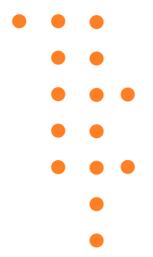


The Practical Guide to Increasing Board Diversity

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 organisations such as 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 when it comes to diversity – which means 38% feel less-than-effective. And let's face it: Feeling effective isn't necessarily the same as being effective.

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

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



Why Diversity Matters More Than Ever

Recent changes in the business world have sent a clear message: Cultivating board diversity is imperative.

For starters, we are beginning to understand diversity's benefits. The Australian Government's Equal opportunity and diversity overview notes that diversity can be good for business and lists the potential advantages of a CALD (culturally and linguistically diverse) workplace.

The good news is that Australian businesses are making progress. The Australian Institute of Company Directors' (AICDs') data shows, for example, a steady increase in female directorships on ASX 200 boards. In November 2021 the figure was 34.1%. It's a promising number but of course gender diversity is only one part of the bigger picture.

We're also seeing a significant 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 other stakeholders, including employees, customers and communities, and be mindful of their organisations' environmental impacts and commitments.

Stakeholders are demanding more diversity and inclusion; 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 great opportunity to drive positive change and set an example for others to follow.

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 experiences, they often think the same. Directors may default to nodding in agreement rather than 'rocking the boat' with a differing opinion.

On the other hand, a diverse board brings diverse perspectives. This diversity is especially critical in today's complex and volatile business world. Exposure to different viewpoints and approaches to problem-solving allows boards to better face and overcome new and emerging challenges.

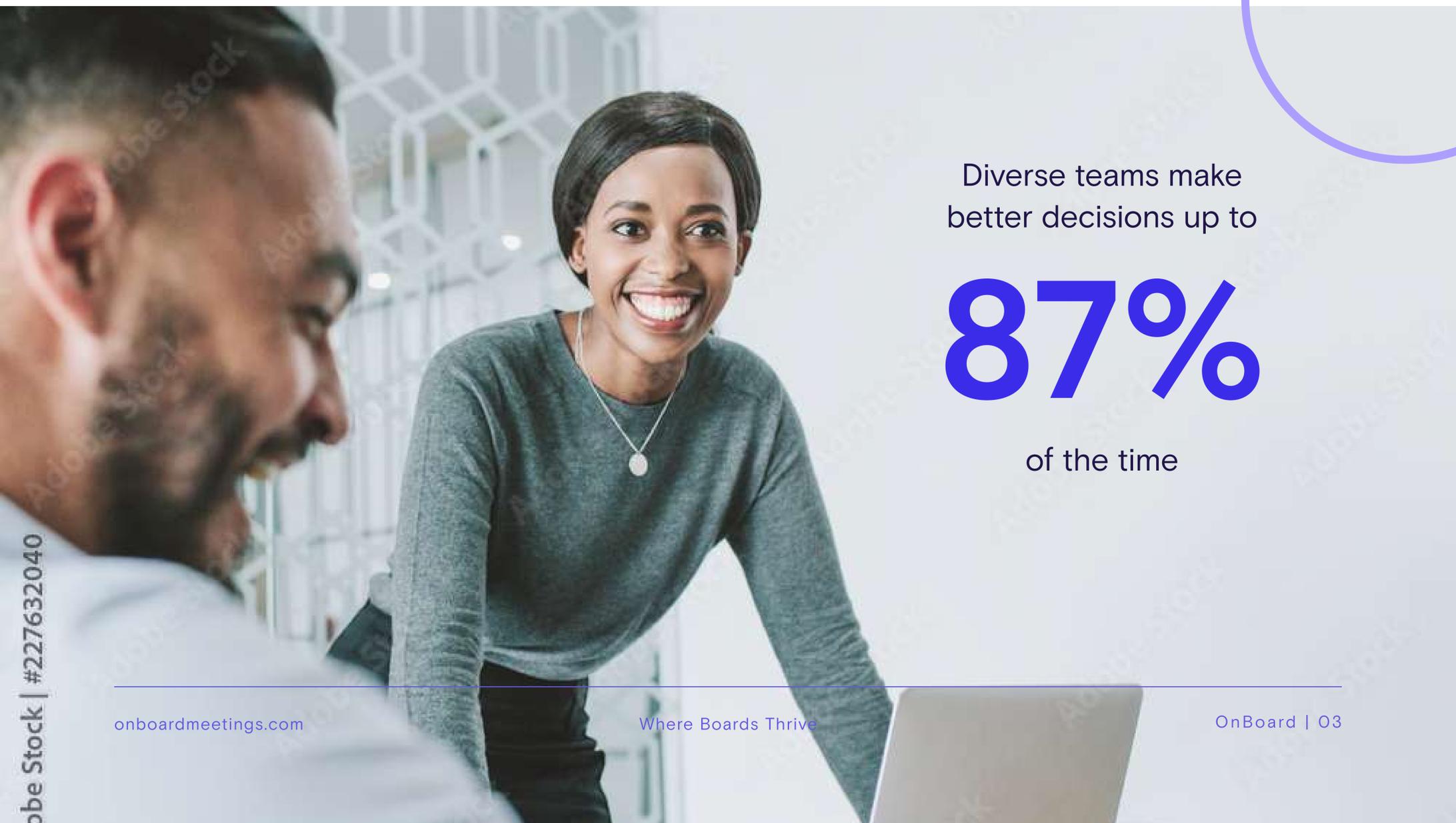
Moreover, diversity in thought improves engagement, decision-making and effectiveness. Research from business analytics firm Cloverpad tells us diverse teams make better decisions up to 87% of the time. In a Harvard Law School interview of 18 directors, most indicated that increasing cognitive diversity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

