

Harvard Law School Forum on Corporate Governance

Inclusive Culture and DE&I: Gold Medal Boards Take the Lead

Posted by [Rusty O'Kelley](#), [Rich Fields](#), and [Laura Sanderson](#), Russell Reynolds Associates, on [Thursday, July 21, 2022](#)

Tags: [Board composition](#), [Board leadership](#), [Boards of Directors](#), [Corporate culture](#), [Diversity](#), [ESG](#)

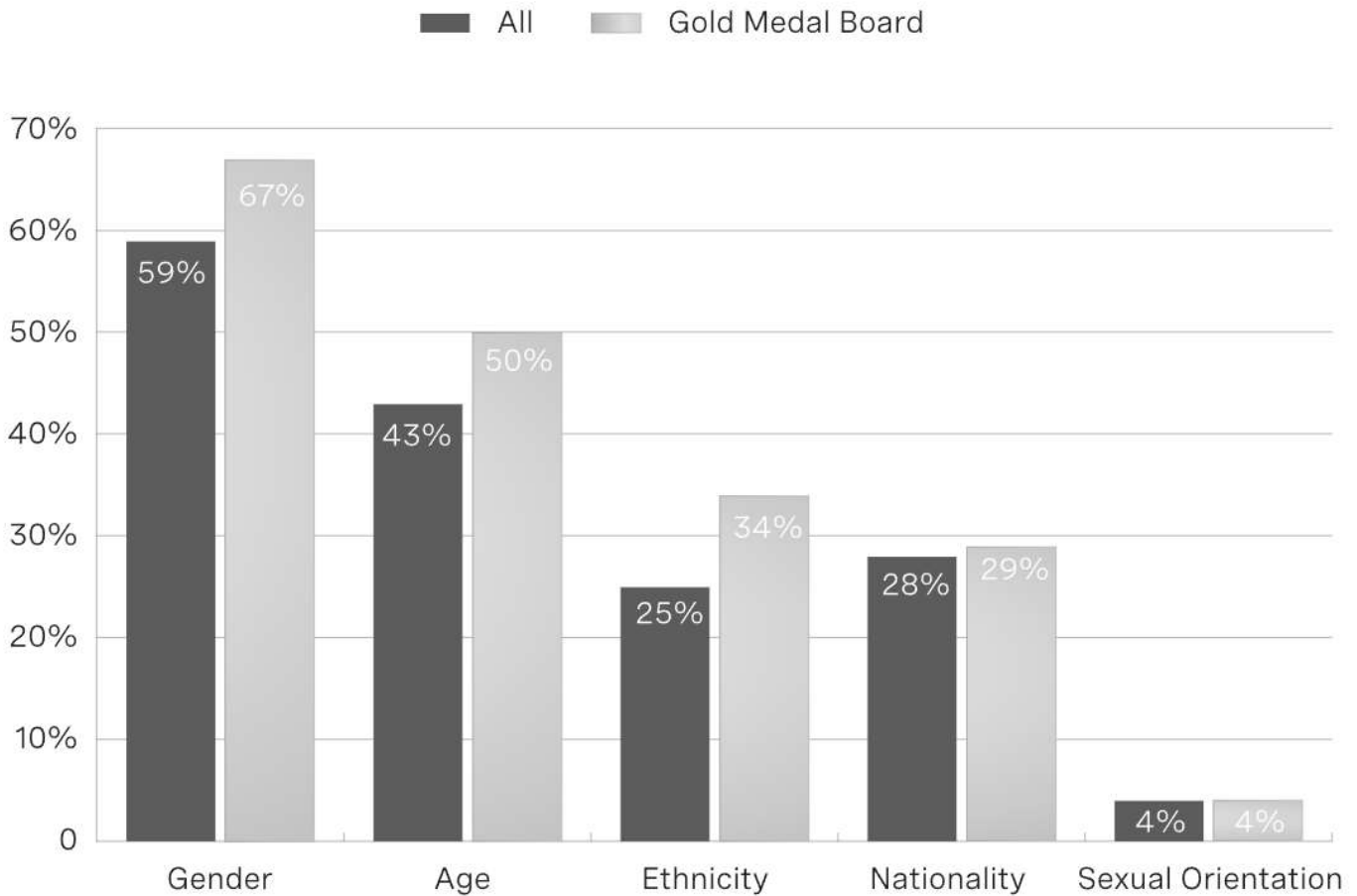
More from: [Elena Loridas](#), [Jemi Crookes](#), [Laura Sanderson](#), [PJ Neal](#), [Richard Fields](#), [Rusty O'Kelley](#), [Russell Reynolds](#)

Editor's Note: [Rusty O'Kelley](#) co-leads the Board and CEO Advisory Partners in the Americas, [Rich Fields](#) leads the Board Effectiveness practice, and [Laura Sanderson](#) co-leads the Board and CEO Advisory Partners in Europe at Russell Reynolds Associates. This post is based on a Russell Reynolds memorandum by Mr. O'Kelley, Mr. Fields, Ms. Sanderson, PJ Neal, Jemi Crookes, and Elena Loridas.

