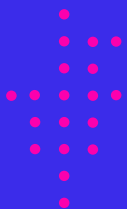# OnBoard
BOARD INTELLIGENCE PLATFORM

The Practical Guide to Increasing Board Diversity

10 Steps to Overcome Challenges and Achieve
Board Diversity Goals

Diversity Must be a Top Priority in the Boardroom

Diversity, equity, and inclusion (DEI) have always been important in the boardroom. But today, with new guidelines from Nasdaq, BlackRock, and Goldman Sachs – as well as increased pressure from stakeholders – increasing board diversity has become a top priority.

Yet, for many boards, it's still a struggle. OnBoard's 2022 Board Effectiveness Survey found that 62% of boards believe they are effective in terms of diversity. That leaves 38% feeling less-than-effective in that arena. And let's face it: Even those who feel effective may not be doing all they could (or should) to cultivate diversity.

There's tremendous value in prioritizing board diversity. While it's not always easy, it's certainly possible – and well worth the effort.

In this guide, we'll explore why diversity matters, the top barriers that often stand in the way, and 10 practical steps you can take to overcome these barriers to cultivate a diverse, effective board.

Why Diversity Matters More Than Ever

Recent changes in the business world have sent a message that's loud and clear: Cultivating board diversity is imperative.

For starters, several of the top financial institutions have released guidelines outlining their expectations in terms of board diversity. Nasdaq's Board Diversity rule also requires companies listed on the U.S. exchange to publicly disclose board diversity statistics.

In addition, a California law was passed in 2018 that required corporations to diversify their boards in terms of gender. The Los Angeles Superior court struck down the law, but not before it had a positive impact on board gender diversity. At the time, 28% of boards were male-only. Today, that number has shrunk to 1%.

At the same time, we're seeing a big shift in what's expected of boards. Once upon a time, directors were primarily focused on pleasing shareholders. But today, they must also consider and meet the needs of myriad other stakeholders – including employees, customers, communities, and even the environment. Stakeholders are demanding more diversity and inclusion, and it's a demand businesses can't afford to ignore.

Finally, from a values perspective, increasing diversity is simply the right thing to do. Boards have a big opportunity to be the change they wish to see in the world.
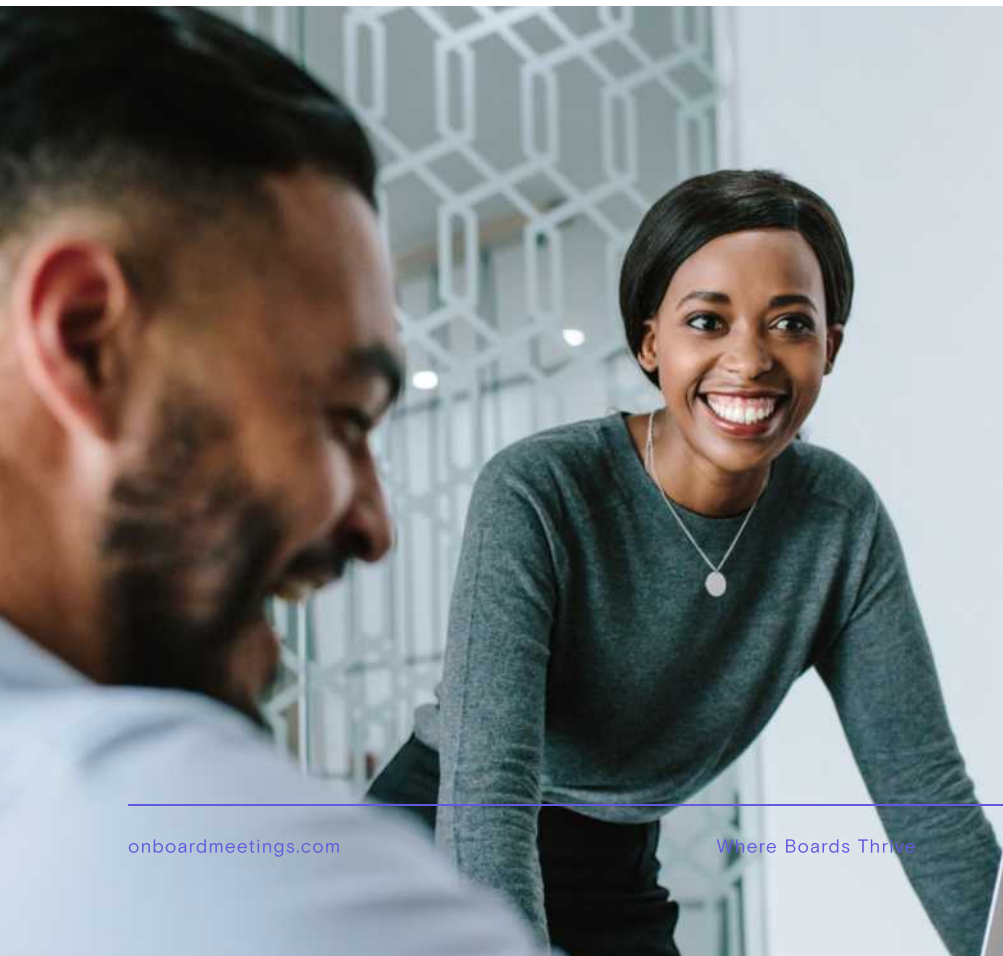
But make no mistake: Bolstering diversity isn't simply a means to meet guidelines, please stakeholders, and do the right thing. It's also a powerful, proven way to increase effectiveness.

