

# The Board's Oversight of Racial and Ethnic Diversity, Equity and Inclusion

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# Foreword

In summer 2020, State Street enhanced its commitment to advancing racial justice both inside and outside the organization. As part of this effort, the company launched "[10 Actions Against Racism and Inequality](#)" and made these commitments public to increase accountability and motivate peer companies to take action too.

Commitment #7 tasked the Asset Stewardship team at State Street Global Advisors, one of the world's largest asset managers, to leverage their engagements with thousands of investee companies to glean best practices for advancing racial and ethnic diversity, equity and inclusion. The Asset Stewardship team chose to focus on the topic of board oversight, given the team's governance expertise and the relative lack of literature regarding this dimension of diversity. The State Street team partnered on this effort with Russell Reynolds Associates due to their board governance expertise and extensive relationships with corporate directors, and the Ford Foundation, given their connection to movements for racial justice. The three organizations worked together on this study of the best practices for effective oversight of racial and ethnic diversity, equity and inclusion.

We first consulted academic and policy experts to identify the main risks and opportunities related to strong oversight of racial diversity, equity, inclusion and justice. We then conducted interviews with 27 experienced directors from S&P 500 and FTSE 100 companies. These conversations informed the development of this paper, and our analysis of directors' comments resulted in our enclosed "10 Responsibilities of Boards in the Effective Board Oversight of Racial and Ethnic Diversity."

Board oversight is about ensuring that management is focused on risks and opportunities that are relevant for the firm. Our hope is that boards will incorporate this guidance into their oversight practices in a way that is tailored to their particular company's context. We believe the following insights provide a view into boardroom discussions and also offer a roadmap for how companies can more effectively manage and mitigate risks related to racial justice, thus making our world more equitable.

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# Acknowledgements

As part of our research, we interviewed 27 directors from the S&P 500 and FTSE 100. The group was approximately half women and nearly two-thirds people of color. The companies on whose boards they serve represent all sectors.

We extend our gratitude to these directors:

- **Tom Baltimore** (American Express, Park Hotels & Resorts, Prudential Financial)
- **Les Brun** (Broadridge Financial, CDK Global, Corning, Merck)
- **Ursula Burns** (Exxon Mobil, Waystar, Uber)
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- **Maggie Chan Jones** (Avast)
- **Ken Denman** (Costco, Motorola, VMware)
- **Bill Easter** (Delta Airlines, Emerson Electric)
- **Dame Amelia Fawcett** (State Street)
- **Jamie Gorelick** (Amazon, VeriSign)
- **Carla Harris** (Cummins, Walmart)
- **Melody Hobson** (Ariel Investments, JPMorgan Chase, Starbucks)
- **Tom Ilube** (BBC, WPP)
- **Andrea Jung** (Apple, Unilever, Wayfair)
- **Tanuj Kapilashrami** (J Sainsbury)
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- **Risa Lavizzo-Mourey** (Better Therapeutics, GE, Intel, Merck)
- **Paula Reynolds** (BP, GE, National Grid)
- **Jon Rubinstein** (Amazon, Robinhood)
- **Steve Reinemund** (Marriott, Walmart)
- **Ron Sargent** (Five Below, Kroger, Wells Fargo)
- **Christiana Smith Shi** (Mondelez, UPS)
- **Gaby Sulzberger** (Eli Lilly, Mastercard)
- **Joe Swedish** (CDW, IBM)
- **Jackson Tai** (Eli Lilly, HSBC, Mastercard)
- **Darren Walker** (PepsiCo, Ralph Lauren, Square)
- **Ireena Vittal** (Compass Group, Diageo, Wipro)

While most directors spoke to us with an understanding they would be quoted anonymously, several chose to waive that and have their quotes attributed to them in the paper.

We also appreciate the academics, policy experts and thought leaders who contributed to our understanding of the key business risks and opportunities related to racial and ethnic diversity, equity, inclusion and justice.

