



Four key actions to accelerate board diversity

EY Center for Board Matters
and Global Public Policy



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As regulators and investors turn up the heat on board diversity, there are four key actions boards can take to accelerate change.

In brief:

- ▶ EY data shows some boards and CEOs do not view boardroom diversity as an imperative despite increasing regulatory and investor pressure to do so.
- ▶ Only 30% of board directors believe that evaluating board composition and augmenting skill sets improves risk-management oversight, and only 8% of CEOs believe that greater diversity is the most important change that should be made to their corporate C-suite.
- ▶ EY teams identify four key actions boards can take to drive boardroom diversity and meet stakeholder expectations.

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August 2021 marked a historic milestone in the race to accelerate boardroom diversity. The US Securities and Exchange Commission (SEC) [approved](#) a Nasdaq [proposal](#) for issuers to have at least two diverse board members (one who self-identifies as female and one who self-identifies as either an underrepresented minority or LGBTQ) or explain why they have not done so.

The move raises the stakes for boardroom diversity and comes at a time of growing societal momentum for corporate leaders to represent the stakeholders they serve, but in our view, could go further to recognize a broader perspective of board diversity. True board diversity comes from diversity in thought and more than one or two diverse individuals or quotas to affect change. Where such diversity in thought should come from will vary and can be informed by a company's strategy, risks or identified stakeholders; board member traits (gender, ethnicity, age, disabilities); experiences (industry, operational, skills) or insights into key stakeholders (investors, employees, customers).

Where are we today?

Despite the growing evidence that repeatedly confirms the significant commercial benefits that diversity brings in areas such as [climate change](#) and [financial risk](#), not all boards and CEOs are convinced.

EY 2021 [Global Board Risk Survey](#) shows that just 30% of boards believe that evaluating board composition and augmenting skill sets improves risk-management oversight. And, [EY's CEO Imperative Study](#) found that only 8% of CEOs believe that greater diversity is the most important change that should be made to their corporate C-suite.

This is troubling as it signals a disconnect between the value that diversity brings to corporate decision-making and long-term value.

Effects of diversity

Boardroom culture becomes more relationship focused and collaborative

Better future financial performance (as measured by EBITDA margin) especially after three years

Higher stock returns, especially when diversity is well managed

Boards less likely to experience shareholder dissent

Source: UK FRC. [FRC Board Diversity and Effectiveness in FTSE 350 Companies](#), page 11



What are investors and policymakers doing?

Investors are helping to drive the charge for change. They want more information in areas such as boardroom diversity to help inform their investment decisions and are increasingly using their voting power to affect change. For example, [AllianceBernstein](#) will generally vote against the nominating/governance committee chair when the board has no female members. In 2022, [State Street](#) will vote against the chair of the nominating and governance committees of S&P 500 and FTSE 100 companies that do not have at least one director from an underrepresented community.

Policymakers are also evolving their approaches to accelerate boardroom diversity. Interventions to date, such as mandatory government quotas, have had varied results. Some jurisdictions have seen dramatic change; in others, women board members are **not** being appointed to influential board committees where quotas do exist. One limitation of mandatory government quotas is that they do not address the actual barriers to improving the talent pipeline to board level positions.

What we are now observing is a policy push for enhancing disclosure standards including in broader areas such as [human resource development policies](#) to give investors the information they need to hold companies accountable on diversity. Others are going further, for example, [South Korea](#), will penalize or ban certain companies from having all-male boards from August 2022.

Four key actions for boards

Board composition is increasingly under the spotlight with many stakeholders and indeed investors viewing it as a barometer for what the organization values most. As such, it is vital that boards revisit their own composition to ensure they're keeping pace with societal expectations around diversity, equity and inclusion (DE&I). This approach should not just be limited to race, gender and sexuality but also consider diversity in skills, abilities and experiences that are increasingly relevant to companies such as technology and sustainability, as well as a broader view of diversity based on the company's strategy, risks and needs.



Four ways boards can tackle the issue of board diversity

1

Ensure you have a proactive and committed Chair, who asks questions and challenges whether the board is setting the right example regarding the importance of diversity and is reaching outside of its traditional capabilities to analyze business challenges and issues from every angle.

2

Confirm you are aligned with the CEO and Executive Team on the embedding of DE&I priorities; including the establishment of Key Performance Indicators that are well understood and can be easily measured. Develop individual and collective learning opportunities to enable directors to stay on top of current trends and leading practices.

4

Be transparent and enhance disclosures to highlight current board and workforce diversity; the organization's commitments to increase diversity, including the practices and policies that are in place and the tactics the organization and the board are taking to advance all aspects of DE&I to live the organization's values.

3

Challenge the board's current composition and director nomination process and promote board evaluation beyond the formal annual process to ensure it reflects the organization's commitments to DE&I and new skills/experiences that are increasingly relevant to the organization. If it seems like it has gaps it probably does!

Summary

Diverse boards are critical to driving long-term corporate performance and value. Like most organizations we still have a way to go, but by **publicly stating** our intention EY is setting a standard by which we can and will be held to account.

Related article

[How boards can lead on racial diversity, equity and inclusion](#)



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