

Accelerate board diversity

Converging crises offer chance to grow through broad 'diversity of thought'



The confluence of three crises — the COVID-19 pandemic, the economic downturn and nationwide unrest over social inequities — has created significant business challenges that raise new issues for boards. The shift from the sense of normalcy that existed in late 2019 to the current situation to a future new normal makes it difficult for businesses — and those who lead them — to plan effectively. But the crisis response insights shared by directors at a virtual roundtable hosted by Grant Thornton and the National Association of Corporate Directors (NACD) indicate these problems are not insurmountable, even in this unusually chaotic environment.

While the pandemic persists in the United States and there is uncertainty over the reopening of businesses under new guidelines, the topic most on participants' minds was the Black Lives Matter movement and the intense spotlight on board composition and diversity. Even for directors who thought their boards had embraced diversity, current events underscore that more needs to be done. One approach to addressing the formidable challenge to increase Black representation on boards is to leverage the opportunity presented by the current crises and implement the process of acknowledgment, awareness and action.

Acknowledging that the world has changed

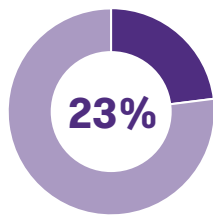
Today's business challenges have revealed and accelerated changes in the dynamics of relationships between companies and their customers, suppliers, employees and investors. The frequency, duration and potentially divisive subjects of board meetings have, for many, changed how management and the board interact. The following five key relationships represent needs and perspectives that are as wide as they are diverse.

At the board level, while diversity within its ranks remains a high priority, there is a large gap between what is desired and what exists. Urgent needs require successful execution of strategy and acknowledgment of the importance of each of these key stakeholder relationships. That is second only to the business community's ability to adapt, and both see and seize opportunity amid crisis.

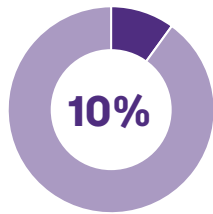
1 Customers — The board's knowledge and understanding of customers is an absolute. Increasingly, however, boards are being challenged in their ability to provide oversight and governance to a strategy to acquire and retain employees and customers who may look, think and act differently than traditional directors. Some boards have made great strides, but others are being thrust into action, some more willingly than others.

Rose McKinney-James, a director of MGM Resorts International and Toyota Financial Savings Bank, recounted at the virtual roundtable how COVID-19 and the civil rights demonstrations have impacted MGM. As a hospitality business whose properties attract high concentrations of customers who are people of color, especially in certain markets, it quickly became clear that the MGM board needed to address these issues with great sensitivity. In addition to its traditional responsibilities, the board saw the need for greater communication and clarity. "I became very vocal, feeling an additional obligation to raise the need for us to revisit the lens, to look at our risks a little differently, and to include Black Lives Matter issues," she said.

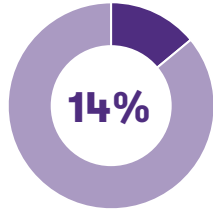
The progress of board diversity



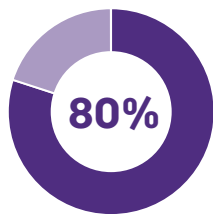
In 2019, women held 23% of all board seats compared with 15% in 2016.¹ 20% of board seats at Russell 3000 companies in 2019 were held by women.²



In 2019, minorities held more than 10% of board seats at Russell 3000 companies for the first time, compared with 8% in 2010.²



In 2018, 14% of new public-company directors were non-Caucasian compared with 9.7% in 2008.³



80% of public-company boards engage with ESG issues in some meaningful way.⁴ Discussion with investors often centers on the social, with emphasis on human capital (65%) and diversity (74%).

Source:

1. MyLogIQ.

2. Mishra, Subodh, "U.S. Board Diversity Trends in 2019", Harvard Law School Forum on Corporate Governance discusses ISS analysis of Russell 3000.

3. Mishra, Subodh, "U.S. Board Diversity Trends in 2019", Harvard Law School Forum on Corporate Governance discusses ISS analysis of Russell 3000.