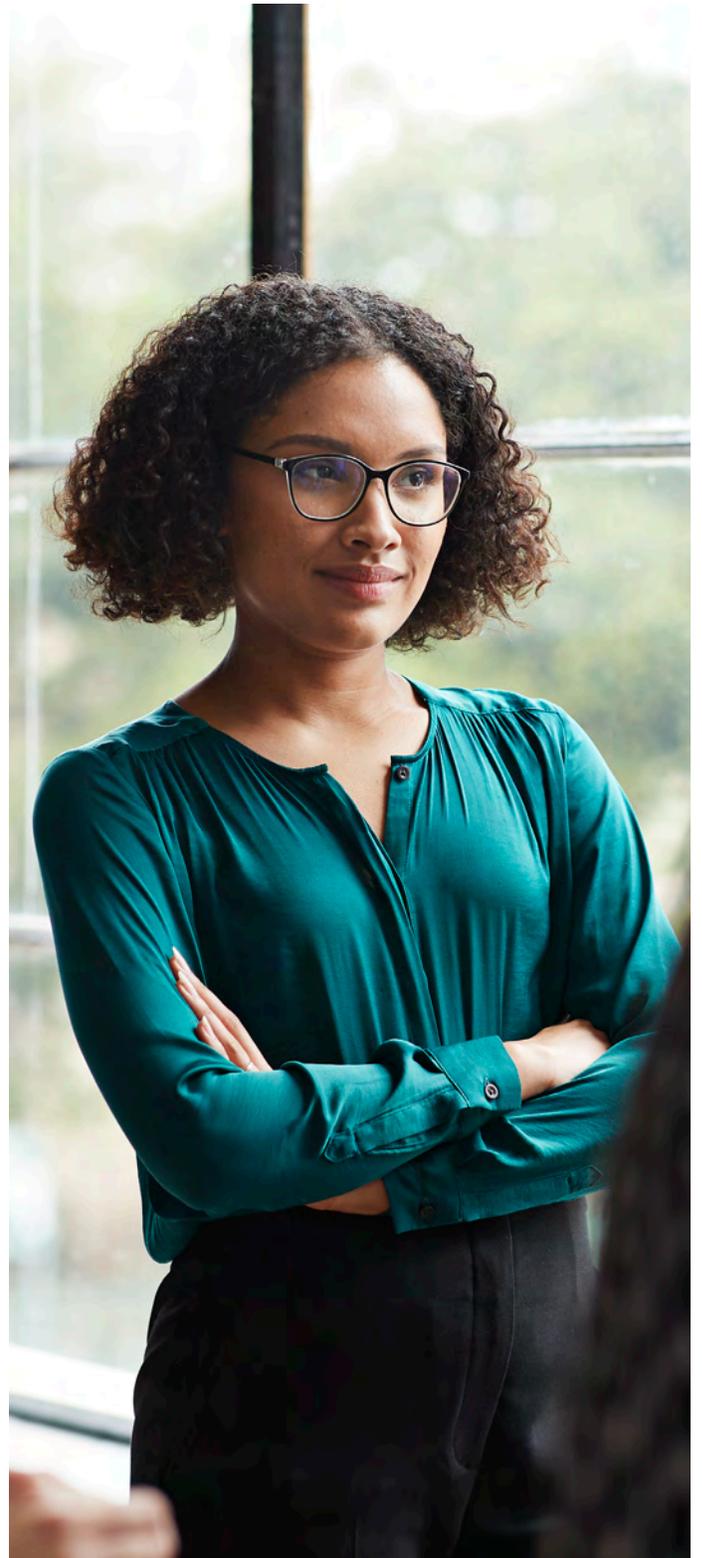


## Executive Summary

- **What motivates board oversight of racial equity:** The following risks and opportunities motivated directors' increased focus on racial and ethnic diversity, equity, & inclusion (DE&I): reputation, strategy, financing, regulatory and compliance, and human capital. Directors did not cite the potential economic impact of racial inequity as a key motivator.
- **Oversight in practice:** Directors referenced one or more of the three major committees—audit, compensation, and nominations and governance—as having explicit oversight of racial and ethnic DE&I. Most boards undertake a hybrid approach to oversight—discussing the issue in committee, but also making it a full-board topic. The full-board discussions often center on the interplay between DE&I and strategy and on DE&I as a component of corporate culture.
- **Where boards are focusing their attention:** Directors indicated a heightened focus on racial and ethnic diversity as it relates to workforce diversity and representation; inclusion and belonging; retention, promotion and succession planning; and engagement on social and political issues. Few directors spoke about oversight of the potential impacts of their company's products, services or operations on communities of color.
- **Metrics and performance management:** Directors—especially those who sit on the compensation committee—seek to identify the proper metrics to measure progress on DE&I and then to link executive compensation to performance against those goals. Directors also described the challenge of getting good data and interpreting it correctly.
- **Challenges in a global context:** Multinational corporations face a particular challenge when it comes to overseeing racial and ethnic diversity. Different regions and countries define and collect data on diversity in different ways. It is important to obtain the right data and to interpret it correctly.

- **Guidance:** Our conversations with directors led to the development of “10 Responsibilities of Boards in the Effective Board Oversight of Racial and Ethnic Diversity,” a roadmap for boards that wish to elevate their focus on DE&I. We fully recognize that boards need to incorporate this guidance into their oversight practices in a way that is tailored to their particular company’s context:

- 1 Ensure the CEO and board chair have the capacity and commitment to drive the organization’s racial equity efforts long-term
- 2 Build a board whose directors are racially and ethnically diverse and have experience with oversight of DE&I
- 3 Make racial equity an active part of the business strategy and work toward clear and quantitative key performance indicators
- 4 Make racial and ethnic diversity, equity, and inclusion both a committee and full-board responsibility
- 5 Regularly evaluate the potential impacts of the company’s operations on communities of color, embracing relevant opportunities and mitigating relevant risks
- 6 Facilitate boardroom discussions that are thoughtful, balanced, and intentional, and build a culture where directors are empowered to challenge ideas
- 7 Include the perspectives of stakeholders (including employees) in board discussions
- 8 Create a structured onboarding and ongoing training process that prepares all directors for effective oversight of DE&I
- 9 Build a coalition, share best practices, and learn from peers and experts
- 10 Realize this is a long journey - be patient and don’t give up