Cultivating diversity in the boardroom has never been more critical.

Diverse teams make better decisions up to

87%

of the time



Top Barriers of Board Diversity

The good news is that we're seeing some positive progress in board diversity. Consider these statistics from Watermark Search International's Australian [Board Diversity Index 2021](#):



Many boards still struggle to increase diversity. This struggle can be especially difficult for boards of small organisations, professional associations and those in rural or remote areas.

Overcoming a lack of diversity often boils down to resolving five critical challenges:

1 A Lack of Board Turnover

When a director leaves the board, their vacancy creates an opportunity to increase diversity. But often, 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 of a board member](#) for S&P 500 companies is 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 their boards for years, making refreshment opportunities rare.

2 Traditional Recruitment Practices

Many boards recruit new members is by tapping into existing directors' professional networks. But often, 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.

Boards in some organisations recruit from their membership. This is a common practice in associations. Members are likely to be a self-selected and thus similar group of people. Again, this means there are fewer opportunities to find diverse candidates.

3

Implicit or Underlying Bias

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

Some boards think improving diversity means making sacrifices. 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 prioritise her family.

The reality is, there are many qualified, engaged candidates from underrepresented groups. And rigid ideas about the 'right skills' or priorities illustrate the inherent limitations of a non-diverse board: As the saying goes, if the only tool you have is a hammer, then every problem looks like a nail.

One of diversity's greatest benefits is that it gives an organisation more tools for problem solving and creative thinking. That's why it's critical to overcome biases and cast a wider net.

4

Lack of Development Tracks to Build Board Experience

Boards often seek new directors with C-suite and board experience. However, underrepresented groups often lack such experience. That means boards are often sourcing candidates from a relatively homogeneous group.

There must be pathways for professionals – especially those from underrepresented groups – to gain board experience and give boards the benefit of their fresh perspectives.

5

A Lack of Board Evaluations

Most organisations depend on annual evaluations to gauge employee performance. But far fewer use annual evaluations to objectively measure directors' performance. Those that do often approach the task with minimal effort.

This is a missed opportunity to refresh the board by removing disengaged, under-contributing members and ensuring its members have an appropriate mix of skills and experience.



10 Practical Actions to Improve Board Diversity

There are obstacles to 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 your current state. Board diversity is no exception.

Take an honest look at your board's current makeup in terms of skills, backgrounds, experience, and diversity. A board software platform 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 composition of key stakeholder groups including shareholders, customers, employees, community members and more.