When everyone on the board looks the same and has similar backgrounds and experience, they often think the same, too. Directors may default to nodding in agreement, rather than rocking the boat with a differing opinion.

On the other hand, a diverse board often brings diverse perspectives. This is especially critical in today's complex, volatile business world. Diverse viewpoints allow boards to better face and overcome a nearly endless stream of challenges and curveballs.

What's more, diversity in thought leads to greater engagement, decision-making, and effectiveness. In fact, research from business analytics firm Cloverpad tells us diverse teams make better decisions up to 87% of the time. In addition, in a Harvard Law School interview of 18 directors, most indicated that increasing cognitive diversity on their boards led to more informative dialogue and better decision-making.

Cultivating diversity in the boardroom has never been more important.

Diverse teams make better decisions up to

87%

of the time

Top Barriers of Board Diversity

The good news is, we're seeing some positive progress in terms of board diversity.

Consider these stats from Spencer Stuart's 2022 S&P 500 Board Diversity Snapshot:

32%
of board directors are women

22%
are people of color

10%
are women of color

While these are all-time highs, many boards still struggle to increase diversity. This is especially true for boards of small organizations, professional associations, and those in less populous regions of the country.

Oftentimes, a lack of diversity boils down to 5 challenges.

1   A Lack of Board Turnover

When a director leaves the board, that vacancy creates an opportunity to increase diversity. But oftentimes, those vacancies are few and far between.

One common reason for this lack of turnover is the absence of term limits. According to research from the Conference Board, only 6% of S&P companies disclosed a mandatory retirement policy.

Mandatory retirement ages also factor in. The average age of a board member for and S&P 500 companies is about 62. Yet, a common mandatory retirement age is 70.

On most boards, vacancies only occur due to retirement, death, or voluntary exit. That means directors often sit on the board for years on end – and opportunities for refreshment are rare.

2   Traditional Recruitment Practices

A key way boards recruit new members is by tapping into existing directors' professional networks. But oftentimes, our professional networks are composed of people who look like us. So if you ask a group of white, male C-suite professionals to tap into their networks, they're likely to recruit other white, male C-suite professionals.

In addition, some boards – such as association boards – recruit from their membership. Again, organizations are often composed of similar-looking candidates. So this means there are fewer opportunities to find diverse candidates.

3 Implicit or Underlying Bias

The truth is, we all have biases. Whether we realize it or not, those biases shape our thoughts, decisions, and actions.

Some boards think they have to make sacrifices in the name of diversity. For example, they may think that recruiting a diverse candidate means they'll miss an opportunity to add someone with the right skills.

Others make assumptions about certain groups. For example, a board may feel that adding a woman to the board isn't the right move, as a woman may also be focused on her growing family.

The reality is, there are plenty of qualified, engaged candidates from underrepresented groups. It's key to overcome biases – and cast a wider net.

4 Lack of Development Tracks to Build Board Experience

Oftentimes, boards seek out new directors with C-suite and board experience. However, there's a lack of underrepresented groups with this experience. That means boards are often sourcing candidates from a relatively homogeneous group.

There needs to be pathways for professionals – especially those from underrepresented groups – to get their foot in the door to build board experience.

5 A Lack of Board Evaluations

Most organizations depend on annual evaluations to gauge employee performance. But far fewer use annual evaluations to objectively measure directors' performance. Those that do often approach it with minimal effort. This is a missed opportunity to remove disengaged, under-contributing members – as well as those whose skills no longer meet the needs of the organization.

