

# Redefining Best Practices in **Board Governance**

By Judith L. Turnock



From the C-suite to the boardroom, diverse and independent leadership has become a new best practice of the most successful companies.

**The Alliance for Board Diversity** A Collaboration Between



THE POWER OF INCLUSIVE LEADERSHIP

With customers, shareholders and workforces growing more and more diverse, it is increasingly difficult to conclude that a board without the voices of women and minorities can understand, interpret and predict market needs and interests. Southern Company Chairman, President and Chief Executive Officer David Ratcliffe agrees: “From our board of directors to our frontline employees, we believe it is critical to enlist talented individuals who meet our business needs and are representative of the communities we serve and the changing demographics of our marketplace. For us to continue to be successful, our board must be diverse, having collective knowledge and experience in all areas of business, while bringing varied perspectives and ideas to the table.”

Promoting broad implementation of this new best practice is the Alliance for Board Diversity (ABD), a collaboration created two years ago when The Prout Group, an executive search firm with a focus on diversity, brought together the senior leaders of three national corporate leadership organizations — Catalyst, The Executive Leadership Council® (The Council) and the Hispanic Association on Corporate Responsibility (HACR) — at the headquarters of The National

Association of Corporate Directors (NACD). Along with its corporate partners, ABD has raised public awareness about the need and business case for diverse and independent voices in the boardroom, while offering access to its combined network of qualified board candidates for companies and search firms that seek women and minorities.

Increasing board diversity is the common mission of the ABD partners and their allied organizations. “We share a mission but approach it through different lenses,” explains Catalyst President Ilene H. Lang. “Together, those perspectives

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— Ilene H. Lang  
Catalyst

give ABD the strength and depth around identifying qualified and diverse board candidates.”

Carl Brooks, chief executive officer of The Council, expands on the value of the unified voice: “The Alliance allows us to compare and contrast research as we work to spread our collective and individual messages. Individually we’re strong, but together we’re stronger.”

Each of the three ABD partners has decades of research, initiatives and advocacy efforts designed to improve the status of women and minorities at every level of corporate America. The ABD collaboration brings a vibrant and powerful new player to the issue of board diversity, backed by solid research and a network of seasoned, high-level corporate executives. “Through our collective research, ABD has created an ongoing dialogue with corporate America about who is selected for board positions,” states Carlos Orta, chief executive officer of HACR.

### Alliance for Board Diversity (ABD) Founding and Operating Principles

#### Boards best deliver on their duty to shareholders when they:

- ▶ Include women and minorities with diverse talents, backgrounds and perspectives
- ▶ Make independent decisions based on the broadest possible knowledge of how the external environment impacts the company
- ▶ Enhance public trust by including all stakeholders — shareholders, employees, customers, suppliers and the communities they impact — in decisions about goods and services



Ilene H. Lang

President, Catalyst



Carl Brooks

President & Chief Executive Officer,  
The Executive Leadership Council



Carlos Orta

President & Chief Executive Officer, Hispanic  
Association on Corporate Responsibility

## The Benefits of Board Diversity

Healthy debate and discourse lead to creativity, innovative problem solving and more effective communication with all stakeholders. All these qualities are promoted by diverse perspectives on the board team. Therefore, more and more companies include diversity as a key factor in their good governance formulas. Alfred E. Osborne, Jr., Ph.D., senior associate dean and professor at UCLA Anderson School of Management at the University of California, Los Angeles and a veteran of a number of boards, explains the link: “Companies that value independent thinking, innovation and new ideas are the ones that will learn and grow. An interest in and understanding of the value of diversity tends to be a part of accepting those other ideas, other views, other perspectives, other paradigms.” Good governance — quality leadership, oversight and guidance from independent thinkers with broad experience — tends to produce better business results.

Barbara Krumsiek, chief executive offi-

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## Alliance for Board Diversity Call to Action

**We conduct research to benchmark and measure progress in board diversity and raise awareness about those findings.**

**We identify corporations that commit to board diversity and endorse our mission.**

**We ally with like-minded organizations and/or individuals who support board diversity as a vital shareholder concern.**

**We offer referrals of qualified candidates to facilitate board diversity.**

cer of Calvert, one of the first investment management firms to study diversity as an investment criterion, is an early ABD supporter. She takes Osborne’s conclusions even further. “In Calvert’s view, companies that value diversity at every level of the organization — from the factory floor to the boardroom — tend to perform better than those that do not,” says Krumsiek, who spoke at the ABD launch. “Calvert believes well-developed workplace policies, comprehensive programs and strong leadership commitment enhance a company’s long-term value.”