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

One practical way to ensure board seats open up on a regular basis is to establish term limits. Boardsource recommends two consecutive three-year terms for not-for-profit organisations. The ASX's [Corporate Governance Principles and Recommendations](#) do not specify term limits but note that “the board should regularly assess” the independence of “any director who has served in that position for more than 10 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.

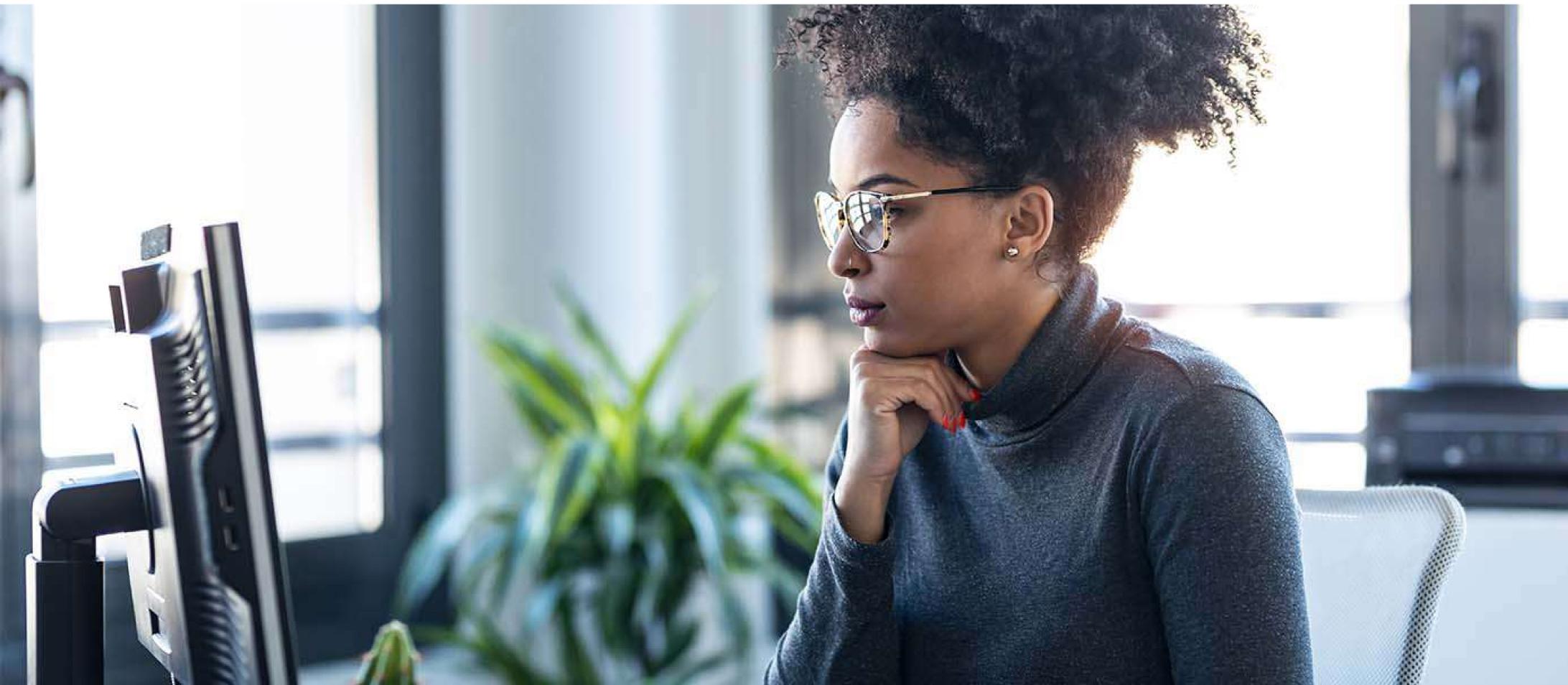
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Leverage Annual Evaluations

Annual board evaluations are critical for rooting out ineffective board members as well as those whose skills no longer meet your organisation's needs. 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 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 several. In addition, remember that adding a new board seat isn't diversity's 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 diversity focus on gender and ethnicity. These factors are certainly important. But be sure you're also looking for diversity in terms of factors including age, professional experience, board tenure, location, cultural experience and more.

6

Measure Progress

The late management consultant Peter Drucker is often quoted as saying “what gets measured gets managed.” While it may be a cliché, it contains a kernel of truth.

