Eight key governance thought leaders met to discuss and debate board diversity and what it will take to move the needle forward on U.S. boards.

Diversity of thought will lead to diversity of ideas.

One tenet of good governance holds that independent thought and ideas are needed to engender innovation, growth, and even more important, good decision making. Moreover, a board member's ability to effectively question and challenge management—and fellow directors—is derived from life experiences that are unique to each individual. A corporate board that is truly diverse, therefore, reaps the benefit of a wide array of cultural and intellectual perspectives, which provides the best fodder for critical thinking and discussion.

With these thoughts in mind, Corporate Board Member launched "Moving the Needle: Building Effective Boards with Qualified Diverse Candidates," a program designed to help companies build boards that can improve all facets of performance and ultimately enhance shareholders' investment value through better governance. To kick off this program, Corporate Board Member conducted a think tank in May designed to discern, discuss, and debate leading global academic research and thought leadership on board diversity issues.

The May think tank provided fodder for a large-scale dinner and networking event held at the New York Stock Exchange in July. Guests at this nearly 300-attendee event included NYSE CEO Duncan Niederauer; public company CEOs, chairmen, lead directors, and nominating/governance chairs; representatives of leading diversity organizations; top U.S. board service professionals; and more than 150 diverse board member candidates. Attendees gathered for the NYSE closing bell ceremony followed by a reception and dinner and then returned the next morning for substantive peer exchanges and candidate networking sessions.

The issues surrounding board diversity have been actively swirling for the past decade, such that one might reasonably...
ask: Why bring it to the forefront now? Quite simply, whether you view this as a business or ethical imperative, Corporate Board Member believes strongly that all boards should examine their philosophy and policies related to diversity. To aid in this process, our magazine’s goal is to bring you the most cogent thought leadership on the topic to help your board better navigate the many nuances—and sensitivities—that are wrapped around it.

The summary of the think tank presented below focuses on two general themes for discussion: examining the business case for diversity and the international trend to regulate diversity through quotas.

Before presenting the highlights of these discussions, Corporate Board Member would like to gratefully acknowledge the participation and support offered by two key Moving the Needle think tank sponsors: PwC and CTParrners. PwC’s chief diversity officer, Maria Moats, served as moderator and discussion leader and CTParrners’ vice chairman, Charles King, participated as a panel member. Both of these organizations have been staunch supporters of board diversity initiatives and brought a wealth of talent and experience to the discussion.

In the true spirit of diversity, the additional members of the think tank each brought unique experiences and perspective to bear on the issues. In addition to Moats and King, panelists included Caroline Appfel, Paris chapter head, WomenCorporate Directors (WCD); Stephen Brown, senior director, corporate governance, TIAA-CREF; Arnold Donald, former CEO, The Executive Leadership Council (ELC) and director, Carnival Corp.; Carnival plc, Arnold Donald, former CEO, Carnival Corp., and retired senior vice president, human resources and chief diversity officer, Pepsico; Hillary Sale, executive committee member, DirectWomen, and Walter D. Coles professor of law and professor of management, Washington University School of Law.

EXAMINING THE BUSINESS CASE

The panel discussion initially centered on the impact of boardroom diversity as a driver of corporate performance. Most C-suite executives operate under a thought process that is driven by hard numbers, so there is a compelling argument to be made that if board diversity can be linked positively with performance metrics, the rest will follow.

To that end, a cottage industry of academic studies in the last decade has attempted to determine if such linkages are credible. Research conducted by such well-placed institutions as Catalyst, Australia’s Reibey Institute, and...
McKinsey & Co., to name a few, have shown positive correlations between companies with women board members (generally defined as three or more women) and higher performance metrics. In each case, however, the reports demonstrate correlation, not causality. Yet even with this caveat, such studies are often trumpeted by proponents as a strong argument that diversity drives performance.

Other research, however, refutes such claims or finds them to be unclear. For instance, a 2011 University of Michigan study examining the effect of the much-lauded Norwegian diversity quota (which has subsequently spawned a 40% women board member rate on Norwegian public company boards) found that, post-quota, the 248 publicly listed companies in the study experienced "a large, negative impact...on firm value."