## The Status of Women And Minorities on Corporate Boards

According to studies by ABD and its partners, representation of white women as well as men and women who are African-American, Hispanic and Asian-American on the boards of the top 100 corporations has grown to about 27% (271 seat holders out of 995 total seat

holders).<sup>1</sup> ABD’s update report will be released later in 2007.

Behind this total is a picture of meaningful diversity not yet achieved. Women and minorities represent about two-thirds of the U.S. population, two-thirds of consumers and probably, through pensions and retirement accounts, approaching two-thirds of shareholders. However, they do not represent even one-third of board members.

While no minority group has significant representation, white women fare the best, at just under 14%. The total representation of minority men and women is just under 15%, but each category of minority women and men is below 8%, with all minority women no more than 3%, all Hispanics just under 4% and Asian

Americans at 1%.<sup>2</sup> Sadly, as recent research from ABD’s partner organizations shows, the rate of change over the last two years has been small and, in the case of Hispanics, Asians and all women, actually stagnant or down.<sup>3</sup> In addition, there is more recycling of minority board members than whites: White men hold an average of 1.18 seats per person and white women 1.16 seats per person, while African-Americans hold an average of 1.50 seats per person and Hispanics, 1.24 seats per person.<sup>4</sup>

With so much evidence to support the business value of independent diverse voices, a growing army of diverse corporate executives and Sarbanes-Oxley encouraging boards to cast a wider net for new, independent board members, ABD

<sup>1</sup> *Women and Minorities on Fortune 100 Boards*, ABD, 2005, p. 5.

<sup>2</sup> ABD, 2005, p. 4.

<sup>3</sup> Catalyst, *2006 Census of Women Corporate Officers, Top Earners and Directors of the Fortune 500*. Retrieved June 21, 2007, from [www.catalyst.org/knowledge/wbd.shtml](http://www.catalyst.org/knowledge/wbd.shtml).

<sup>4</sup> ABD, 2005, p. 5.

## Renovating America's Supplier Base

If you want a snapshot of America, walk into The Home Depot. With more than 1,900 stores in the United States, the Company's customers reflect the changing demographics of this country.

The Company has put a number of development programs in place that mirror the customers who shop in its stores. Recently, The Home Depot began a scholarship program for minority- and women-owned firms that pays for business development training, and has sponsored FastTrac, a nine-week program open to current and potential corporate suppliers in conjunction with The Kaufmann Foundation and Small Business Development Centers.

The Company is working with the National Minority Supplier Development Council to encourage some of its smaller suppliers to pool their talents and business skills.

As The Home Depot continues to grow, it continues to actively seek more opportunities to bring in new and diverse suppliers that will help better meet its customers' needs.



**You can do it. We can help.™**

believes the time is right for companies to capitalize on this business opportunity.

### Board Diversity: Challenges And Opportunities

Diversity and inclusion, declared HSBC USA Chief Executive Officer Paul Lawrence at a CEO Roundtable during the recent World Diversity Leadership Symposium at the United Nations, "has to exist at all levels, but it starts at the top, on the board and on the senior executive team." ABD understands the demographics: Diversity is our present and our future. To position corporations for this future, ABD believes it is increasingly important that boards represent the leadership of tomorrow, not just the leadership of today. In an environment where corporate boards usually do not have direct links to experienced, board-ready women and minorities, ABD provides awareness and specific candidates.

