

Boards that are struggling to increase diversity and inclusion should act boldly within the areas of talent pipelines, equitable search practices, director recruitment, and director onboarding and board culture.



Directors Failing to Act Is the Biggest Barrier to the Boardroom

By Rusty O’Kelley, Russell Reynolds Associates’ Board and CEO Advisory Partners;
Dean Stamoulis, Russell Reynolds Associates’ Board and CEO Advisory Partners;
and PJ Neal, Russell Reynolds Associates’ Center for Leadership Insight

Despite years of research showing the importance of diversity and inclusion in the boardroom, boards are still failing to bring about meaningful change.

Let’s look at the S&P 500. In 2020, one-third of their boards had two or fewer female directors, falling below the recommended minimum of three. A paltry 27.6 percent of board seats were held by women, and the numbers get worse as you look at leadership roles. Just 25.5 percent of committee chairs were women, 10.7 percent of lead independent directors, and only 4.1 percent of board chairs. While the first two numbers are both up about 7 percentage points over the preceding five years, the percentage of lead independent directors is flat, and board chairs have slightly declined.

When it comes to other forms of diversity, the story is even worse. The percentage of racial and ethnic minorities in the boardroom is only around 21 percent—and virtually unchanged from five years prior.

We all too often hear board leaders say that they want to see these numbers change, but that they do not know where to take action or how to bring about meaningful change.

For more than 50 years, our firm has provided guidance to boards on matters of talent and leadership, and we have long advocated for improving the state of diversity, equity and inclusion (DE&I) in the enterprise and in the boardroom. Last year, nearly half of the board directors we placed were women, and a third were racial or ethnic minorities.

Our expertise is bolstered by our extensive research efforts on these topics. Most recently, during the first half of 2021, we partnered with State Street Global Advisors and the Ford Foundation to study of how boards oversee racial and ethnic diversity, equity and inclusion. This research, published in July 2021, painted a vivid picture of what is actually happening in the boardroom, and helped us

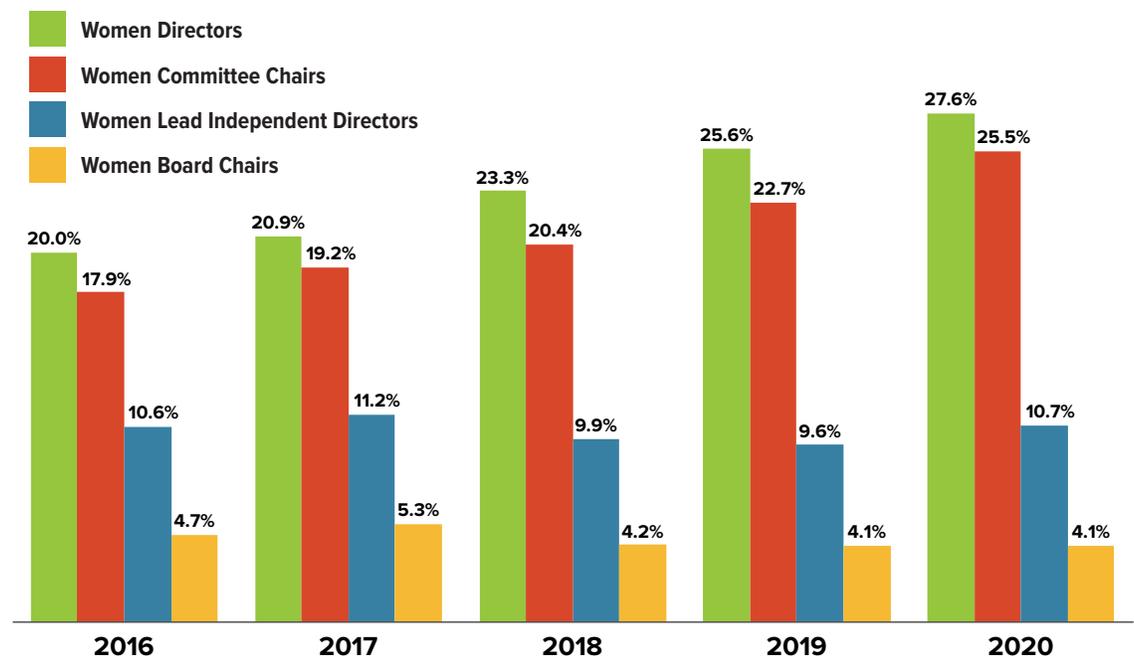
understand where boards are succeeding and where they are struggling to make progress. It also made clear that boards have a role to play in addressing DE&I in the enterprise and in the boardroom, and provided a roadmap of specific actions.

