouraged in the boardroom. This is a tone that the board chair and committee chairs must own.

<sup>2</sup> “Impact of George Floyd's Murder and Black Lives Matter Movement on Board Diversity,” *BoardProspects*, November 6, 2020: <https://bp-amz-storage.s3.amazonaws.com/public-documents/admin/russell-3000---board-diversity-2020-update.pdf>.

<sup>3</sup> “Quartz -- Company Boards Need at Least Three Women Before They Truly Begin to Change,” *EgonZehnder*, December 11, 2018: [www.egonzehnder.com/what-we-do/board-advisory/news/quartz-company-boards-need-at-least-three-women-before-they-truly-begin-to-change](http://www.egonzehnder.com/what-we-do/board-advisory/news/quartz-company-boards-need-at-least-three-women-before-they-truly-begin-to-change).

To foster innovation, the board needs members who have diverse experiences stemming from varied backgrounds and, as a result, think about things differently and foster creativity when contributing to strategic and divergent conversations. And once these members are at the table, they should be nurtured by the chair to ensure their views are heard.

**Champion the benefits of diversity.** Beyond the empirical evidence that shows diverse boards lead to better business performance, diverse boards also attract diversity to the organization itself. The long-standing strategic war for talent continues to grow more competitive as companies broaden the workforce.

When top talent looks at the composition of the company's board and executive team, what do they see? Do they see a diverse group of leaders who they feel they could trust and who thus attract them to the company? If they don't, is the lack of leadership diversity likely to hamstring the company's efforts to acquire and retain the talent it needs? Similarly, is the composition of the board and executive team aligned with evolving markets?

An outward view of the changing demographics of the company's current and prospective customers adds perspective. Does the diversity currently present in the boardroom and C-suite position the company to develop and gain access to market opportunities over the next three to five years? If not, is the organization acting with intention to address this gap? As the issue of overboarding — when directors serve on an excessive number of boards — increases, so too do opportunities for some boards to free up seats for women and underrepresented groups.

**Be an ally.** We are all products of our experiences. In today's era, directors can enrich their lives by increasing the diversity of their respective networks. Engaging in broadening conversations in different forums to listen and learn can help increase directors' sensitivity to diversity as they position themselves to reduce unconscious bias when screening and selecting candidates.

Make it a priority to include women and underrepresented groups when mentoring promising executives. For example, meeting the company's top 20–25 leaders engages the board more actively in succession planning and evaluating executive bench strength and diversity. It also helps increase the board's engagement in mentoring and sponsoring future women and minority directors.

**Achieve transparency with metrics and accountability.** While this discussion is about the board, the relevance of diversity, equity and inclusion within the organization itself, including among key decision-makers, cannot be overstated. Bringing diversity into the boardroom, C-suite or customer-facing front lines begins with engagement, putting data in front of decision-makers, embracing that data, setting objectives and adopting a plan tailored to the business's unique circumstances and driven with intention by every business leader.

Dashboards should focus on the company's progress toward recruiting a diverse workforce and fostering an inclusive and equitable workplace. Employee satisfaction with the company's progress toward achieving diversity, equity and inclusion objectives should also be tracked. Once objectives and expectations are set, results are best achieved through a transparent focus on measuring progress and linking compensation to performance. The board should not only expect progress annually but also look to its own role in setting the tone as well as consider the example set by the C-suite and other leaders.

Diversity is not a check-the-box destination. It is much more than an evolving conversation or a journey. A commitment to diversity, equity and inclusion is a continuous process that, when integrated into the nominating committee's mindset, criteria and expectations for considering board candidates, is virtually inseparable from the director selection procedure itself.

That is why, at least for the short term, the director selection process should be disproportionately

focused on advancing diversity in the boardroom. A company's circumstances will change over time, but the need for diversity of lived experiences and therefore diversity of thought will not.

Consequently, a holistic view of diversity from the nominating committee, full board and CEO will help sustain the board's effectiveness and value contributed in the years to come.

## Questions for Boards

Following are some suggested questions that boards of directors may consider, based on the risks inherent in the company's operations:

- Do the board's actions regarding diversity, equity and inclusion resonate throughout the organization? Are the nominating committee's selection process and the respective views of the chair, full board and CEO fully aligned with respect to accountability for delivering a diverse and inclusive workforce and organization? Does the board have a line of sight into the recruitment and acquisition of new and diverse talent?
- Is the board's culture strong enough to challenge conventional thinking and recognize the need to be disruptive, resilient and agile in response to market developments? Does it foster an open environment that encourages tough conversations and feedback? For example, when the board discusses the direction and progress of the company's innovation strategy and culture, is it satisfied with the quality and creativity of the ideas it introduces into the dialogue?
- If significant gaps exist with respect to diversity in the board's composition, is the nominating committee committed to diversity? And has it developed a plan that makes diversity deliberately central to the selection process?

## How Protiviti Can Help

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address challenges and opportunities in technology, finance, transformation, business processes, risk, compliance, transactions and internal audit.

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