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DE&I (Diversity, Equity, and Inclusion) and Boards: Building a Diverse Network

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Who sits on a company's board is both critical to overseeing strategic and financial performance and an important statement to stakeholders about a company's values. Today, the range and variety of relevant expertise are skyrocketing, as are public expectations for organizations to take responsibility for their impact on the communities in which they operate and for addressing broader social issues.

Many boards are trying to find an ESG expert, a digital transformation expert, a cyber-security expert, a public policy expert, and a representative share of people from diverse backgrounds. Though it is not possible to find all of those people at once, greater representation, especially today, of racial and ethnic minorities, is more important to the success of an organization than ever before.

Yet, in our experience, many boards refresh themselves reactively rather than proactively and based on tradition rather than current strategy. Indeed, according to a recent survey by the National Association of Corporate Directors (NACD), nearly 70% of directors said their board had used personal networking or word of mouth to identify the pool of candidates from which their most recently nominated director was chosen. That's not enough. Our own research shows that over the past five years, the share of women and people of color taking board seats on Fortune 500 boards averaged 38% and 27%, respectively. There has been a recent positive shift: of the new directors in 2021, 41% were women, and 42% people of color.

But boards must, and can, do better. Rather than relying on their personal networks, boards should treat director recruitment as an

ongoing part of their agenda, tied to their strategy. With this approach, they will be able to build their bench strength in a process through which they consistently and continuously evaluate the experiences and skills necessary for the board to succeed today as well as over the next five to 10 years. Boards that don't already conduct regular reviews of their skills, experiences, and performance as a board will find doing so is a good start. As a core part of their succession-planning process, boards should embed long-term and well-defined DE&I goals and make sustained, intentional efforts to recruit directors from different backgrounds in order to build a diverse leadership pipeline, rather than thinking of diversity as a finite goal.

In this continuous process, boards will need to set priorities on their skills matrix, ranking the capabilities, areas of expertise, and backgrounds they have identified as necessary in order of importance and explicitly identifying which trade-offs they are willing to make, as well as which skills and experiences are no longer needed in the context of today's and tomorrow's environment. Particularly now, that requires considerations that go far beyond business strategy, taking into account organizational purpose, pandemic recovery, and political volatility, among many others.

Boards will also need to determine which types of expertise could be brought to the boardroom in other ways, such as through an advisory board. And in order to find the right mix of new expertise and diverse backgrounds, boards need to expand their target networks significantly and reassess some traditional requirements, such as prior experience as a CEO or CFO, to bring in diverse directors who have critical expertise and operational experience. For example, Black people and other people of color often don't occupy C-suite or P&L roles at the large companies where boards often seek executives to take on board roles. Recent Heidrick & Struggles research found that people of color tend to be more concentrated in HR and marketing roles, while being seriously underrepresented in line roles. The same holds true for women.

Boards should consider where the expertise they have traditionally looked for, as well as newer requirements, can be found in people with non-traditional backgrounds or experiences. Broad operating experience, like that of public-company CEOs, for example, can often be found in leaders who run large P&Ls or government and military leaders. More specialized and newer expertise, such as in digital, cybersecurity, or sustainability, can often be found in leaders who are younger or earlier in their careers and one or two levels below the C-suite—a much more diverse candidate pool. Non-profit executives, or board service on non-profits, is also increasingly useful expertise as society's expectations broaden. As part of this long-term, continuous strategy, boards should also seek to build relationships with people who are likely to be good board candidates a few years out.

The pressure on boards to find the very best directors while maintaining a diversity of experiences and perspectives to help guide organizations through and beyond today's challenges will undoubtedly become even more pronounced as the economy adjusts to the new normal and society continues to push for greater social and economic inclusion. Boards that are intentional and strategic about their refreshment processes and succession planning, that go beyond their traditional networks to establish a diverse pipeline of potential directors, will be better able to represent their stakeholders, customers, employees, and communities as the organization evolves—and be best positioned to help their organizations compete in the global markets.

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