Here we will discuss four specific failures that companies experience with regard to DE&I. Two of them relate to issues inside the organization that have a significant impact on the director talent pool. The other two are related to how new directors are recruited and become part of the board, organizationally and culturally. All four issues ultimately impact the diversity of the boardroom, and all four are places where we see boards failing to act.

1 Talent pipeline failures. Organizations lose women and minorities from their talent pipeline at disproportionate rates relative to other workers. The lasting impact of this loss of talent is that organizations do not have as diverse a pool of talent to choose from when filling senior level roles.

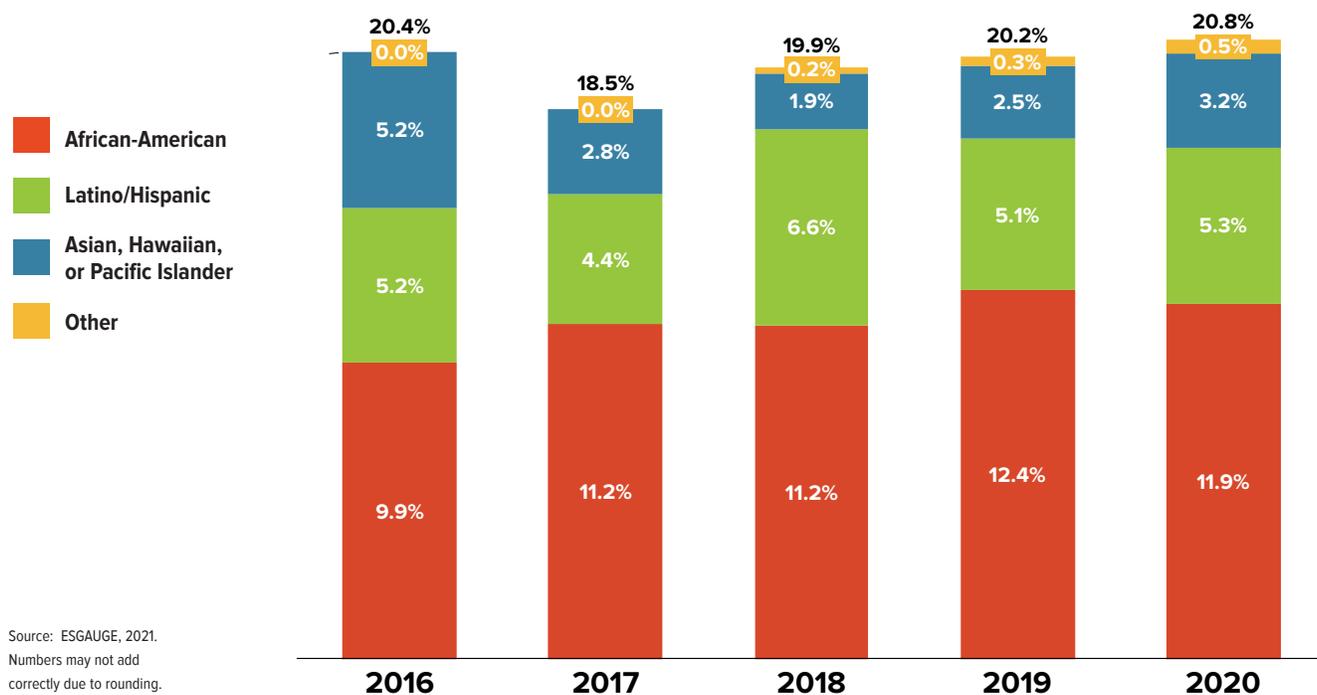
Across American corporations, white men represent 36 percent of entry-level employees, yet make up 68 percent of C-level executives. That remarkable shift comes at the expense of white women (who drop from 31 percent to 19 percent), men of color (16 percent to 10 percent), and women of color (17 percent to 3 percent).

