Advancing board governance of diversity, equity, and inclusion

Investors, regulators, and the broader public are all calling for large public companies to comprehensively address diversity, equity, and inclusion (DEI). Boards have increased their engagement with DEI issues since the summer of 2020, but progress towards company-wide change has remained slow. Disclosure standards for the ‘S’ in ESG–DEI in particular—remain varied and sometimes nebulous. Top corporate leaders say that they have few opportunities to speak candidly with their peers in leading companies about the challenges of making DEI real and measurable. On November 15, 2022, a group of investors, directors, and boardroom executives convened for the charter meeting of the Inclusion, Diversity, and Equity in Action (IDEA) forum, to discuss the challenges, opportunities, and emerging issues around board governance of DEI.

For a full list of meeting participants, please see the appendix on page 4.

Boards are addressing DEI in different ways

Companies continue to evolve their approaches to DEI, and boards are keen to evaluate progress on DEI initiatives. However, the definition of DEI varies across companies, perhaps reflecting different corporate priorities. Meeting participants discussed how this variability, as well as the diversity and structure of boards, can affect meaningful change.

- **Companies define and prioritize DEI differently, and this impacts their strategies.** Meeting participants said that their companies are thinking about DEI in a broad range of ways. While some organizations "have been devoted to the issue for over 20 years...with specific targets for all levels," others are “not measuring DEI in any meaningful way and have not embraced it at all.” Participants believe that this contrast in DEI strategies reflects varying baseline definitions and understandings of the topic. An executive said that many boards and management teams look at DEI only through the lens of compliance, leading them to focus on “meeting diversity quotas.” As another executive noted, this narrow perspective can reduce the priority of equity and inclusion: “Diversity is really an outcome of an inclusive culture… if you want to make progress, you have to get the inclusion piece right.” By limiting DEI strategy to compliance and talent goals, it becomes a “risk mitigator and not a value creator.”

- **The board’s own diversity provides an important foundation for change.** Directors candidly acknowledged that the definition of DEI “depends very much on the individual board member,” and highlighted the importance of varied perspectives on boards. One director said, “When you don’t have diverse board members, you don’t have the ability to interpret and ask the right questions for where the board and the company need to go. Some normally vocal board members become much quieter in DEI sessions.”

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1 Erin Martin, Celia Soehner, “How to Respond to SEC’s Focus on Human Capital Disclosures,” Bloomberg Law, Oct 14, 2022
participants agreed that a diverse board can “set the stage to give the Chief Executive Officer (CEO) courage” and “make diversity a part of the CEO role.” A director shared an example of a successful company outcome that “would not have happened but for the board really pushing the CEO on the importance of diversity throughout the organization,” while another spoke about including diversity as “a big part of the job description” for two recent CEO appointees.

- **Board structure can increase visibility for DEI and can activate progress.** Participants provided insight into how their boards are organized for DEI oversight. While some companies do a “deep dive on diversity with the full board once a year,” other boards have made DEI a priority in committees such as Nomination/Governance, Human Capital, Human Resources, and Compensation. There is also variability in the executives reporting on DEI to the board—Chief HR Officers, Chief Diversity Officers, Chief People and Talent Officers, and Chief Compliance and Legal Officers were all named by meeting attendees. To increase visibility for and progress of DEI at the board level, a director strongly recommended “a devoted long-term committee...with annual targets that are tracked quarterly.”

**DEI can and should become a core pillar of business**

In many companies, DEI initiatives continue to be reactive in nature, implemented in response to a crisis. “Change usually takes an action forcing event... in one company, five people of color left the C-suite and one level below in one quarter before the board interjected to understand why. On the flip side, when a company is doing well, it is very difficult to move the needle because the board is asking, ‘What’s the problem? What’s broken, what do I need to fix?’”

Participants believe that DEI should go beyond compliance to become a fundamental “business enabler” with “infrastructure, process, and structured board oversight.” Several participants spoke of employee resource groups (ERGs). While many companies utilize these to foster diversity and inclusion, they can become “a whining forum that gets people riled up.” To ensure that ERGs enable organizations to “listen to their employees,” some are turning them into business resource groups (BRGs), changing their mandates to “make something constructive... and change the attitude of senior teams towards diversity, so that they see these groups as a business benefit.” One executive shared that selected BRGs present monthly “to our CEO and the executive staff on business ideas from their perspectives,” while another highlighted a program in which all BRGs work on products related to the firm’s Environmental, Social and Corporate Governance objectives.

Driving the integration of DEI through BRGs can be an example of “how companies can impact culture with small changes,” said a director, who advocated similar changes in hiring practices. “You have to move past the notion that you’re talking about quotas. What’s the job profile? What are the qualifications, what are the experiences you’re looking for? Then you insist on a diverse slate where people can compete and eliminate artificial barriers that keep people from competing.”

**Metrics and accountability provide a foundation for progress**

Participants noted that in other areas of business—sales, finance, and IT, for example—companies regularly use standardized frameworks and benchmarks to set goals, measure progress, and strengthen
accountability. However, DEI continues to be an area where cross-company comparison is difficult, and where “trying seems good enough.” One executive said, “unlike a lot of other business strategies, there’s an emotional component to DEI... and that’s the key piece that people are very afraid of.” Another said, “not everybody is comfortable with publicly sharing goals, especially from a legal perspective.” Nevertheless, participants agreed that “what gets measured gets managed,” and boards and executive teams are increasingly analyzing data to “understand where to invest and drive towards the intended business outcome.” Over 90 companies in the S&P 100, for example, now disclose their Equal Employment Opportunity-1 (EEO-1) data, and an executive noted that “boards are now getting into the details of why certain people leave.” Examples of granularity include analyzing hiring in tandem with year-on-year turnover of those hired by specific demographics, evaluating non-anonymized employee surveys by demographics, retention rates of minority groups at every leadership level, and supplier diversity.

Participants also pointed to the importance of transparency and accountability in DEI. “DEI doesn’t happen overnight. Very often, companies look at their data and say: ‘This is really bad data. We don’t want everyone to know that we have such a challenge.’ But if you’re really going to fix it, and if you’re really going to talk about a solution, you have to be committed for the long-haul and you need a level of transparency all around.” A director agreed: “Do you make DEI goals public? I think once you put them out there, you have no choice but to go towards them. I think that has been very galvanizing.”

Looking ahead to 2023

The IDEA forum will embark on a study, in partnership with Syndio, to assess the role of boards in defining and advancing workplace equity, including identifying actionable principles that can galvanize change. Among other things, the project will look at metrics and standards, as well as at how boards can lead management toward DEI as a business enabler rather than a topic for compliance.
Meeting Participants

DK Bartley  
Chief Diversity Officer, Moody’s

Ben Gerdes  
Director of Communications, Syndio

Phyllis Harris  
General Counsel, Chief Compliance, Ethics, and Government Relations Officer, American Red Cross

Melanie Hughes  
Former Chief Human Resources Officer, Moody’s

Aylwin Lewis  
Non-executive director, Marriott International

Paul Martin  
Sr. Vice President and Chief Diversity Officer, Sony Pictures Entertainment

Yumi Narita  
Executive Director of Corporate Governance, Office of the New York City Comptroller

William Rolack  
Chief Inclusion and Diversity Officer, Kroll

Bennie Wiley  
Non-executive director, BNY Mellon, CBIZ

Amber Williams  
Senior Vice President & Deputy General Counsel, Bath and Body Works

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