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

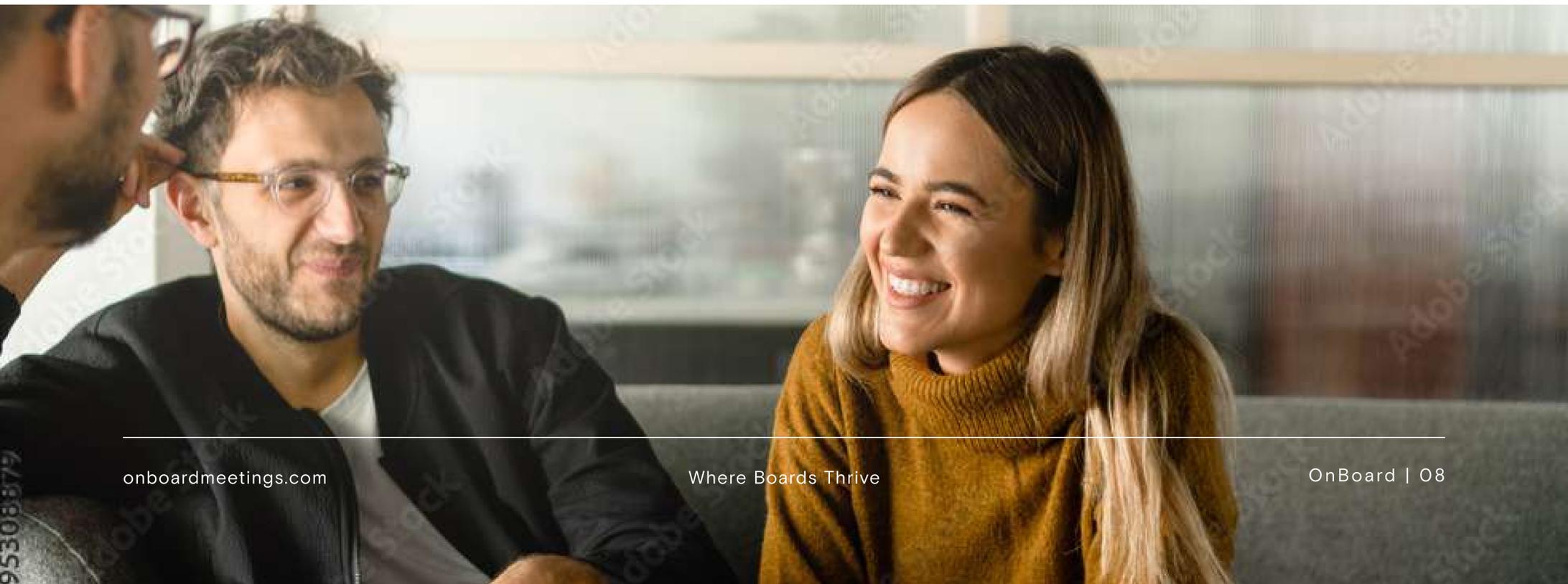
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Create an Advisory Board

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 organisation gain greater market share among millennials. Who understands this demographic better 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 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 organisation to determine if there's a good fit. Then, if the advisory board member joins the board, they'll already have an understanding of the business.



8

Take Advantage of Committees

Today, three-quarters 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 to ensure your board and organisation 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 for recent recruits.

9

Set ground rules

Recruiting a diverse mix of board directors is the first step. But in and of itself, it'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
- Disagree in a respectful, non-threatening manner
- Consider potential unintended consequences before making remarks

Make sure all board members are familiar with these 'road rules.' 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 several ways to 'bake it in.'

For example, establish 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 recruits.





It's Time to Build a More Diverse Board

In a [recent OnBoard webinar](#), board expert and author Peter C. Browning reminded attendees that prioritising diversity, equity, and inclusion in the boardroom “is not optional.” Rather, cultivating diversity must be a strong focus for any modern board.

Making a commitment to diversity isn't just about checking the boxes on relevant requirements and guidelines. It's about bringing a group of people together with different backgrounds, experiences and viewpoints to improve the board's effectiveness and help the organisation achieve more.



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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