# What motivates board oversight of racial equity

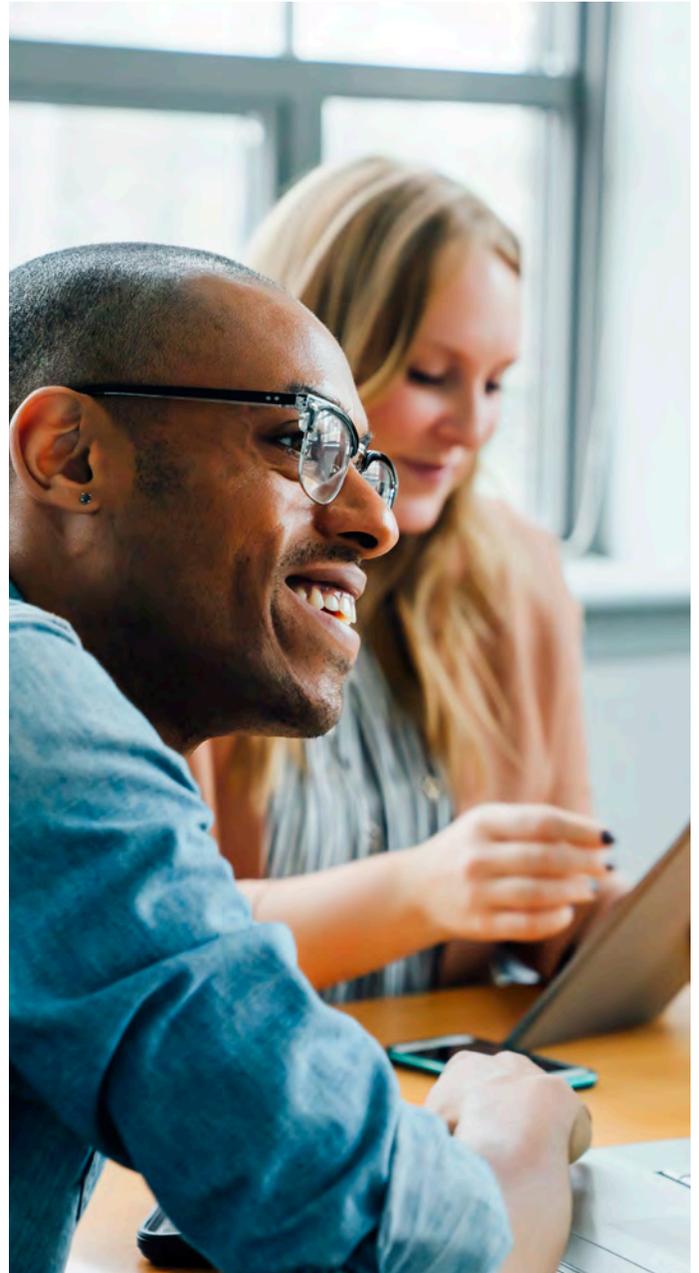
**Racial and ethnic diversity “has been on the board agenda” in the past, as one director said, “but it’s certainly never had the focus it has now. On one hand, what took so long? On the other hand, at least we can now move the needle.” Another director agreed: “It keeps coming up, but in the last 18 months, it has become more of an imperative.”**

Given State Street Global Advisors’ perspective as a long-term investor, and with input from diversity, equity and inclusion (DE&I) experts, our organizations identified six key business risks and opportunities related to racial and ethnic diversity. Our discussions with directors helped us understand which risks and opportunities are motivating their increased attention to the issue of racial diversity, equity and inclusion (they are listed below in descending order based on how often they were raised in our conversations with directors):

- **Reputation:** Brand is a key component of enterprise value and stock price.<sup>1</sup> As highlighted in 2020, companies that genuinely and consistently promote racial and ethnic diversity, equity and inclusion can attract customers and other stakeholders, increasing the value of a firm’s brand. Conversely, companies that do not take action on this issue risk damaging their reputation. Almost every director we interviewed spoke to the importance of considering the reputational risks and opportunities related to action on racial equity. Many referenced the murder of George Floyd as an inflection point which motivated companies to start focusing on DE&I or to accelerate their efforts in that area.
- **Strategy:** Companies that prioritize racial and ethnic diversity, equity and inclusion can have a competitive advantage over peers and access new markets, customers and ideas, as well as enhance the long-term viability of their firms.<sup>2</sup> At least half of directors interviewed spoke to the importance of DE&I in driving performance. “My view is best-in-class CEOs, even before George Floyd’s death, took ownership of this issue, understanding that it’s key to competitive advantage in the marketplace,” one director said. Another agreed: “It translates to being a more successful company. The literature is clear: Diversity is a business imperative, not a favor the company is doing for its workers of color.”
- **Financing:** Investors are increasingly focused on managing portfolio risks related to racial and ethnic diversity, and research suggests that companies with effective environmental, social and governance (ESG) risk management practices benefit from a lower cost of capital.<sup>3</sup> At least half of directors interviewed referenced the role of institutional investors in increasing the board’s focus on DE&I. While some directors seemed to bristle at the outsized influence of external stakeholders and investors, others were more appreciative: “I’m glad institutional shareholders and Nasdaq are now having an impact on director diversity,” said one director. Another remarked that institutional investors “are saying, ‘You could end up on a list of companies that we do not invest in because you do not have diversity.’ That’s been a huge impact. They will be measuring and tracking, and they will make proxy voting decisions based on this.”
- **Regulatory and Compliance:** Prioritizing racial and ethnic diversity, equity and inclusion can prevent a company from violating local and federal regulations and laws and protect it from litigation being filed by employees, investors and other stakeholders. One third of directors interviewed said that this has motivated their board’s oversight of DE&I, especially in markets outside the US. One director who has served on both US and European boards noted that the increase in diversity regulations has led to an uptick in board discussions about the topic. “The primary conversation in Europe over the last several years had been more about gender diversity, given EU requirements and the push by Angela Merkel,” they said. In the US, given California’s legislative requirements on board diversity, “the NomCo and full board are now spending more time on this. I certainly don’t think anyone believes this issue will live and die in California. It will happen in other states, and it will be on the national agenda, so boards are trying to get ahead of it.”

- **Human Capital:** Companies that build a diverse, inclusive and equitable workforce can have an advantage in recruiting and retaining talent of all backgrounds, particularly younger professionals. Research indicates that companies that build diverse workforces and inclusive cultures are more likely to generate above-average revenue, earnings and market share growth.<sup>4</sup> One third of directors interviewed pointed to the importance of managing risks related to DE&I in order to attract and retain high-quality talent. “‘Employee belonging’ is very important,” Maggie Chan Jones said. “As there are more conversations about race, employees are going to demand better representation in the C-suite and in the boardroom as well” or else leave for more diverse employers. Pressure from the workforce is a growing concern for boards. “In the last 18 months, you’ve seen the competitiveness for the most marquee potential people of color get really intense, particularly for the board,” one director said. “If they don’t see people who look like them at the top two levels of the company, it impacts the longevity of diverse talent if they don’t see a way to progress in your company.”
- **Economic Impact:** Research has demonstrated the impact that racial injustice has imposed upon the broader US economy, leading to trillions of dollars in lost GDP.<sup>5</sup> Even though companies could address these systemic risks by advancing racial justice and preventing negative externalities, this topic rarely came up in discussions. One director speculated that directors “are not there yet and do not yet fully understand” the opportunities companies have to empower communities of color outside their firm.