4. Kosmas Papadopoulos, "ISS Discusses U.S. Board Diversity Trends in 2019," The CLS Blue Sky Blog.

2 Suppliers — The current environment has intensified the focus on customer and client data protection, intellectual property leakage and supply-chain resiliency. Companies that have a weak link in their supply chain in terms of subpar, third-party data management are now suffering the fallout of data breaches that affect their customers and suppliers. The number of significant vendor-related data breaches is growing. Warnings have been issued by both the FBI and the National Security Agency on increasingly sophisticated cyberthreat actors targeting vendors and their service providers; their successful efforts can yield large amounts of sensitive data. Often seen as one of the weaker links in a security protocol, trusted vendors are compromised and used as an entry point to otherwise hardened enterprise environments. These compromises run the gamut, from corporate espionage and intellectual property theft, to the takeover of industrial control systems and ransomware and encryption schemes that can have devastating effects. Supply-chain agreements are falling apart as these situations can result in significant damages. Boards need to understand the risk and provide oversight into preventive measures.

3 Employees — Changing demographics and related social causes are a serious shift. The social contract between employer and employee is changing, and how that affects talent acquisition, retention and the culture of the enterprise is an area of increasing focus for boards.

As it relates to the current civil justice resurgence, Janice Innis-Thompson, Samsung's chief compliance and ethics officer and a director of Edward Jones Bridge Builder Mutual Funds, described the positive steps taken at Samsung after an open forum was held for Black employees. "After sharing stories and personal experiences around COVID-19, recent events, and the state of America, the second hour was to discuss identifying allies in the organization that could help us and what can Samsung do differently and better," Innis-Thompson said. The turnout was strong and a powerful driver of change: "We came up with a great list of recommendations that is now being used by an executive inclusion and diversity council," she said. Samsung's strong beginning and an ongoing effort exemplifies what others will be replicating.

4 Investors — Investors want the board to bring richness to the boardroom and assist management with a strategy that helps the company adapt quickly. McKinney-James, who chairs a corporate social responsibility committee, shared great enthusiasm that today’s crises are spurring discussion on environmental, social and governance (ESG) issues. “I love the fact that there are others who are raising this and helping us to focus more on our purpose, including our shareholders,” she said. “We were beginning to talk about ESG before the economic, pandemic and civic crises, and that conversation needs to continue because our investors are focused on it. To the extent that we have the ability to include the investor’s perspective in the conversation and leverage that around the lack of movement, I think we have an opportunity to drive change for the better.”

5 The board-management relationship — The time frame in which decisions must be made has shrunk dramatically. Consequently, leaders are seeking diverse thought processes to make the best decisions on tight turnarounds. That need for speed, however, could cause friction because directors may have a tendency to fall back on old approaches to solving problems.

Experience shows that committee chairs must have a tenacious sense of urgency with an adept sense of bringing together divergent opinions and personalities to get a resolution. It is incumbent that the chair, including the board chair, get meetings scheduled quickly, with enough frequency and time allocated to address urgent matters in the normal course of today’s world.

It’s important to note that while acknowledging that the relationships with a company’s core stakeholders have changed, taking a few steps isn’t always enough. Continuous commitment is required.

Minding the gaps

As boards gradually change the relationships with their key stakeholders, the opportunity to identify the gaps in board diversity becomes apparent. Actually spotting the gaps, however, is easier said than done.

“I think part of the problem with boards becoming more diverse is that most boards are not diverse to begin with,” said Denise Dickins, who teaches auditing and corporate governance and accounting ethics at East Carolina University, and who is chair of the audit and compensation committees of Watsco. “And when you’re not diverse, you can’t understand other people’s problems — those of the staff and the customer. You don’t understand the Black experience or the brown experience or the immigrant experience or the millennial experience. You have no context for that mind share.”

So, where do you begin? You can start by being open to the board’s existing shortcomings and identifying the potential gaps relative to stakeholder perspectives that are not currently represented. You will most likely find that you have gaps in experience, gaps in expertise, gaps in gender, gaps in race or gaps in age — which together create gaps in diversity of thought. While considering a few trends, ask yourself if the boards you sit on have the proper diversity to be ahead of or behind the following concerns.





- **A board's role relative to emerging technology and new business models** – Does your board have the experience and expertise necessary to provide oversight of advanced technologists and data scientists? Is asking tough questions good enough these days? Does the board even know which questions to ask? Management could lead the way on progressive thinking until the board talent gap catches up. History is replete with examples of businesses that relied entirely on older ways of thinking in rapidly changing environments — the shift to outsourcing labor overseas, the onset of the dot-com era, migrations to cloud technology — only to find that their customers, suppliers, employees and investors left them behind.
- **The board is composed primarily of all former senior executives** – While legacy skill sets — for example, general leadership, finance and risk — are still necessary, skills in customer strategy, organizational culture, corporate social responsibility, diversity and inclusion, and other critical areas are vastly underrepresented on boards despite becoming key areas of focus for stakeholders.
- **Lack of insight into key demographics** – According to MyLogIQ data, there is a 77% likelihood that the average director is male, age 62, white and a former executive, yet many of the challenges being experienced today are disproportionately affecting either younger generations or socioeconomically challenged individuals. Can the board truly provide insights into strategy and oversight focused on large groups of customers, suppliers and employees that are different from the board in almost every way?