THE GROWTH OF WOMEN ON S&P 500 BOARDS, 2016 - 2020



Source: ESGAUGE, 2021. Numbers may not add correctly due to rounding.

THE ABSENCE OF GROWTH OF RACIAL & ETHNIC MINORITIES ON S&P 500 BOARDS, 2016 - 2020



There are many reasons why directors need to be concerned by the loss of women and professionals of color from their leadership pipeline. Research has shown that diverse organizations have increased levels of innovation, stronger financial performance and other key metrics of business success. Decreased levels of diversity at increasingly senior levels of an organizations therefore tells us that senior leaders—who have a disproportionate impact on the organization—are likely not driving maximum performance.

Most organizations today track demographic data and report that data to the CHRO or chief diversity officer (CDO), who then shares it with the board. Most also have nominal plans and goals in place to remedy this problem, though few seem to be making any meaningful progress.

Boards are failing in their governance responsibility by not engaging more with the CHRO or CDO around the diversity data, understanding the drivers and ensuring that the plans in place are being executed. We often hear concerns about not wanting to risk crossing over into management by pressing C-suite leaders about talent issues, yet no director would ever say the same about monitoring and ensuring that other aspects of corporate strategy or performance were being fully executed. Directors need to be more proactive and forceful in their engagement around this area.

Boards are also neglecting to use one of the biggest levers available to them: compensation. Only 29 percent of US CEOs tell us that their compensation is tied in part to diversity, equity and inclusion outcomes in the business. Compare that to ESG goals and metrics, where 43 percent of CEOs report the same. It is no surprise that corporate sustainability efforts have been

skyrocketing in recent years, while diversity initiatives seem stalled. Compensation for the executive team needs to be more widely used to drive DE&I performance.

2 Equitable search failures. Organizations are failing to implement equitable search practices when filling C-level roles. This harms women and minority leaders whose career progression is stymied, and ultimately it stops women and minorities from holding the executive positions that qualify them to be board directors.

The failure of organizations to have truly diverse executive ranks leads to board diversity problems.

At the heart of this issue is the background, experience and capabilities expected of board director candidates. While boards are free to nominate or elect anyone they choose with the requisite skills and experiences to be a director, most follow a common approach of selecting active or retired CEOs and C-suite leaders. The reason for this is practical and straightforward: Directors need to be able to work with the corporation's senior executive team from a position of experience, to be perceived as more senior by those leaders and to be able to provide counsel based on their professional experiences.

In addition to bringing that leadership experience to the board, they also bring related skills and qualifications. Among current directors, strategy, technology, finance and international experience are the four most cited elements in board skill matrices—and for most directors, that qualifying experience comes from *leading* those functions or business units, not simply working within them.

To address this issue, directors must play their usual role of ensuring management is acting appropriately, and not taking on management tasks themselves. Boards should focus on ensuring that senior management is following proper practices in four key areas related to workforce talent practices:

- 1. Scoping Great Talent In.** Make sure the search committee is reaching out to women and underrepresented minorities to get them into the search process and focusing on role objectives and relevant experience.
- 2. Designing an Objective and Equitable Assessment Process.** Leverage assessments to measure candidates objectively; use competency-based interviewing, requiring proper notes and documentation; and review all inputs and compare candidates against standards rather than against each other.
- 3. Holding the Selection Committee to a High Bar.** Ensure the hiring team or selection committee are themselves diverse; and define clear roles and responsibilities to neutralize the power of the loudest voices or most senior stakeholder in the process.
- 4. Invest in Onboarding.** Identify a diverse and inclusive welcoming committee; and create a structured onboarding plan that helps new hires build networks across the organization.

By pressing senior leadership to ensure that equitable search practices are part of every leadership succession effort—and directors using them for CEO succession work—the board can

help diversify their C-suite and build a larger talent pool of board-qualified executives.