*[See appendix for examples of indicators boards can use to assess performance in each of these six areas.]*



# Oversight in Practice

As with other dimensions of corporate governance, the board must decide who has responsibility for the oversight of racial and ethnic diversity: the full board or a specific committee? And if a committee, which one? Answers varied among the directors we interviewed. Only a few boards addressed the issue solely in full-board meetings. Each of the major board committees was mentioned as having relevant responsibility for issues related to the oversight of racial and ethnic diversity:

- **Nomination and Governance Committee:** Due to the direct relationship between DE&I and director and executive recruiting, compensation decisions, and succession planning, the nominations and governance committee often has responsibility for oversight of DE&I. Similarly, these committees are also often responsible for external and reputational risk, which can be a key driver of the board's focus on DE&I and ESG. A recent Russell Reynolds Associates survey of nominations and governance committee (NomCo) chairs shows they are engaging on this topic, with 91 percent indicating a focus on increasing diverse skill sets and backgrounds in management.
- **Compensation Committee:** Compensation committees often maintain responsibility for the oversight of racial and ethnic diversity, given their focus on human capital management and talent development more broadly. Some committees are also tasked with incorporating diversity-related performance metrics into executive compensation plans. It is worth noting that the UK Governance Code explicitly requires the compensation committee and other directors to engage with the wider workforce, which can give them valuable insight into DE&I issues in the business.
- **Audit Committee:** While a limited number of directors reference DE&I as part of the audit committee's remit, one director noted that "the audit committee has to reconcile issues which are internal audit matters, including issues raised by employees" related to DE&I. Similarly, a few boards address the topic in the audit committee because it is seen as being directly related to risk management or corporate social responsibility, both of which are often captured within the audit committee's charter.

In a recent survey of NomCo chairs, when asked to identify the top three most important organizational efforts the NomCo was involved with:<sup>6</sup>



**91%** identified balancing the board's level of management experience with the need for diverse skill sets and backgrounds



**84%** identified increasing diversity of slates for CEO role and other senior executive leaders



**78%** named addressing gender equity and gender bias

Several directors indicated that corporate social responsibility, public policy or similar committees have responsibility for DE&I, but these board committees are less common given that only the three aforementioned committees are required by most exchanges.

While the discussion often starts in one committee, it rarely stays there. One director noted that "While each committee is seeing a piece of it, it bubbles up to discussion at the full board because it is coming from several committees." Discussions at the full-board level can also advance a more coordinated approach to DE&I: "What we want to see is a concerted, integrated, comprehensive strategy to address inclusion and diversity across the company."

The oversight of corporate culture seems to be one of the driving forces behind these discussions. Corporate culture is increasingly recognized as one of the intangible value drivers affecting a company's ability to execute its long-term strategy.<sup>7</sup> "If you look at companies that have had the biggest problems recently, it is always about the culture," one director said. "The culture conversation is a lot more subtle and nuanced and is the responsibility of the full board."

# Where Boards Are Focusing Their Attention

While every board has a unique set of priorities, there are a number of common areas that most, if not all, directors reported focusing upon:

- **Workforce Diversity and Representation:** "The most important topic was gender balance until 2020," Jackson Tai said. "Then it moved to addressing racial imbalance. Now we're looking at racial, ethnic, gender and diversity statistics for board as well as for senior management and middle management ranks." Many directors spoke about similar shifts. "The quality of the conversation is evolving to really understand the impact on the shareholder, which is our job," one director said. "It started much more focused on the NomCo and about representation on the board and has become about representation at every level, including on the board. Do your workforce and board represent the diversity of the customer base, of your future growth, the communities you serve, your customers?"
- **Inclusion and Belonging:** Many boards go beyond diversity to focus on inclusion and belonging within the organization. "It's not just a numbers game, having a certain number of people of color in ranks; it is more about creating a sense of belonging for employees, unlocking the talent that's inherent in every person," one director said. Companies take various approaches to measuring inclusion and belonging, from pulse surveys to discussions with employees to formal inclusion indexing tools, the results of which are shared with the board. One director shared that "We have an inclusion index which measures inclusion for every team of more than six people. [...] Inclusion for us, in terms of representational diversity, is one element, but we look at many other elements such as: Is it safe to speak up? Do you have the tools to be able to do your job very well? We think about inclusion in its broadest sense."
- **Retention, Promotion and Succession Planning:** Boards are increasingly aware of the challenges associated with retaining diverse employees and are expecting action from senior management to improve. "Where you see diverse employees leaving is after the first promotion," one director said. "You have to say, 'This is where we can't lose people.' We have to understand this problem, set the metrics to keep them, keep them productive, keep them moving forward." Gaining this level of insight requires something more detailed than high-level statistics, which can paint a misleading picture of the state of DE&I in the enterprise. "Historically, the numbers, to the extent they have been reported to boards at all, are done so in aggregate," one director told us. "It's easy to pat yourself on the back for your aggregate numbers relative to your peers', but things get pretty appalling when disaggregated." Directors noted the importance of setting the strategy, getting the right data and focusing on the desired outcomes.
- **Engagement on Social and Political Issues:** Several directors also described an increase in conversations about the company's political positions and activities. This is an especially complex issue for board leaders and is an area where directors must have "courage to challenge, to be curious and to be prepared to do things that are maybe not fully embraced by shareholders," as one director told us. Picking where and when to engage requires thoughtfulness. One board leader pointed out that "Some social issues affect how your company goes to market [or] have a reputational impact. Often these are intangibles and are difficult to measure, at least in the immediate term." One clear lesson from 2020 is the importance of having a process for sorting through those issues before they arise: "You have to think about this framework ahead of time."