Taking action is the only solution

The public health and civil rights crises that are currently center stage have created an unprecedented level of change in the world. Boards play a critical role in ensuring that businesses become better aligned with stakeholders, customers, employees, and communities, and doing so includes embracing new levels of board diversity. This includes gender, race, age and skill set, as well as another area that is likely not on today's agendas: neurodiversity.

Neurodiversity is defined as the range of differences in individual brain function and behavioral traits, and regarded as part of normal variation in the human population. It is used especially in the context of autism spectrum disorders (ASD). According to the U.S. Centers for Disease Control and Prevention, there are increasingly higher numbers of individuals with ASD. Embracing neurodiversity presents businesses new opportunities and risks. There are always choices that boards have to make regarding how they will focus their attentions, but those that delay in embracing diversity until it is mandated may be focused on the negative consequences of a compliance exercise versus the many positive opportunities that embracing greater diversity represents.

In a rapidly changing environment that is doling out multiple crises at the same time, it is tempting for the board and management to focus only on today. Yet every business needs to keep an eye toward the future. The board needs to be confident that management is effectively managing day-to-day operations, but it also needs to collaborate with management on the business of tomorrow. The challenge is going at the right speed when addressing change with strong headwinds — not too fast, and certainly not too slowly.

“Honest conversations in the boardroom are taking place, assessing the foundation within the company and on the board to drive change,” said Amelia Huntington, a director of The Duchossois Group and Thor Industries. “It is a time for transparency, awareness, and ensuring [that] quality initiatives and intentions are in place versus just aspirations. This is about changing expectations, and those expectations must change for outcomes to change.”

How might that forward-focused strategy help drive board composition? The group shared a number of ideas about how directors can progress from acknowledging challenges to awareness and action.

1 Be aware of the need for diversity on boards – John Hotta, a board adviser and director of the NACD Northern California Chapter, Seattle Foundation and Kaiser Permanente Washington Consumer Advisory Committee, recommends that directors think about strategy first: “How is diversity part of ongoing strategy? How are new customers and supply chains from distinct parts of the world part of our strategy? Think about how you choose board members based upon the future strategy so you have the skill sets needed for the future on the board and in management to achieve the strategy you have for the future .”

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— John Hotta

2 Identify your blind spots and face them – Susan P.

Barsamian, a director of the public companies Box and NortonLifeLock, as well as several private companies, shared her experience that embodies the spirit of embracing diversity for the positives it can bring about: Since directors can’t meet in person in the current environment, she has participated in virtual happy hours before or after board meetings with her fellow directors. But instead of casual conversation, these social settings were used to have intentional dialogue around the question: What are you reading, watching or doing to address your own unconscious bias, both as a board and at an individual level? The intent, she said, is “if we get better as people, we can get better as a board and as a company.”

Ryan Patel, a director at American Red Cross Los Angeles Region and Drucker School of Management, added, “We have to talk about why we were we not taking a closer look at the diversity of boards before these crises. We were limiting ourselves in terms of innovation based on the finance, marketing and other skills of the board. Why were we not looking for greater board diversity in all these areas before COVID-19? That discussion is key in leading to the rest of the organization to change.”

3 Bring in advisory panels or working groups – Tapping into diverse individuals who aren’t currently on the board to form operating committees or working groups, even on a temporary basis, can help provide greater or different experience and understanding. Directors agree that this is an important time to think about how to engage fellow board members, employees and customers, knowing that everyone makes mistakes along the way. While director skill sets are showing a gradual shift to backgrounds in technology, marketing and human resources, according to MyLogIQ data, finance, leadership and management continue to top the chart. Bringing together working groups is a way to give boards another perspective based on the different experiences of the group’s members, but it is also an opportunity to provide mentorship experience to diverse individuals — in race, gender, age and skill set — who will help lead these boards tomorrow.