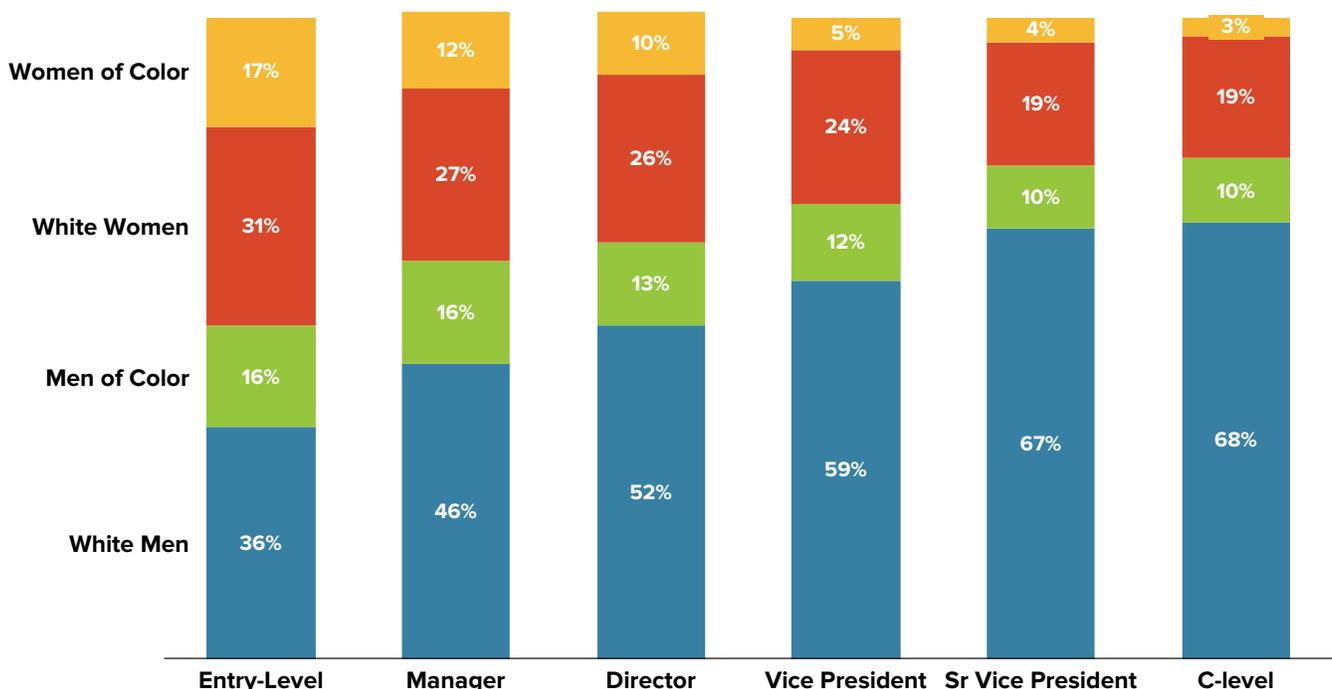
3 Failing to modernize director recruitment practices. When recruiting new board directors, potential directors of color and women directors do not get equal consideration for board roles. The result is that boards end up not reflecting the diversity of the workforce, customer base or general population.

Board director searches used to be a “who knows who” exercise, with new directors often being colleagues or acquaintances of existing board members. In recent years recruitment practices have matured significantly in some places, with boards taking a strategy-driven, competency-based approach, often with the assistance of outside experts. While the S&P 500 leads in this area, with 82 percent of boards disclosing the use of search firms to manage the effort, both the Russell 3000 (61 percent) and the S&P MidCap 400 (66 percent) lag significantly.

When board searches are done poorly, it is often the result of boards failing to plan far enough in advance, becoming fixated on certain director profiles or not looking widely enough for potential candidates. The result is board searches that fail to identify potential women and minority candidates, and to ensure that the candidate slate is both qualified and diverse.