An exhaustive Stanford University study conducted in 2010 concluded that the body of academic and regression analyses are, essentially, inconclusive. After seeking to "evaluate the case for racial, ethnic, and gender diversity on corporate boards in light of competing research findings...[to] explore whether diversity has been shown to improve corporate financial performance, reputation, governance, and board decision making," the authors wrote, "[w]e conclude that the relationship...has not been convincingly established."

Copies of these conflicting findings were distributed to panelists prior to the discussion and set the stage for the think tank's opening question: "Does diversity drive corporate performance?" Noting that there are just as many studies showing correlation between performance and diversity than those that do not, moderator Maria Moats quickly elevated the discussion to a more pragmatic level: "If we start with a premise that says adding diverse candidates to public company boards is the objective, how critical to the success of that goal is proving the business case for diversity?"

Panelists determined that while evidence for the business case exists, it is not always in the form of hard numbers. "We see that diversity matters," said Arnold Donald, the former ELC CEO, who went on to say that one of the most critical factors in any corporation's success is innovation. "A company cannot sustain success without innovating. You have to change your internal processes. You have to change your products and services. Innovation, by definition, is thinking outside the box. So diversity of thinking is what sustains innovation."

Perhaps nowhere is the case for innovation and growth more critical than from the standpoint of shareholders. Panelist Stephen Brown said institutional investors like TIAA-CREF have a longstanding, deep appreciation for independent directors and what they bring to the table. "The case for independence and diversity of thought, vis-a-vis those who are running the daily operations of the company, is a case that has [already] been made in the United States for a long time."

The group then turned to the flap over the previously all-white, male Facebook board, and discussed why certain companies have been reluctant to make changes despite obvious external pressures. Moats noted, for example, that a grassroots campaign surrounding Facebook's board composition garnered thousands of signatures. "Do any of you believe such a grassroots campaign is effective to drive change?" she asked.

Brown commented that with a start-up company, or a company that is in a growth
phase such as Facebook, while it's important to launch the company appropriately and drive growth...it's equally important to build the company's board in a manner that reflects its customers. TIAA-CREF owns shares of Facebook, and, at the end of the day, Brown said, "our job is to create long-term shareholder value for the people who invest in us," which may include discussions on board composition if TIAA-CREF feels it is an important, value-driving issue. Donald said such actions by investors and other grassroots groups have varying levels of effect, and are often akin to softening the beachhead. "It's not the determinant, but it is helpful, and it brings attention to an issue. It [motivates] people to reflect on it, discuss it, debate it. And that helps a lot."

In closing the first discussion topic, the group conceded that while it may not be possible to prove the business case—at least in terms of absolute dollars and cents, that does not make the case any less viable. In fact, pointed out DirectWomen's Hillary Sale, it may be impossible to prove statistically.

"We don't have any long-running diverse boards, so we couldn't measure it if we tried. But I think that the other field of academic research that comes out of the organizational behavior area is actually quite strong about diverse teams and how they operate, in terms of innovation and how that leads to growth." So while it's very hard to make the academic case, Sale argued, "it doesn't mean there isn't value in diversity." Noted CTPartners' Charles King, "it doesn't take statistics to prove when something is worth doing—that's where business leadership must take root."

To summarize, panelists agreed that one of the most critical components for success in the diversity arena is the strength of a company's leadership. This, more than any other factor, determines whether board diversity initiatives will pay off as a driver of future performance, and it also determines whether a company will realistically move the needle toward the goal of truly diverse membership.

"At the end of the day, it takes courageous leadership to venture into this area and to consistently ask for things that have normally been ignored or pacified in the past," said King. Without that tone and directives coming from the top, panelists agreed, diversity will continue to tread water in the U.S., much as it has for the past decade.

"IT DOESN'T TAKE STATISTICS TO PROVE WHEN SOMETHING IS WORTH DOING—THAT'S WHERE BUSINESS LEADERSHIP MUST TAKE ROOT."