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— Janice Innis-Thompson

4 **Determine the path ahead** – Directors can conduct a quick assessment of board capabilities and identify what skills and capabilities are necessary, relative to board composition, and determine a clear path toward change. Engage management on what needs to be prioritized as well as your plan of action.

In August 2019, 181 CEOs signed the new Business Roundtable statement that redefined the purpose of a business. Innis-Thompson, in her role as an independent director at Bridge Builder, remarked on the need to define your business’s aspirations versus what you will do, “[A]nd now that you’ve committed, you need a plan, and you need to execute on that plan.” Management criteria for measuring the effectiveness of these programs is next. “You can only expect what you inspect,” she added. “Determine the criteria you will put around this and the board should drive management to do it. If it’s on the agenda, it’s incorporated in the CEO’s pay.”

The board needs to be sensitive to and understanding of the company’s typical employee, as well as the tastes and preferences of the customer base today and in the future.

Forces of change

In 2019, California began requiring publicly traded companies with executive offices in that state to have at least one woman on their board, and a minimum of two if the company had five directors, or three women if it had seven directors, by the close of 2021. Similar legislation has been proposed in other states.

When the legislation was implemented there were concerns that it would dilute the skill sets of boards — based on the belief that there were not enough qualified women to fill the quota. “This was just refuted with facts, time and time again,” said Barsamian. “And even women who weren’t fans of quotas and didn’t want to be part of a quota initiative have now acknowledged that it moved the needle in two years in a way that 10 years of good intent never did.” While legislation is helping the cause, it is important to note that all director participants in the Grant Thornton and NACD forum represented some form of diversity, be it of gender, race or age, and several shared that initiating a boardroom discussion on issues of diversity was often up to them. While they are carrying this immense burden, especially for people of color, the consensus was that every member of the board needs to step up to encourage both dialogue and action.

“Crisis as a business accelerator provides a huge opportunity to be a positive catalyst for change that will help drive business and society forward in a better way,” said Chris Smith, national leader, Strategy & Transformation Services, Grant Thornton, and a member of the firm’s partnership board. “In my current board role, I bring two perspectives that aren’t always present on a board: a more youthful demographic of thinking — one that is in tune with emerging innovations — and real-time practical expertise. This is especially true in areas such as growth strategy, technology and customer experience. With that said, I am not only cognizant but passionate about the value and power of more diversity in underrepresented areas like race and gender.”

12 Tips for accelerating board diversity



1. Actions must truly align with solidarity messaging. The marketing must be substantiated by action in order to have real impact.



2. Conduct meetings so that diverse groups can discuss with peers, senior leaders and board representatives how they are feeling and what they are experiencing. Identify allies in the organization who can help. Discuss what the company can do differently and better. Follow up by creating a list and an employee/leadership committee to implement.



3. If you're the only board member pushing diversity, you risk isolation. Partner with another board member or ask for the board chair's support before the meeting. The diverse individual on the board shouldn't be expected to lead the charge on the topic of diversity — it's everyone's issue. Allyship is critical.



4. Discuss why certain biases existed on the board before today's confluence of crises. Talk about why diversity issues were flying under the radar previously. Having these conversations is key to leading the rest of the organization in doing the same.



5. Form working groups with outsiders to go deeper into areas where the board lacks expertise. Dedicate a virtual board happy hour to address what you are reading, watching and doing to address your own unconscious bias.



6. Do a full board assessment each year. Determine the needed talents and priorities given the company's structure and strategy. What skill sets are needed to assist, guide and oversee management in both the current and future environments, and how do they differ from those historically sought in board members?



7. How can you drive management to bring different solutions and thoughts to the table? What do we need and how do we actually support those needs, given that as we look forward, change happens each day?



8. Discuss how the board can help management strategize about the future, and discuss how that strategy helps drive board composition. How is diversity part of ongoing strategy? How are new customers and supply chains from different parts of the world part of our strategy?



9. Don't limit diversity to be centered around one types of diversity. What's the board's definition of each of the different types of diversity — what are the top skill sets needed to support the strategy?



10. Become part of organizations that are driving diversity into tech and onto boards. We all have a role to play in creating a more diverse pipeline of leaders for the future.



11. More traditional businesses, with traditional boards, management, buyers and customers, may have a more limited view of diversity and have to broaden the lens.



12. If there is no change, don't stop! Keep asking questions, getting the issue on the board agenda. Keep at it. Your voice will not be lost.

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