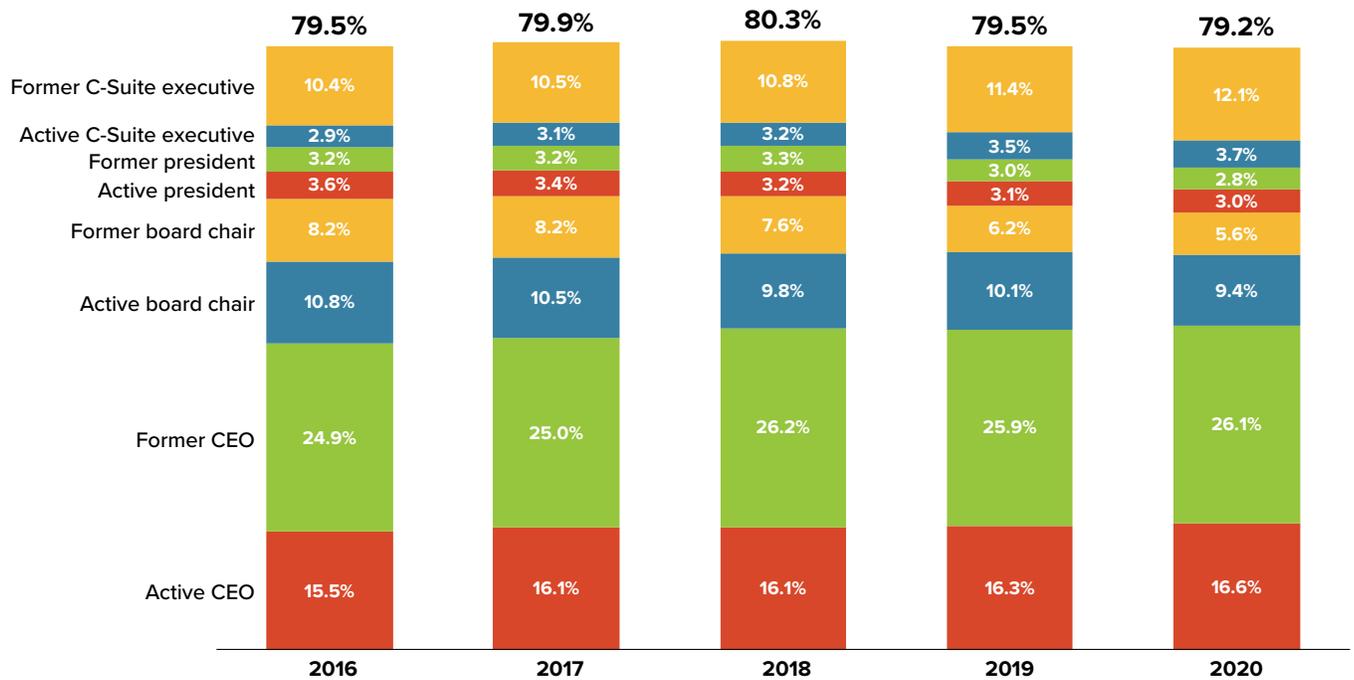
One way boards can avoid these failures is to take a long-term orientation, and implement a continual process of candidate pipeline development, an approach we call evergreen. The evergreen approach plans for future strategic needs as

DIVERSITY LOSS BY WORKFORCE LEVEL



Source: LeanIn.org and McKinsey, Women in the Workplace 2018, examination of 279 US corporations. Totals may not equal 100% due to rounding.

PROFESSIONAL PROFILES OF S&P 500 CORPORATE DIRECTORS, 2016 - 2020



Source: ESGAUUGE, 2021. Numbers may not add correctly due to rounding.

well as for planned director turnover. By being thoughtful and proactive, it also allows the board to develop relationships with a diverse slate of candidates, more so than happens during a quick-turn recruitment effort.

There are four phases to an evergreen recruitment process:

- 1. Conduct a board composition analysis and needs assessment.** The first phase involves understanding the company's long-term strategy, strengths and gaps of the current board directors, and updating the board's composition analysis (skills matrix).
- 2. Develop key evergreen profiles and behavioral competencies.** Once the composition analysis and needs assessment is completed, specific director recruitment needs are identified (including with dates), recruitment profiles are created for each anticipated search, and associated timelines are developed.
- 3. Prioritize and initiate board search.** As each search approaches, a dozen or so potential candidates are identified who meet the criteria for the role, and specific skills, experiences and backgrounds are highlighted. Profiles are calibrated with the board, and top candidates are identified, interviewed and assessed before a finalist is selected.
- 4. Determine next priority profile.** Once a director is recruited, the process begins again, with the strengths and gaps updated based on the new composition, the skill matrix revised, etc.