### Addressing racial equity: A stakeholder perspective

Directors might consider the priorities articulated by PolicyLink, FSG, and JUST Capital in their “2021 CEO Blueprint for Racial Equity:”

- 1 | Embed accountability within corporate governance and leadership performance;
- 2 | Design HR policies and practices that are actively antiracist;
- 3 | Expand worker power and voice;
- 4 | Design products, services, operations and supply chain to center on racially equitable outcomes;
- 5 | Invest directly in low-income communities of color; and
- 6 | Advocate for local and federal policies that address structural inequities.<sup>1</sup>

Beyond these topics, issues as wide-ranging as board diversity, pay equity, supplier diversity and corporate philanthropy were all raised during our discussions, highlighting the myriad issues directors are facing, the complexity of the topic and the depth of the board’s role.

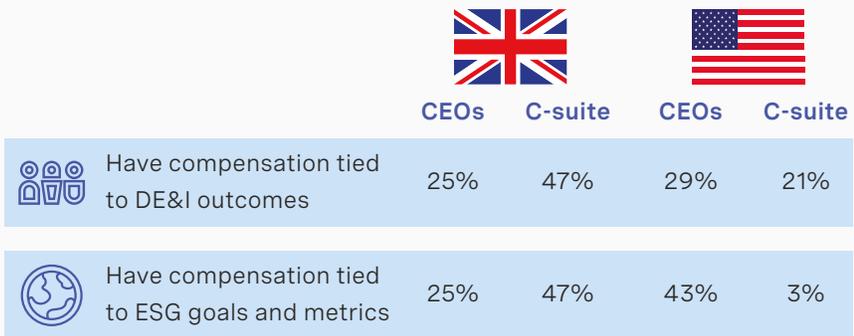
Despite an awareness of reputational and other risks associated with a lack of attention to racial justice, very few directors spoke about oversight of the potential impacts of their company’s products, services or operations on communities of color. “I had a conversation, literally on a board call, where I was explaining equity and equality,” one director said. “Part of it has been getting people to understand the difference, prioritizing and elevating voices and communities that have been ignored in the past. You’ve got to figure out a way to get them more equity, to give up capital so they can become owners with you.”



# Metrics and Performance Measurement



In a recent global survey of executives, CEOs and other C-level executives at companies with over \$1B in annual revenue reported a link between compensation and major corporate goals:<sup>9</sup>

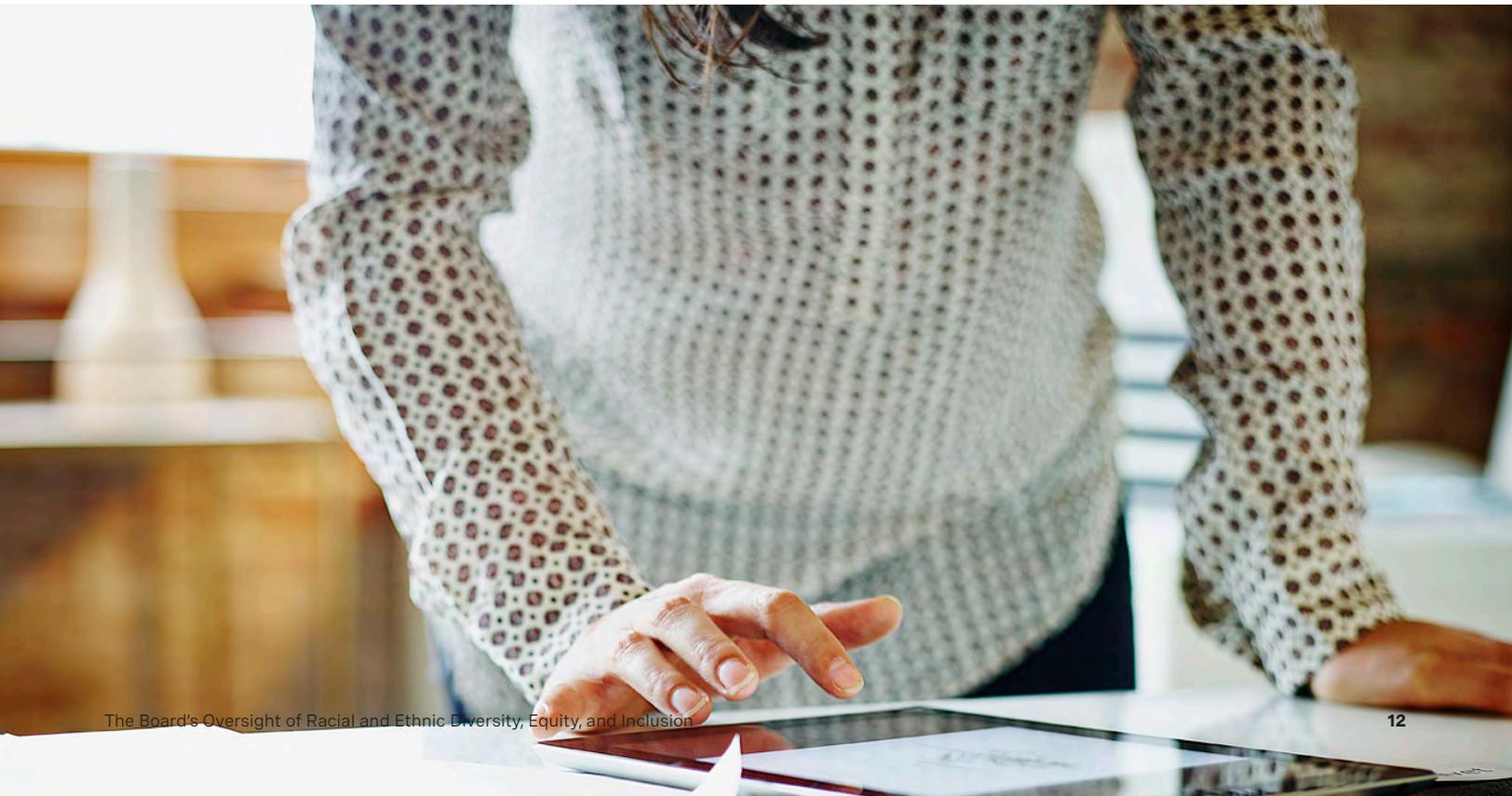


Setting goals is essential to directing a company’s DE&I strategy and holding management accountable for progress. “We set targets for how you move along the D&I journey,” one director said, “and those should be stretch goals so people can feel they have something to reach for but that they’re not out of reach. We set goals for increasing diversity in the organization at different levels and across different areas.”