Each ABD organization also works independently to prepare members and beneficiaries of its efforts for board service, HACR works through an Executive Education Program at Harvard Business School. The Council has executive seminars sponsored by the Altria Group and developed in partnership with the NACD, an ABD partner as well, and the minority board training program at Northwestern University. Catalyst works through one-on-one personal consultations with candidates to assess board readiness and to coach them on how to raise their visibility as potential board candidates. In addition, all three organizations work directly with major and smaller, independent executive search firms, and through ABD's partner, The Prout Group, to connect companies with diverse candidates who are ready to serve. This firm provides clients with the combined advantage of business expertise, state-of-the-art research tools, leading-

## Alliance for Board Diversity and Partner Studies On Board Diversity

Alliance for Board Diversity, *Women and Minorities on Fortune 100 Boards*, 2005: [www.proutgroup.com/Resources/abdfinalreport2005.pdf](http://www.proutgroup.com/Resources/abdfinalreport2005.pdf)

Catalyst, *2006 Census of Women Corporate Officers, Top Earners and Directors of the Fortune 500: A Call to Action in a New Era of Corporate Governance*, 2007: [www.catalyst.org/knowledge/wbd.shtml](http://www.catalyst.org/knowledge/wbd.shtml)

Catalyst, *The Bottom Line: Connecting Corporate Performance and Gender Diversity*, 2004: [www.catalyst.org/files/full/financialperformancereport.pdf](http://www.catalyst.org/files/full/financialperformancereport.pdf)

The Executive Leadership Council, Institute for Leadership Development and Research, *2004 Census of African Americans on Boards of Directors of Fortune 500 Companies, Part I of II*, 2005: [www.elcinfo.com/news\\_publications\\_2004\\_Census.htm](http://www.elcinfo.com/news_publications_2004_Census.htm)

The Executive Leadership Council, Institute for Leadership Development and Research, *Implications and Recommendations of the 2004 Census of African Americans on Boards of Directors, Part II of II*, 2006: [www.elcinfo.com/6\\_6\\_06\\_ELC\\_Census\\_Part\\_II.pdf](http://www.elcinfo.com/6_6_06_ELC_Census_Part_II.pdf)

Hispanic Association of Corporate Responsibility, *Corporate Governance Study*, 2007: [www.hacr.org](http://www.hacr.org)

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edge assessment and years of search experience in a flexible environment.

The new scrutiny advanced by Sarbanes-Oxley signals greater need for new leadership and new expertise. This means opportunity for companies and diverse candidates alike. “I’ve been the only

woman on some boards,” notes Bonnie G. Hill, a former senior vice president of the *Los Angeles Times* and now a brand marketing and corporate governance consultant and veteran of major corporate boards, including that of The Home Depot. “But I like boards with diversity of thought, ethnicity and gender — the more diversity, the better the board.”

A continuing challenge for advocates of diversity is the often-unconscious perception that “diverse” and “qualified” are mutually exclusive. Because shareholders elect board members and their choices are business decisions, made in the best interest of the company and shareholders, boards prize capability above all. Few companies would risk electing unqualified board members. Bonnie Hill does not hesitate when she states, “You’re on

a board because of your expertise.”

Diversity and independent thinking go hand-in-hand, bringing greater innovation and creative thought into the boardroom — that vibrant forum business leaders need if they are to maximize overall company performance. Companies that have built board diversity are already benefiting. Qualified, diverse board candidates do exist, and the Alliance for Board Diversity exists to make them visible. ABD knows scores of women and minorities with top credentials ready to step up each time the board recruiting net is cast wider. Position your company for the future by getting to know these candidates. ■

## Web Address Directory

The Alliance for Board Diversity,  
A Collaboration Between Catalyst,  
The Executive Leadership Council and  
The Hispanic Association on Corporate  
Responsibility

Catalyst  
[www.catalyst.org](http://www.catalyst.org)

The Executive Leadership Council  
[www.elcinfo.com](http://www.elcinfo.com)

Hispanic Association on  
Corporate Responsibility  
[www.hacr.org](http://www.hacr.org)

The National Association of  
Corporate Directors  
[www.nacdonline.org](http://www.nacdonline.org)

The Prout Group  
[www.proutgroup.com](http://www.proutgroup.com)

Committee of 100  
[www.Committee100.com](http://www.Committee100.com)

FTI Consulting  
[www.fticonsulting.org](http://www.fticonsulting.org)

The Home Depot  
[www.homedepot.com](http://www.homedepot.com)

Southern Company  
[www.southernco.com](http://www.southernco.com)

UCLA Anderson School of  
Management  
[www.execed.anderson.ucla.edu](http://www.execed.anderson.ucla.edu)

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