A shift from just-in-time director recruitment efforts to an evergreen process not only improves the relevance and value of the

directors being recruited, but enables the board to proactively engage with a broader talent pool than they otherwise would. As boards make this transition, they will see a larger number of highly qualified women and historically underrepresented minority candidates up for consideration, and will likely begin recruiting them to the board in larger numbers than they have in the past.

4 Director onboarding and board culture failures, including boards that do not have inclusive practices and leaders who are unwelcoming to directors of color or female directors. At best, this failure leaves a new director feeling unwelcome; at worse, it leads them to not fully engage with the work of the board, or to end their service after only a short period.

Those boards that do recruit women and minority directors often run into an immediate problem. They fail to fully and properly onboard those directors in a way that makes them successful, contributing board members, and they have boardroom cultures that fail to bring out the best in everyone. The end result of either of those issues is a board that underperforms, or individual directors who do not feel welcomed or valued, and are unlikely to perform at the best of their abilities.

In either case, there are specific steps boards can take to remedy the situation:

Director Onboarding

The first action is to ensure that new directors have a robust onboarding process that equips them with the knowledge and

relationships necessary for full engagement with the board and its work.

Between election and the first board meeting:

- **Understanding the business.** New directors should receive an onboarding package with materials from previous board meetings, company information, analyst briefings and similar materials. They should have management briefings with the CEO and their direct reports, and board briefings with the chairman, lead director and committee chairs.
- **Building relationships.** An experienced board mentor should be assigned to serve as a sounding board and coach to the new director, who should also have welcoming calls with any unmet board members, and meal(s) with one or more board members and/or the CEO, if possible. These meetings can help fill in the new director on pre-meeting “crosswinds.”

Between the first board meeting and the second board meeting:

- **Understanding the business.** Directors should continue to increase their product and business knowledge through discussions with business leaders, site visits and conversations with key clients or outside partners.

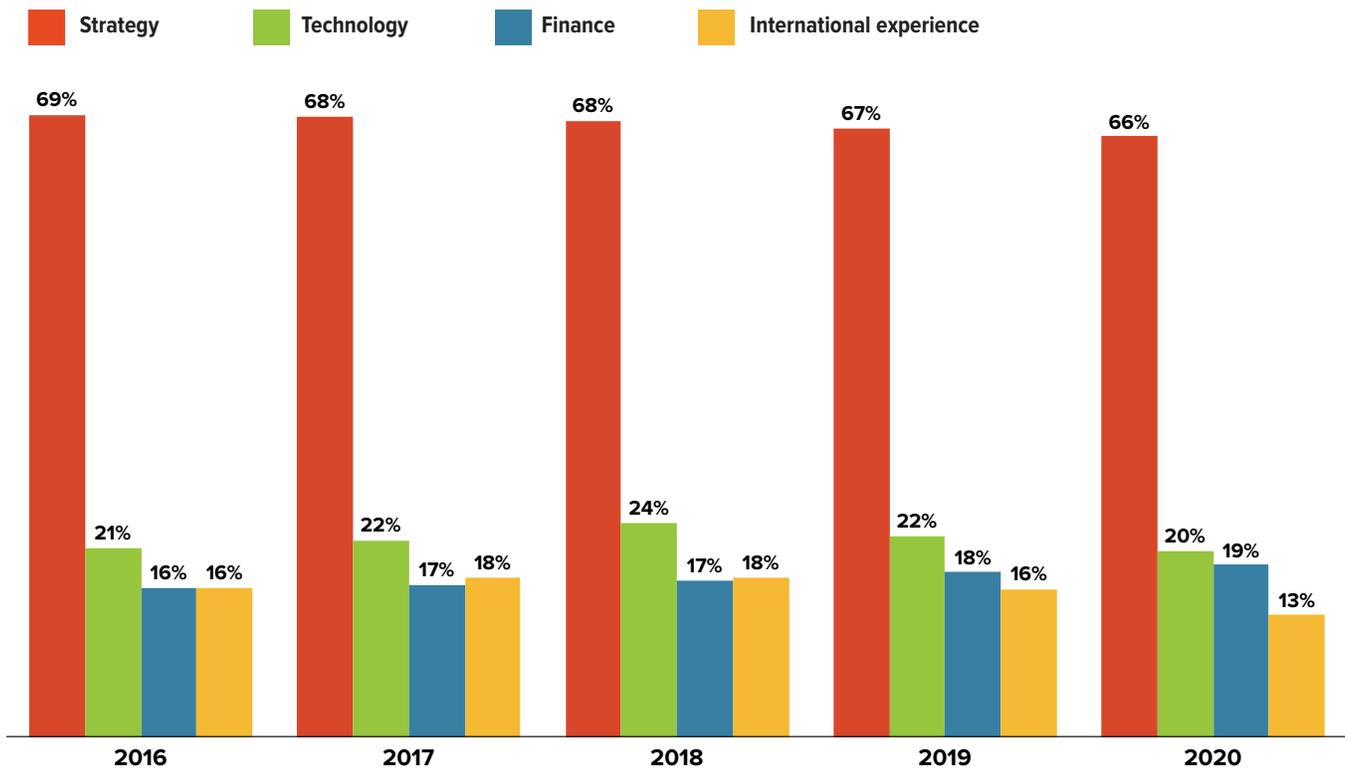
- **Building relationships.** Informal debriefs should be held with the CEO, chairman and/or lead director after the first meeting. There can also be informal calls with select board members to share thoughts, observations and build bonds.
- **Continuing education.** The new director should undertake any available director education opportunities, such as those offered by the National Association of Corporate Directors or major business schools.