10 Practical Actions to Improve Board Diversity

Sure, there are obstacles that stand in the way of achieving greater diversity in the boardroom. But boards can't allow those barriers to stand in the way of progress – especially with a bevy of new mandates and pressure from shareholders.

With the right framework, it's possible to overcome barriers – and start boosting diversity. The following 10, practical actions are key to achieving your diversity goals – and creating a more effective board.

1 Evaluate Your Current State and Set Goals

Before you can improve anything, you first must evaluate the current state. Board diversity is no exception.

Take an honest look at the current makeup of your board in terms of skills, backgrounds, experience, and diversity. Board software can help you map out directors' skills and backgrounds so you can have a holistic picture of your board's composition.

Then, document your diversity goals. Industry-specific requirements and guidelines – such as those from Nasdaq and Blackrock – can serve as a starting point. But they shouldn't be your only consideration. It's not enough to simply "check the box" on these requirements. Rather, when setting your goals, you must also consider other factors, including the makeup of your shareholders, customers, employees, and other stakeholders.

Then, compare your current state to your goals to identify gaps. These gaps are where you should focus your recruitment efforts.

2 Establish Term Limits

When a seat opens up on the board, it's a golden opportunity to increase diversity. But all too often, these vacancies are few and far between.

One important way to ensure board seats open up on a regular basis is to establish term limits. Boardsource recommends two consecutive three-year terms for nonprofit organizations. On the other hand, the National Association of Corporate Directors (NACD) recommends board term limits of 10 to 15 years.

Consider staggering your terms to avoid the need to fill several roles at once. This approach will also help ensure there are veteran directors in place to mentor newer members.

3   Leverage Annual Evaluations

Annual board evaluations are key to rooting out ineffective board members – as well as those whose skills no longer meet the needs of the organization. But boards must go beyond perfunctory evaluations simply to "check the box."

Create an assessment process that includes feedback from peers. That way, you'll get to the heart of what everyone is really thinking about each director. Consider collecting feedback anonymously to allow for more open, honest responses.

Based on the feedback from these evaluations, there may be opportunities to strategically offboard ineffective or irrelevant board members. Then, you can fill those vacancies with more engaged, diverse candidates.

4   Expand the Board

Rethink your governance structure, and consider adding additional seats to the board. Again, these new vacancies offer an opportunity to bring in more diversity in experience and background.

A Word of Warning:

If you opt to expand your board, beware of tokenism. Rather than adding a single new board seat, consider adding multiple. In addition, remember that adding a new board seat shouldn't be the be-all and end-all. Instead, it should be part of a larger, demonstrated commitment to diversity and inclusion.

5   Leverage Multiple Sources of Diversity

Oftentimes, discussions about increasing diversity are focused on gender, race, and ethnicity. These factors are certainly important. But be sure you're also looking for diversity in terms of factors including age, professional experience, and board tenure – among others.

6   Measure Progress

The late management consultant Peter Drucker is often quoted as saying "what gets measured gets improved." While it may be cliche, it rings true.

Analyze progress toward your diversity goals on a regular basis. In addition, incorporate diversity-focused questions in the board's annual evaluation to ensure you're staying focused and holding the board accountable.

7   Create an Advisory Board

Advisory boards are usually created to focus on a specific initiative or new market. For example, a financial institution might create an advisory board focused on helping the organization gain greater market share among millennials. Who understands this demographic more than millennials themselves?

Typically, advisory boards are less rigid than boards of directors, and they aren't involved with governance. As such, you're less likely to encounter resistance when recruiting people who don't bring extensive board or C-suite experience.