Around the globe, diversity, equity, and inclusion (DE&I) has grown to become a critically important boardroom topic given the increasing focus by legislatures, regulatory bodies, stock exchanges, investors, and the general public. Many of these stakeholders have enhanced their expectations around DE&I because of the growing body of research that shows improving DE&I results in improved business performance, not to mention the reality of an increasingly diverse workforce and labor market. (Please see our earlier study on this topic, undertaken in partnership with State Street and the Ford Foundation, "[The Board's Oversight of Racial and Ethnic Diversity, Equity, and Inclusion](#).")

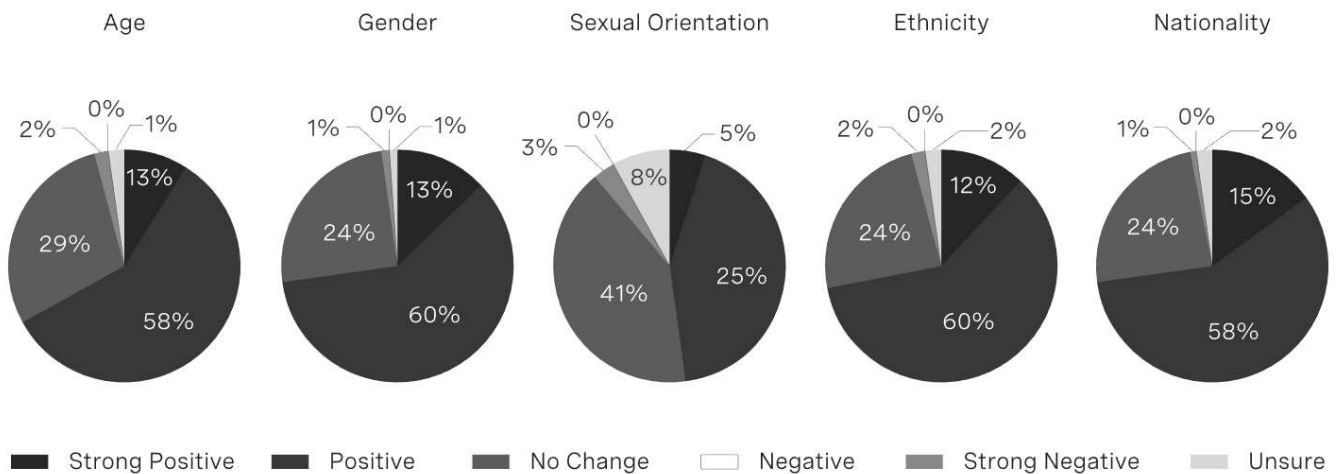
Given increases in investor and stakeholder expectations, directors are focusing in equal measure on DE&I in the boardroom and DE&I in the enterprise. It is therefore no surprise that the majority of directors we surveyed reported that their board diversified itself in at least one of five ways (gender, age, ethnicity, nationality, or sexual orientation) over the last 24 months.

Yet as with so many other topics, Gold Medal Boards (boards whose directors rate their board effectiveness as a 9 or 10 on a 1-10 scale, and report the company as having outperformed relevant TSR benchmarks for two or more consecutive years) went above and beyond: 67% reported diversifying by gender (compared to 59% of all respondents), 50% diversified by age (compared to 43%), 34% by ethnicity (compared to 25%), 29% by nationality (compared to 28%), and 4% by sexual orientation (the same as all respondents).



Source: Russell Reynolds Associates' 2022 Global Board Culture and Director Behaviors Survey. "In what ways has your board diversified in the last 24 months?" N=939. 2022.