CHARLES KING
CTPartners

philosophy of corporate America is based upon free-enterprise, with as little government intervention as is necessary to ensure markets operate smoothly and efficiently. Yet admittedly, corporate regulation abounds and never so abundantly as in the post—Dodd-Frank era. Why should the composition of corporate boardrooms be immune?

Worldwide, the implementation of board diversity quotas has picked up significant steam within the past decade. According to GMI's most recent 2012 Women on Boards ratings report, eight countries have legislated quotas and 20 countries have some form of regulation surrounding board composition relative to diversity, most of which are structured in the form of a "comply or explain" standard. (This latter group includes the U.S. and Nigeria, both of which have a diversity disclosure statement requirement only.)

So are quotas working? In countries where such strictures have harsh penalties (i.e., the shuttering of the company), the answer is yes. The @RM report notes that for the first time in 2012, women hold more than one in 10 board seats globally, a 0.7% increase from last year. But this rate of change is still relatively minuscule. In the U.S., the pace of change increased only marginally (by 0.5%) from 2009 to 2011, and Stanford researchers have concluded that at the current rate, it would be 70 years before U.S. boards demonstrated parity between women and men. Moreover, by aggregate number of women on boards, the U.S. ranked 14 (12.6%) out of the top 20 countries in the GMI study. This begs the question: Are other forms of incentive or mandated legislation needed in the U.S.? What actions are likely to spur momentum for increased percentages of diverse board members?

Sale pointed to the need for sponsorship and advocacy, saying boards need to "looking out for each individual and getting them over the hurdle and into the boardroom" to further the diversity agenda. Panel member and interim ELC CEO Ron Parker embraced this concept as well. "How do you create opportunities for relationships to be formed? At PepsiCo, we experimented with an external advisory board made up of women and people of color," he said. "And by doing so, it enlightened management to the talents and capabilities...of groups that were below the C-suite [and] the CEO's radar screen."

Quotas, on the other hand, may be the least palatable, yet, the most expedient means to effect change, panel members noted. So why are quotas such an anathema in this country? Or better yet, why must the focus be on numbers at all?

Panelist and WCD Paris chapter head Caroline Apffel had some valuable perspective on this point, as her home country of France passed quota legislation in 2011 mandating that every public company board must have 20% female board members by 2014 and 40% by
2017. This followed a version of "comply or explain" passed years earlier. The bottom line, she says, is that diversity percentages have increased.

"I don't think anybody starts off saying they are pro quotas," noted. "Anytime you legislate things like this, there are unintended consequences." Yet, he countered, "it would be silly to say that quotas don't matter. Just the fact that Norway did what it did has driven the conversation in American boardrooms up to a much higher level than before. So even [that] can have a positive intervention impact in the U.S."

"DIVERSITY DOES EXIST AND IS RECOGNIZED—THERE IS NO WAY TO GO BACK. THERE IS ONLY ONE WAY TO GO, AND IT'S FORWARD."

CAROLINE APFFEL WomenCorporateDirectors

create enough pressure so that these up-and-comers, these talented stars who are continually being turned down because they are not CEOs or COOs, are given a shot."

"The reason why we talk about quotas is because of the absence of leadership," Donald agreed. "My preference is empowered leadership," he noted. "Anytime you legislate things like this, there are unintended consequences." Yet, he countered, "it would be silly to say that quotas don't matter. Just the fact that Norway did what it did has driven the conversation in American boardrooms up to a much higher level than before. So even [that] can have a positive intervention impact in the U.S."

"DIVERSITY DOES EXIST AND IS RECOGNIZED—THERE IS NO WAY TO GO BACK. THERE IS ONLY ONE WAY TO GO, AND IT'S FORWARD."

CAROLINE APFFEL WomenCorporateDirectors

create enough pressure so that these up-and-comers, these talented stars who are continually being turned down because they are not CEOs or COOs, are given a shot."

