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A Modern Approach to Recruiting Diverse Board Candidates

By Rusty O'Kelley

The emphasis on diversity, equity and inclusion (DEI) in the boardroom is shaping up to be a permanent reframing of all that boards do and, more broadly, how companies approach corporate governance writ large. Though this emphasis has been steadily increasing over the past several years, the events of 2020 have accelerated ongoing discussions and efforts, and public boards should expect increased pressure from stakeholders — if not explicit action taken against them — if real progress is not achieved.

Part of that pressure will come in the form of legislation and regulation. In the fall of 2020, California was the first state to enact legislation requiring public companies headquartered in the state to have at least one board member from an underrepresented community by the end of 2021. Nasdaq's newly proposed listing requirement has a similar mandate and is expected to be approved by the SEC. These regulations will likely use census definitions of diversity when assessing compliance, as California has.

While these mandates may be unpopular with some commentators, the push for greater diversity is largely well received by stakeholder groups, and particularly by employees. One reason is that the workforce is increasingly diverse, and these initiatives respond to their call for better representation.

The public is also weighing in. The COVID-19 pandemic and social justice protests in the wake of George Floyd's death made clear to everyone the challenges Black and other ethnically diverse communities face daily and triggered a public discussion on the topic unlike anything we have seen before. Confronted with the lack of diversity in leadership roles, corporate America acted. Between the third quarter of 2020 and the end of the second quarter of 2021, more than 110 Black directors joined 114 of the S&P 500 company boards. It is a good start, yet more than 100 S&P 500 companies still lack a Black director, and in some cases have no ethnically diverse directors at all.

Links between DEI milestones and executive compensation are proving to be an effective tool to drive change because it is not about forcing quotas but rather incentivizing meaningful goals. The Carlyle Group provides an especially interesting case: After examining proprietary data on all their portfolio companies, they found that "after controlling for industry, fund and vintage year, companies with diverse boards generate earnings growth that's five times faster, on average, with each diverse board member associated with a 5% increase in annualized earnings growth."

There is clearly a business benefit to taking action. But where do boards start?

To increase the diversity of their boards, companies must change how they recruit diverse talent. Too many boards think they can complete a search for a diverse director in under three months, failing to recognize how in-demand diverse executives are and how complex a well-designed process can be to do well. Boards should instead develop a three- to five-year succession plan, so they have a long-term view of the strategy-driven skills and experiences new directors need. Along with knowledge, skills and experiences, ethnic diversity needs to be considered as part of the overall composition of the board and prioritized appropriately.

Boards then need to identify pools of diverse talent, which will likely be different from where and how the board has recruited in the past. Part of this should include building relationships with diverse executives before they become attractive director candidates, creating a pipeline to board service and a network of up-and-coming diverse leaders.

Ensure that diverse candidates are getting an opportunity to interview and that diverse stakeholders are included in the interview process. The NYC comptroller advocates for a version of the NFL's Rooney Rule, encouraging boards to consider at least a minimum number of qualified people of color for every open board seat.

There is growing pressure on companies to continue making progress on DEI — and that pressure is not likely to lessen anytime soon. Boards are clearly able to transform themselves when necessary, as we have seen in recent years when they have wanted to increase the percentage of directors with backgrounds in technology and digital. We know that they can do the same thing with diverse ethnic and racial directors, and there is certainly no shortage of qualified director candidates ready to step up and into the role.

Jack "Rusty" O'Kelley III is a co-leader of Russell Reynolds Associates' Board & CEO Advisory Partners and a senior member of the New York office. He also serves as global leader of the Board Consulting and Effectiveness Practice.

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