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Steps for Corporate Boards Serious About Improving Diversity in the Boardroom

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Boardroom diversity continues to be a struggle for most public companies, but it's not for a lack of trying. Two attorneys in Sidley Austin LLP's public company practice offer corrective steps and say problems usually stem from how boards identify what they want in new directors and how they evaluate potential candidates.

The painful national discussion on race and inequality has put a renewed spotlight on diversity and inclusion, causing public company directors to re-examine—and for some, examine for the first time—diversity in the boardroom.

Although the qualitative and quantitative benefits of boardroom diversity are compelling, too few U.S. public company boards include a meaningful number of diverse directors. A 2019 study by the Alliance for Board Diversity showed that women and minorities combined represented just one-third of Fortune 500 directors, which means that two-thirds of Fortune 500 directors are white males. An even smaller percentage of small-cap company directors are diverse—one [study](#) shows that board diversity in small-cap companies is at least a decade behind the progress made by large-cap companies.

So why do most public companies continue to struggle with boardroom diversity in 2020? In our view, it is not because boards do not want to improve diversity or because boards have not tried to enhance diversity. Instead, it is due to how boards identify what they want in new directors and how boards evaluate potential director candidates.

Below are steps boards can take to address these issues and make progress toward enhancing diversity in the boardroom.

1. Acknowledge the Purpose of Boardroom Diversity

A commitment to diversity involves an acknowledgment of the fundamental value to companies and shareholders of leadership that reflects a diversity of thought, perspective and experience. It involves avoiding tokenism and “check-the-box” mentalities—the problem is not addressed by adding a single woman or minority director to the board. The search for diversity requires the harder task of intentionally seeking individuals who will bring a different perspective and outlook to board discussion. Plus, there is strength in numbers; studies show that greater diversity in the boardroom has a positive correlation with innovation intensity and output.

2. Expand the Director Skills Matrix

Consider what each member of the board brings to the boardroom. Determine which characteristics may be missing due to the natural tendency for people to value more highly traits and experience that they have or perceive about themselves.

Are there blind spots? Is the board focused on characteristics that unnecessarily limit the pool of qualified candidates (e.g., public company board or CEO experience, investment banking experience)? What else could be beneficial that is currently not adequately represented in the boardroom (e.g., industry experience, interpersonal/conflict resolution skills, communications expertise, HR expertise, particular

customer or employee perspectives, etc.)? For example, if the company primarily markets to a specific type of customer (e.g., women, a specific type of physician), is there sufficient representation of that perspective in the boardroom?

3. Reconsider the Process for Identifying Director Candidates

To the extent boards recruit from the networks of their own directors and the CEO, potential candidates may be limited to those who are similar to existing board members not only in terms of educational, socioeconomic and experiential backgrounds, but also in terms of gender and race.

However, there are a wide variety of resources available to boards searching for qualified candidates, including executive search firms and non-traditional sources such as trade associations and organizations focused on identifying and vetting diverse director candidates (e.g., the NYSE Board Advisory Council, which helps identify talented diverse candidates interested in serving on boards). When outsourcing the identification of candidates (e.g., to an executive search firm), it is critical for boards to understand, and provide direction regarding, the sources used to identify potential candidates.

Many companies use outside resources to some degree, and they often start with a large and diverse pool of candidates. However, just like the 2020 Democratic Party primary, all too often only white male candidates remain at the end of the process, which raises another key issue—how boards evaluate the candidates identified.

4. Reconsider How Director Candidates Are Evaluated

This is where a commitment to diversity most often breaks down. It does little good to have a wide pool of candidates if those candidates are ultimately assessed using the wrong criteria.

In evaluating director candidates, it is important to bear the following in mind:

- So-called objective metrics may be inherently biased in favor of the typical white male candidate. For example, requiring board candidates to have public company board experience or to have served as a CEO or CFO of a public company leads to an overwhelmingly white male pool of “qualified candidates.” Although boards should include directors with public company board (or C-suite) experience, certainly not all directors need to bring those same experiences and competencies to the boardroom.
- Unconscious bias may cause directors to favor those who look and act like themselves and judge more harshly those who differ from themselves. Thus, it is important to be aware of this natural human tendency when reviewing CVs and interviewing candidates, and consider ways to counteract it. For example, when reviewing credentials, imagine that the candidate is of a different gender or ethnicity (e.g., when reviewing the CV of a white male candidate, pretend it is the CV of a minority female). Similarly, merely reminding oneself of this natural human tendency prior to interviewing director candidates may limit its effects.
- Focusing on people who will “fit in” can be a way of ensuring boardroom homogeneity. Collegiality and culture are important, but the benefits of boardroom diversity are only achieved by having a mix of people who do not all look or think the same way.

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