A number of directors indicated not only a willingness to tie executive compensation directly to DE&I, but a belief that it is a critical step to bringing about positive change. “Things moved when you tied compensation to it,” Tom Baltimore told us. “Compensation is always important; it gets measured, and people are held accountable—executives will respond” to the goals the board established. Analysis by RRA shows that while a sizable minority of CEOs in the US (43 percent) have their compensation tied to ESG goals, it is relatively uncommon for CEOs in the US or the UK to have their compensation clearly connected specifically to DE&I outcomes—only 29 percent of US CEOs and 25 percent of UK CEOs surveyed indicated their compensation was tied to DE&I outcomes.

Directors at companies with DE&I-related compensation plans acknowledged that there was often concern with how executives would be measured, what data would be used and whether the executives were being set up for success. "It was difficult. There was lots of pushback," one told us. "It's difficult to have that conversation, but that's where, if you agree on the goals that affect compensation, it's easy for the CEO to charge HR and the executive team to come back with an appropriate team and proposal that makes it happen. They have to sell it, and the executives have to buy it." Another director agreed, but noted that some topics—like having an inclusive culture or ensuring employee safety—should be table stakes for leadership, not something that in and of itself is rewarded with more compensation.

Several directors cited data quality and availability as an ongoing challenge. "The more data you have, the more you're able to do something about it," one director said. But quantitative employee demographic data can be hard to come by—and easily misunderstood. Employee surveys also present their own challenges. "Longitudinal satisfaction surveys are important, but they're often too high level," one director said. Another admitted that "with the surveys we do of employees, we are still grappling with how to understand the feedback."



# Challenges in a Global Context

The oversight of racial and ethnic diversity is challenging when operating within a single country—it gets significantly more complex in a multinational organization. “It is not one size fits all,” one director told us. “Diversity has a different meaning in India, in the Middle East and in the United Kingdom. It’s not the same as in the United States. Things are not quite so clear when you’re looking across international borders.”

Access to data is one hurdle boards must overcome. While companies in the United States can use the federal government’s EEO-1 data to get a view of workforce demographics, a director pointed out that “in some countries in Europe, it’s illegal to ask for diversity data—and that makes it even trickier.”

Companies also risk having robust data but reaching incorrect conclusions. “As you can imagine, it is actually very important to track someone’s ethnicity as it relates to the market,” a director said. “If you look at the number of senior Black leaders we have in our company, it’s a pretty high number. That’s because all of our senior leaders across each one of our African markets is Black, and we are in every market in Africa. So, for us not to track just Black ethnicity, but specifically British or American Black people

as well, is a very important distinction.” Compounding all of this is a risk that international diversity and racial and ethnic diversity can be confused. “Adding an African is not the same as adding an African American,” one US director said. “We have to do both.”

Another part of the challenge is directors’ mindsets. “I think a lot of US-centric executives haven’t been exposed to global issues, and they try to impose US diversity thinking onto an international population, which I don’t think is appropriate or helpful,” one director said. “There are real diversity issues around the world, and US solutions are not necessarily the right solutions elsewhere. I think the issues we talk about in global companies are far different from what most US-centric companies talk about.”

The same is true for US-based companies with non-US directors. Conversations about DE&I differ so significantly across countries and regions that directors need specific education from each board they sit on regarding DE&I in that particular context, including available data and applicable laws. It is also important for directors of global companies to consider their shareholders and to be prepared to discuss DE&I with US- and UK-based investors.



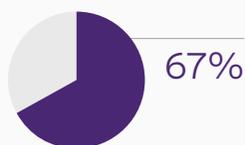
# Guidance

Our conversations with directors led to the development of “10 Responsibilities of Boards in the Effective Board Oversight of Racial and Ethnic Diversity,” a roadmap for boards that want to elevate their focus on DE&I. We encourage boards to consider integrating these recommendations into their oversight practices in a manner tailored to their organization’s culture and governance frameworks.

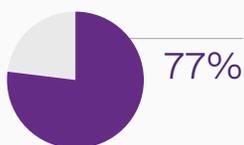
1. **Ensure the CEO and board chair have the capacity and commitment to drive the organization’s racial equity efforts long term.** “Everything flows from the tone at the top,” one director reminded us. The best-intentioned board will struggle to catalyze change if the board chair and CEO are not committed to the effort. “Companies that do this well are those that don’t see it as a check-the-box initiative,” another director said, “but rather as a part of their corporate purpose in serving the community and unlocking potential in the employee base. Once you get over that, and get aligned, things change. You must have a CEO who is willing to do it, because purpose is driven at the highest level of the company.”

2. **Build a board whose directors are racially and ethnically diverse and have experience with oversight of DE&I.** Boards must prioritize DE&I in their director recruitment efforts, both to improve the diversity of the board itself and to recruit directors who understand the importance of overseeing DE&I within the business (including HR and DE&I professionals). A recent RRA survey of NomCo chairs indicates that 67 percent felt DE&I expertise is important for new board directors (77 percent said the same about new senior executives). Directors from underrepresented communities can play an active role in helping recruit other directors of color. It is important that boards create an environment where directors of color are not expected to speak on behalf of every person who shares their identity. As boards are regularly refreshed, recruiting directors who value diverse perspectives is essential. One director we interviewed, who serves as a nominating and governance committee chair, asks director candidates “how they advance greater D&I in their various walks of life. [...] If they say it can’t be done, that is concerning. A fatalistic response is sure death. They won’t be helpful and may be obstructionist. So, they’re a burden not worth putting on the board.”