Advisory board members will bring valuable experience to their focused initiative. What's more, forming an advisory board is a great way to identify and train the next generation of board members. The time spent on an advisory board allows both the member and the organization to determine if it's a good fit. Then, if the advisory board member joins the board, they'll already come with a deep understanding of the business.
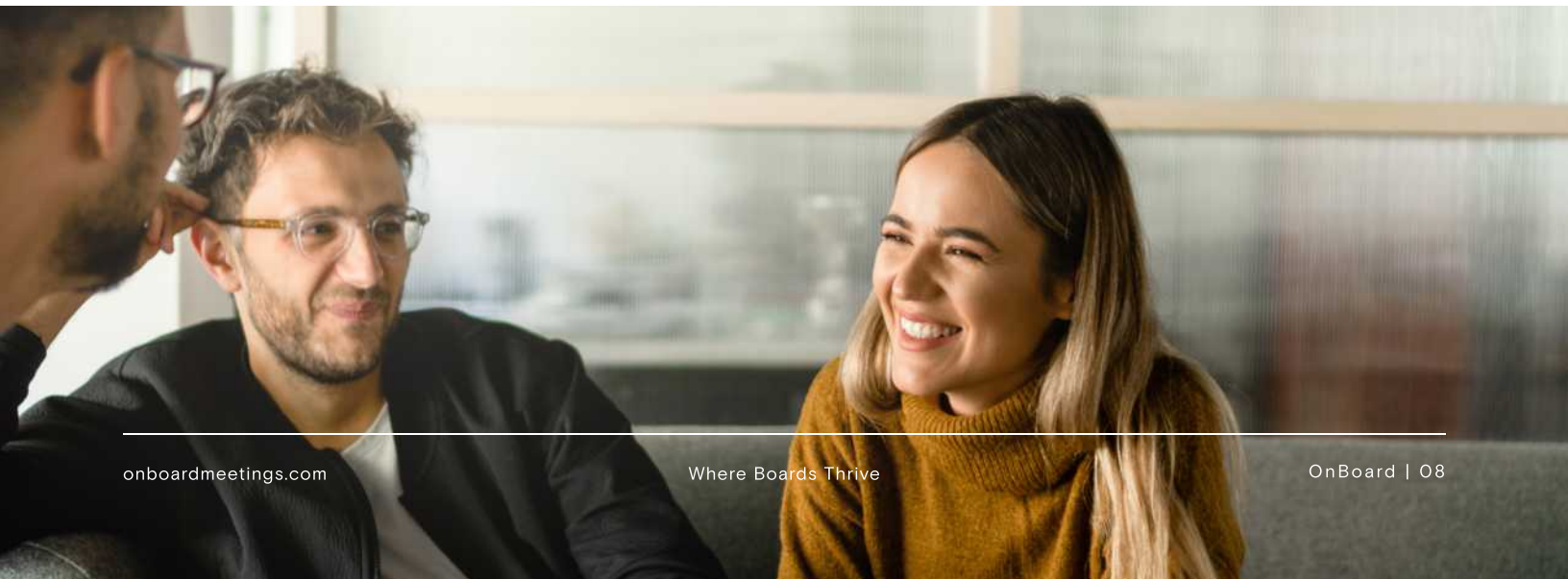
8   Leverage Committees

Today, three-fourths of S&P 500 boards have at least one committee beyond the three core regulatory committees (audit, compensations, and nominating and governance). This isn't surprising. Small, focused committees often make more headway on a project or initiative than if the entire board was involved.

Consider creating a dedicated DEI committee. The directors on this committee can be laser-focused on your diversity goals – and ensuring your board and organization are moving in the right direction.

In addition, consider rotating leadership on all your committees – including your DEI committee. This helps ensure you always have fresh perspectives. What's more, committee leadership is a great development tool for your board members – especially those who recently joined the board.

9   Set Ground Rules

Recruiting a diverse set of board directors is the first step. But in and of itself, that's not enough. The next challenge is to create a boardroom environment that allows for all members to comfortably and confidently collaborate and share their diverse viewpoints. It starts with establishing some ground rules such as:

- No interruptions except by the chair
- Confront in a respectful, non-threatening manner
- Think about unintended consequences of remarks before making them

Make sure all board members are familiar with these rules of the road. Be sure to review them annually, and adjust as necessary.

10   Bake in Diversity via Succession Planning

Diversity should be at the core of all your succession planning efforts. There are a number of ways to bake it in.

For example, leverage a nominating and governance committee, and avoid the trap of renominating directors by default. Also, complete a "clean sheet" assessment of diversity and skills every three to five years. Finally, aim for a mix of board tenures to aid board development. This will ensure you always have a good balance of veteran directors who can serve as mentors to newer directors.
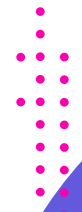
It's Time to Build a More Diverse Board

In a recent OnBoard webinar, board expert and author Peter C. Browning reminded attendees that prioritizing diversity, equity, and inclusion in the boardroom "is not optional." Rather, cultivating diversity must be a top focus for any modern board.

Making a commitment to diversity isn't just about checking the boxes on relevant requirements and guidelines. Rather, it's about bringing a group of people together with diverse backgrounds, experiences, and viewpoints to improve effectiveness – and achieve more for the organization.

OnBoard

Ready to see firsthand how OnBoard can help your board map directors' skills and backgrounds, identify gaps, and work toward a more effective board?

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