ADVISOR BLOG | NOV 2021

Unlocking the Benefits of a Diverse Board of Directors

There has been a major uptick over the last few years in the number of discussions we are having with clients about diversity, equity, and inclusion (DE&I) in the workplace. Companies are very serious in their efforts to understand their DE&I position and develop plans to advance. And while boards are often overseeing this cultural shift, the board's own journey toward diversity, equity, and inclusion may not be receiving quite as much attention.

That's not to say there haven't been significant strides made. Gender diversity on boards has improved greatly, almost doubling from 16% of board seats within the S&P 500 held by women in 2010 to 30% today. Among new directors joining public boards, almost 45% are now diverse by gender or ethnicity. However, we need to recognize that this kind of improvement does not "just happen" and that when it does occur, it's not time to simply check the box and move on.

Let's explore two related reasons it's critically important for boards to focus on their own DE&I: stakeholder pressure and the need to be effective.

First, the pressure to improve board diversity is coming from multiple areas. Investors and shareholders like Blackrock, Vanguard, Goldman Sachs, and others are quite vocal about their views and a collective understanding that there are financial benefits to be gained from diverse boards and management teams. Additionally, the voice of the employee and customer are reflected in the broad societal calls for social justice and activism. And finally, legislation will force the issue for many boards. California and Washington now have laws on the books that mandate board diversity for corporations headquartered in those states, while numerous other states are considering such requirements.

While it can be difficult to change board composition quickly because director transition is rare, we are seeing that the new faces coming in are also bringing new sets of priorities, including a commitment to building on initial steps toward diversity, and perhaps even more importantly, creating a board culture of inclusivity. This has been described as gaining a seat at the table and then making sure one has a voice at the table and amplifying that with other diverse voices.

We know that for any individual, team, or corporation that wants to "do better" in any capacity, intentional decisions must be made and resulting actions taken. Increasingly diverse boards that focus on inclusion to ensure good things happen are making deliberate moves over a long period of time. This includes active listening, allowing impact on decision-making, and building relationships with others, while mitigating negative behaviors

like cliquishness. (One director recently described her board as having made changes to seating arrangements and setting lunch appointments between directors that didn't know one another well.) Boards are also taking process and governance actions, like amending charters to promote inclusive language and requirements for open and thoughtful interactions.

In tandem, this push for more director diversity and creating a board culture of inclusivity will provide the moral authority to push management teams to do more. Ultimately, the long-term result is simply a more effective board that can fully leverage its diverse talents and experience to unlock greater value for the company it serves.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.