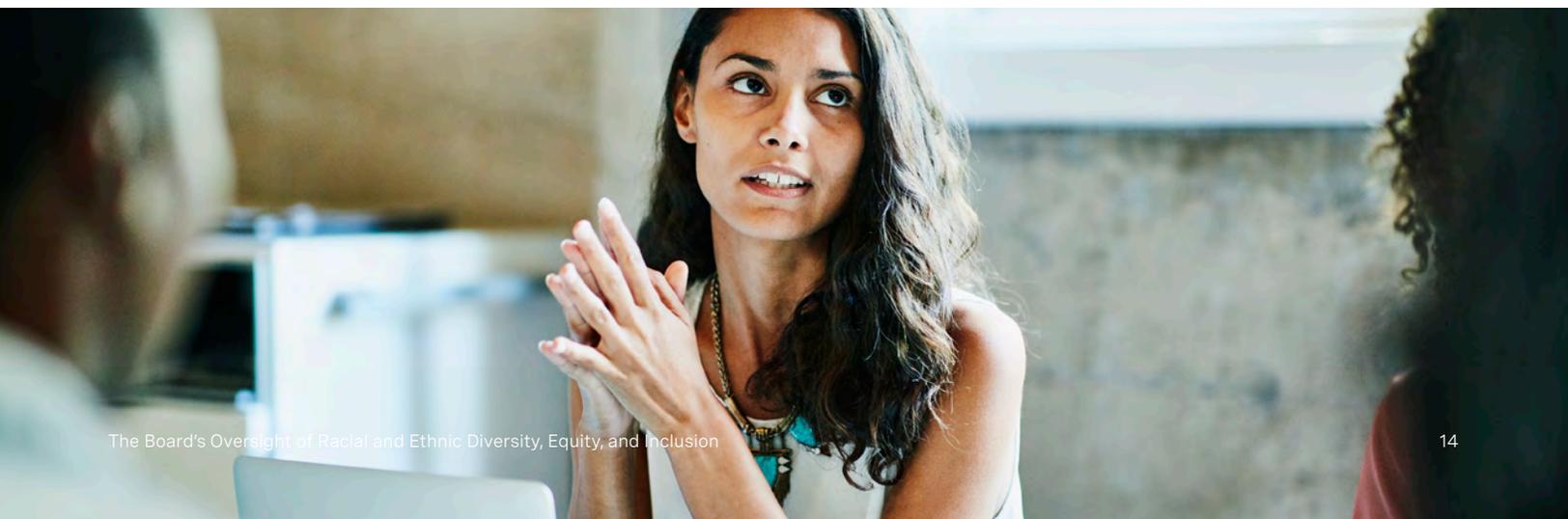
In a recent survey of NomCo chairs:<sup>10</sup>



agreed that DE&I expertise is important for new board directors



felt the same way about new senior executives



3. **Make racial equity an active part of the business strategy and work toward clear and quantitative key performance indicators.** As one director said, “You need to get the board to treat DE&I like any other important part of the strategy—we shouldn’t be treating this any differently than any other business process we oversee.” Integrating DE&I into the business strategy requires boards to regularly review performance against specific metrics and KPIs related to DE&I. “Be sure that as you define issues, you also develop metrics to use to determine if you are meeting or exceeding what you are trying to do,” one director said. “Lay them out and own them. Own the bad news if you are intending to change it and resolve it.” This effort can involve publicly setting targets related to the diversity of board and staff and being open about progress. Executives should be tasked with identifying and addressing inequality in the organization and held to account for their performance, including through their variable compensation.
4. **Make racial and ethnic diversity, equity and inclusion both a committee and a full-board responsibility.** Acknowledging the complexity of DE&I and its relevance across board committees is important. Boards should address racial DE&I “at the full board as a strategic conversation,” one director said, but also in committees “at a tactical level.” Tom Baltimore agreed: “A lot of the initial work may be in NomCo, around director selection, or comp committee, because you want to look at the data and facts, and the reality is that what gets measured gets focused on,” but ultimately, “at most companies that do this well, it’s a board discussion.” Details about oversight practices (e.g., frequency of discussions, specific risks addressed, committee responsibilities, etc.) should be addressed in public governance documents and in engagements with stakeholders.
5. **Regularly evaluate the potential impacts of the company’s operations on communities of color, embracing relevant opportunities and mitigating relevant risks.** Few directors were focused on the potential negative externalities of their business on communities of color. Similarly, few focused on the opportunities presented by serving diverse communities. “I never thought that it was reasonable to try to govern a company without understanding that you are in a community and a society and using resources,” one director said. Boards could consider their company’s efforts to engage diverse suppliers, tap into new customer segments, provide charitable contributions to racial justice organizations and enable economic growth and development through the use of corporate resources, etc. They should also make sure to avoid offering products and services that disadvantage communities of color.
6. **Facilitate boardroom discussions that are thoughtful, balanced and intentional, and build a culture where directors are empowered to challenge ideas.** Numerous directors agreed that “the role of the chair is absolutely key” to creating an inclusive boardroom culture that welcomes diverse directors and effectively oversees DE&I. Board leaders should be proactive on racial equity and embrace uncomfortable conversations. The role of the chair in building an inclusive board culture is critical and takes intentional leadership: Research on board culture has shown that highly effective boards of high-performing companies have chairs who are 17 percentage points (pp) more likely to foster and facilitate high-quality debates, 17 pp more likely to actively seek different points of view and 13 pp more likely to draw out the relevant experience of directors compared to all boards.<sup>11</sup> One director, who is a woman of color, spoke highly of her board chair and noted: “He has done a phenomenal job to ensure that when we have too many people speaking on the same topic, he will always create room for me to speak or amplify something that I’m saying.”