Between the second board meeting and the end of the first year:

- **Understanding the business.** The director should visit work sites and manufacturing plants, as well as visit with key customers. Time should also be spent getting to know the competition.
- **Building relationships.** The new director should experience a formal review about six months into the role. Additionally, they should continue calls with select board members to share thoughts and observations and build bonds, and have regular check-ins with their board mentor.

Directors need to ensure that their board has a robust onboarding process, and then to step up and play their part in the process, either working to build relationships with new directors, serving as their mentor, or debriefing with them after meetings and providing broader context.

FOUR MOST COMMON S&P 500 DIRECTOR QUALIFICATIONS AND SKILLS, 2016 - 2020



Source: Percentage of directors identified as having a particular qualification or skill in published board skill matrix. ESGAUCE, 2021. Numbers may not add correctly due to rounding.

Boardroom Culture and Director Behaviors

Even the best directors, given a solid onboarding, will struggle to become part of the board if there isn't a strong boardroom culture to welcome them and encourage them to engage. Our research has shown that there are seven specific boardroom behaviors that contribute to creating an engaging, effective and productive boardroom culture.

For board chairs, the two most critical behaviors are:

1. Fostering and facilitating high-quality debate.
2. Drawing out the relevant expertise of the independent directors during meetings and discussions.

For non-executive directors, the five most critical behaviors are:

1. Keep the discussion focused on the matter at hand and eliminate tangents.
2. Build and demonstrate trust among fellow directors.
3. Avoid crossing the line from oversight into operations/management.
4. Being open to new ideas and ways of doing things.
5. Constructively challenge management when it is appropriate to do so.

Conclusion

Today's board members have a responsibility to take action to improve the state of diversity, equity and inclusion within their business, and around their boardroom table. Failing to take action is no longer excusable, nor is pleading ignorance about what to do or how to do it. Boards that are struggling to determine where and how to act can start with the four areas identified in the paper: talent pipelines, equitable search practices, director recruitment, and director onboarding and board culture. ■■



Rusty O'Kelley co-leads Russell Reynolds Associates' Board and CEO Advisory Partners practice in the Americas. He is based in New York City, and can be reached at rusty.okelley@russellreynolds.com.



Dean Stamoulis is a senior member of Russell Reynolds Associates' Board and CEO Advisory Partners and Leadership and Succession practices. He is based in Atlanta, and can be reached at dean.stamoulis@russellreynolds.com.



PJ Neal, SHRM-SCP, leads Russell Reynolds Associates' Center for Leadership Insight. He is based in Boston, and can be reached at pj.neal@russellreynolds.com.

1 IN 3

WORKERS SAY THEIR MANAGER LACKS GOOD LEADERSHIP SKILLS

Get your People Managers better skills for a better workplace.

New **SHRM People Manager Qualification** virtual training

211551

Learn More
shrm.co/pmq-edu