"The reason why we talk about quotas is because of the absence of leadership," Donald agreed. "My preference is empowered leadership," he noted. "Anytime you legislate things like this, there are unintended consequences." Yet, he countered, "it would be silly to say that quotas don't matter. Just the fact that Norway did what it did has driven the conversation in American boardrooms up to a much higher level than before. So even [that] can have a positive intervention impact in the U.S."

"DIVERSITY DOES EXIST AND IS RECOGNIZED—THERE IS NO WAY TO GO BACK. THERE IS ONLY ONE WAY TO GO, AND IT'S FORWARD."

CAROLINE APFFEL WomenCorporateDirectors

create enough pressure so that these up-and-comers, these talented stars who are continually being turned down because they are not CEOs or COOs, are given a shot."

"The reason why we talk about quotas is because of the absence of leadership," Donald agreed. "My preference is empowered leadership," he noted. "Anytime you legislate things like this, there are unintended consequences." Yet, he countered, "it would be silly to say that quotas don't matter. Just the fact that Norway did what it did has driven the conversation in American boardrooms up to a much higher level than before. So even [that] can have a positive intervention impact in the U.S."

"DIVERSITY DOES EXIST AND IS RECOGNIZED—THERE IS NO WAY TO GO BACK. THERE IS ONLY ONE WAY TO GO, AND IT'S FORWARD."

CAROLINE APFFEL WomenCorporateDirectors
intent of the guidelines... We need to be better about holding companies’ feet to the fire on that because we haven’t made much progress in this country,” Sale said.

THE BIG PICTURE

If there is one key concept that encapsulates the conversations held during Corporate Board Member’s Think Tank on Boardroom Diversity, it is the critical need for leadership and accountability to be incorporated into initiatives promoting diversity in today’s boardrooms. Once these two aspects are firmly rooted, diversity will become part of the fabric of every boardroom, and arguably, the resulting governance dynamic will better serve companies’ long-term strategies.

“It’s about sustained growth and innovation. How do you master and have broad access to new ideas, approaches, processes, and goods and services? At the end of the day, to achieve that growth and innovation, I think you have to look at the whole dynamic of diversity,” said Parker. “Any good business strategy involves innovation and growth,” Sale added. “Having different viewpoints and different thoughts and different conversations leads to better outcomes. And to move the ball forward, we have to focus on leadership and sponsorship.”

Plus, noted Apffel, at this point diversity has become a business imperative—no matter what studies, legislation, or other debates occur. Progress, she stated, is a necessity. “Diversity does exist and is recognized—no one would disagree with that. So from where we are sitting, there is no way to go back. There is only one way to go, and it’s forward.”

Everybody wants value, said Donald. “Diversity is a component that enhances the probability of having the best thinking possible. Boards really need to do a self-evaluation; they need to look at their makeup across all aspects of diversity and realize that if they proactively engineer over time, real diversity on the board, they are giving their shareholders the best opportunity for the best possible thinking.” TIAA-CREF’s Brown agreed. “We want what our clients want. We want long-term, sustainable shareholder value, year over year. And as we examine that as a large institutional shareholder... diversity... and who is on the board, matters.”

King concluded that the best CEOs truly value great boards, which ultimately leads to better shareholder returns. “How do you make a board better? Clearly diversity is one element—diversity of race, gender, thought, functional experiences and background. The really good CEOs appreciate and understand the value of diversity in all its various definitions within a boardroom.”

Leadership, accountability, business imperative, and value creation—all these concepts are woven into the issue of boardroom diversity in a meaningful sense today. They form the very basis for the strategic discussions in which Corporate Board Member believes every board should participate relative to its own diversity strategy. These concepts also materially justify elevating diversity to a board-level agenda item, in a way that was unheard of a mere decade ago.

Corporate Board Member firmly stands for the principle that no one policy—or strategy—fits all. The concepts presented here are designed to begin the conversation. In the end, each company’s approach to its diversity strategy can and should be uniquely aligned with its leadership and business strategy in a way that only its board can decide.

Editor’s Note: We hope these highlights are useful touchstones and serve to invite your board to open its own discussion on this critical topic. To keep the conversation going, opinions, comments, and letters are welcomed by writing to editor@boardmember.com.