7. **Include the perspectives of stakeholders (including employees) in board discussions.** One director reflected on the importance of engaging with employees and understanding their experiences: “You’ve got to talk to people in the organization. You can’t just parachute in a half dozen times a year for a board meeting and really understand internal dynamics. If you really believe that D&I is key to unlocking shareholder value, then you have an obligation as a director to understand whether the company is doing well or not. You must have conversations with people. I want to meet with African American employees at the company, where I’m the first African American chair, because I want to understand how people feel about how they’re being treated and what opportunities they have for advancement, but I want to do it without excluding people. It goes beyond pulse surveys. It’s a hard thing to do, but you have to get out there and talk to folks.” It’s also important to include impacted stakeholders from outside the organization who can speak to the role the company plays in the communities where it operates.
8. **Create a structured onboarding and ongoing training process that prepares all directors for effective oversight of DE&I.** One director reflected, “When you don’t have the opportunity to share different views, you don’t come to good conclusions. A good board is collective wisdom, and the best boards are demonstrations of that, with no towering figure and a willingness and respectfulness to listen to other points of view. That’s the value a board gets from diversity.” The value of having the right board cannot be overstated. “At the end of the day, you must have the right board,” a director said. “I believe that’s true and there has never been a more important time to have the right board than today. The CEO needs it, the company deserves it, but you can’t change it overnight.” However, very few directors interviewed have onboarding or training processes related to DE&I and thus might miss out on the full potential of having a diverse board. “I know when I came onto the board, and it wasn’t that long ago, there wasn’t really any formal introduction to the topic” of DE&I, one director told us. “It came up in the natural order of conversations, presentations at committee or the full board as part of talent development discussions, but it wasn’t highlighted.”
9. **Build a coalition, share best practices and learn from peers and experts.** “If you look at the issue of 95 percent of mergers and acquisitions failing, there’s a bible on that, examining the 5 percent who succeed, what they did and what we can learn from it,” one director said. The relative lack of resources for directors seeking to elevate their oversight of DE&I was part of the catalyst for this study and related guidance. However, there are people who have gone through it already and who can talk about their experience. One director said the most important thing is to “get help. Having real conversations with people is something leaders need. They get some of it, but they often don’t truly understand because of their worldview. There are organizations and individuals that can help educate them and their organization about the pitfalls and tips and tricks. ... There is strength in numbers.”
10. **Realize this is a long journey—be patient and don’t give up.** “This is a long game, and you must have short- and long-term goals to meet it,” one director said. Given the scale of change required, the journey toward diversity, equity and inclusion can be challenging, especially at the start. “Any company that’s reporting or intends to report, they’re going to report some gloomy numbers at the outset,” one director told us. “It’s not pretty. You have to have the conversation about what you’re going to report, own up to failures or lack of movement, but have a plan of action to improve things.” Another agreed: “This is a long journey—be ready for that.”

The increased risks and opportunities associated with racial and ethnic diversity, equity, and inclusion necessitate a sharper focus on this topic from boards. We hope that directors will internalize the insights from this paper, generating more value for investors, employees, and other stakeholders.

# Appendix: Key Risks, Opportunities and Examples of Indicators for the Board

Scope	Key Risk or Opportunity	Example Indicators (might not apply to all companies/industries)
Overall	Strategy Reputation Financing	<ul style="list-style-type: none"> <li>• Ongoing board and management engagement with racial and ethnic diversity, equity and justice versus a reactive crisis management approach</li> <li>• Specific and timebound racial and ethnic diversity, equity and inclusion goals and progress against relevant metrics</li> <li>• Executive team focused on advancing racial and ethnic diversity, equity and inclusion that reports to CEO</li> <li>• Disclosures aligned with State Street Global Advisors' expectations</li> </ul>
Human Capital Management	Strategy Human Capital Compliance Economic Reputation Financing	<ul style="list-style-type: none"> <li>• Racial diversity of workforce and leadership reflects racial diversity of the country or countries in which operations are based</li> <li>• High levels of inclusion and engagement</li> <li>• Promotion, advancement and low turnover of employees from underrepresented communities</li> <li>• Equitable representation across job levels</li> <li>• Pay equity across salary, bonus and stock options</li> <li>• Effective mechanisms to amplify employee voices</li> <li>• Nondiscrimination policy and equitable process for resolution of harassment and discrimination claims</li> <li>• Living wage and benefits, including emergency financial support and opportunities to invest and save for retirement</li> <li>• Access to training, education and professional development to reduce turnover and increase opportunities for employees to advance</li> <li>• Employee health and safety across all communities</li> <li>• Employees are incentivized to advance racial and ethnic diversity through their compensation and performance plans</li> </ul>
Board	Strategy Reputation Financing	<ul style="list-style-type: none"> <li>• Diverse representation</li> <li>• Formal and publicly disclosed board oversight for racial and ethnic diversity</li> </ul>
Products and Services	Reputation Economy Compliance	<ul style="list-style-type: none"> <li>• Products and services do not disproportionately harm people of color</li> <li>• Diverse teams designing and marketing products to ensure they resonate with diverse consumers</li> <li>• Clients share a commitment to racial equity and will use products and services in alignment with these values</li> </ul>
Operations	Reputation Economy	<ul style="list-style-type: none"> <li>• Diverse suppliers and vendors (both minority-owned businesses and businesses that have a credible commitment to diversity, equity and inclusion)</li> <li>• Positive impact on local community, environment and economy</li> </ul>
Lobbying and Political or Charitable Contributions	Reputation Economy Compliance	<ul style="list-style-type: none"> <li>• Transparent lobbying practices and political contributions advance (rather than undermine) commitment to racial justice</li> <li>• Charitable contributions address the root causes of racial inequity</li> </ul>

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