Many critics of the increased corporate focus on diversity argue that diversifying organizations does not actually make the organization any better. But the directors who say that their board diversified disagree, reporting overwhelmingly that the increased diversity has had a positive, or strong positive change on the board:



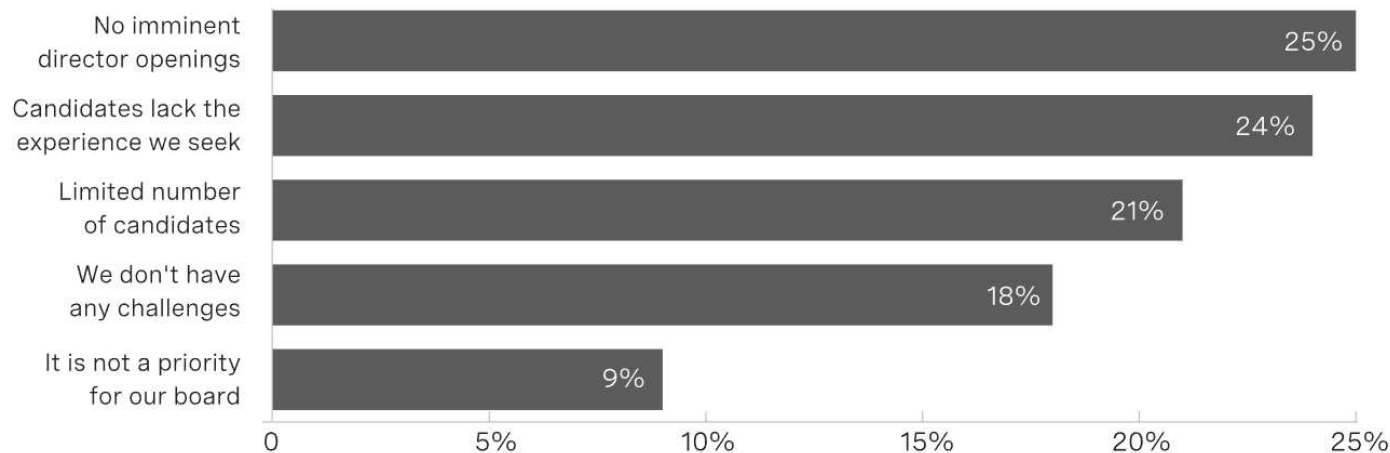
Source: Russell Reynolds Associates' 2022 Global Board Culture and Director Behaviors Survey. "How has the increase in different aspects of diversity among directors impacted the dynamics or culture of your board?" N=939. 2022.

“An effective board should be independent and reflect both diversity of personal characteristics (such as gender, race, and ethnicity) and diversity of skill, experience, and opinion.”

—Vanguard

As major investors like Vanguard, BlackRock, and State Street are pushing for increased diversity, DE&I will be an even bigger focus moving forward. Unfortunately, while many of the directors completing our survey this year reported diversity improvements on their board, there were still 23% of respondents whose board had not improved their diversity in the past two years. Many will need to soon: in addition to increasing investor demands and their growing willingness to withhold support for director nominees, legal requirements are changing across the globe. For example, in the US, Nasdaq’s board diversity rule was approved by the SEC last year, and will eventually mandate all Nasdaq companies have two diverse directors or explain why they do not. United Kingdom companies are facing the Park Review target for boards to appoint at least one minority ethnic director by 2024.

If diversity leads to positive changes in board culture, why are some companies slow to act? When directors were asked to identify the greatest challenge facing their board when it comes to recruiting more diverse directors, they pointed to issues as wide ranging as a lack of director openings (25%), candidates from historically underrepresented populations lacking the relevant expertise (24%), a limited number of candidates (21%), and a simple acknowledgement that it is not a priority for their board (9%). (18% said they don’t have any challenge finding these directors at all.)



Source: Russell Reynolds Associates’ 2022 Global Board Culture and Director Behaviors Survey. Responding to the question, “When it comes to recruiting more diverse directors to your board, which is the greatest challenge you face?” N=936. 2022.

From Insights to Action

Lack of (or sluggish) movement towards increased diversity can be due to several reasons, but these survey responses emphasize a false impression of the talent market. In almost every market where we operate, there are more than enough sufficiently qualified director candidates from historically underrepresented groups who are qualified for, and interested in, serving on corporate boards. What is the real problem? By some estimates, approximately half of boards complete board searches themselves, relying on “friends and family” to find candidates. Therefore, it is not surprising those companies struggle to find diverse, qualified candidates given the artificial limitation they are putting on the director talent pool.

Increasing board diversity and ensuring the board’s oversight of DE&I in the enterprise has the potential to greatly improve company performance and overall stakeholder engagement.

Methodology

Over 1,100 supervisory board-level directors from more than 41 countries participated in the Russell Reynolds Associates’ 2022 Global Board Culture and Director Behaviors Survey, with 55 percent of respondents based in Europe, 27 percent in the Americas, 12 percent in Oceania, 3 percent in Asia, 2 percent in Africa, and 1 percent in the Middle East. Industries

represented included financial services (26 percent of respondents), industrial and natural resources (22 percent), consumer (11 percent), technology (11 percent), healthcare (10 percent), and professional and business services (6 percent). Forty-four percent of respondents' companies had annual revenue over \$1 billion.

Trackbacks are closed, but you can **post a comment**.