



DIVERSITY PLAYBOOK

A Roadmap to Driving
Board Diversity



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1. Introduction

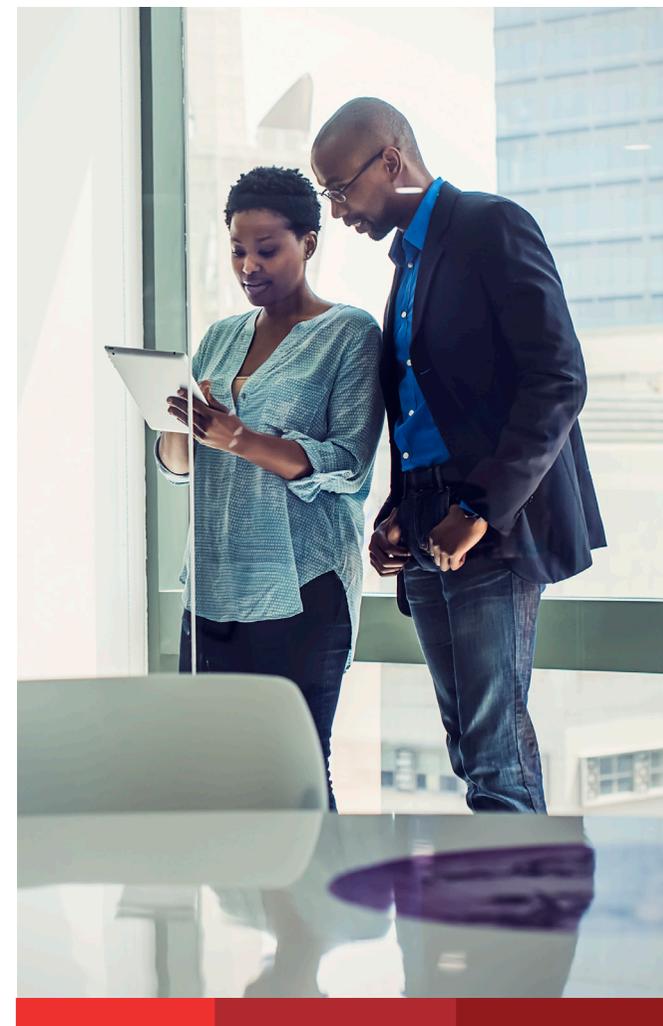
Board diversity – including racial and gender identity diversity, but also age, cognitive and sexual orientation – has been on the radar of many companies for years; yet, progress in diversifying boards has been slow. This is set to change as new legislation and growing demands from investors and regulatory authorities (such as **Nasdaq's proposal**¹ requiring listed companies to have at least one woman and one underrepresented minority on the board) mandate that companies increase their board diversity or face consequences. Companies are also increasingly acknowledging the positive impact of more board diversity of all kinds: enhanced value creation, an improved customer experience, increased innovation and **increased profitability**².

Despite these factors, a **recent survey**³ of 3,000 of the largest publicly traded American companies found that in 2020, just 12.5% of board directors were from underrepresented ethnic and racial groups, up from 10% in 2015. Another survey **highlighted that less than 1%**⁴ of the 5,000+ board seats in the Fortune 500 are occupied by out LGBTQ+ individuals. According to board and leadership diversity reports, a meager **34% of directors**⁵ say it is very important to have racial diversity on the board, and only **47% of directors**⁶ say gender diversity is important.

For companies to drive board diversity, they need to show intent – they need to take action. Boards need to lay the foundational building blocks for diversity by:

- Setting clear, achievable goals
- Reexamining recruiting processes
- Fostering an inclusive board culture

As the drivers become increasingly complex and the goals more urgent, technology has become a powerful tool to promote and expand diversity. This playbook will help you uncover best practices, strategies, technologies and tools.



2. The Diversity Landscape

2.1. Emerging Regulations & Stakeholder Demands

Companies procrastinating on diversity initiatives are at risk; time is running out. Stakeholders and regulators are stepping up the pressure with new directives and mandates requiring businesses to show their commitment toward board diversity.

Investors & Proxy Advisors:

State Street Global:⁷

Companies should articulate goals and strategy related to racial and ethnic representation at the board level, including how the board reflects the diversity of the company's workforce, community, customers and other key stakeholders.

Blackrock:⁸

Boards should be comprised of "a diverse selection of individuals who bring their personal and professional experiences to bear." Companies should take "the full breadth of diversity" into consideration, and provide process-based disclosure as well as diversity statistics. "To the extent that a company has not adequately accounted for diversity in its board composition within a reasonable timeframe, based on our assessment, we may vote against members of the nominating/governance committee for an apparent lack of commitment to board effectiveness.

Vanguard:⁹

Boards should publish their perspectives on board diversity, disclose their diversity measures, interview diverse pools of director candidates and reflect a range of diversity.

Goldman Sachs:¹⁰

Boards that do not have at least one woman director will face a "Vote AGAINST or WITHHOLD from the full board." Boards that do not have at least one woman director and at least one other diverse board director will face a "Vote AGAINST or WITHHOLD from the Nominating Committee."

ISS:¹¹

Companies where there are no women on the board will be voted against or withheld from the chair of the nominating committee (or other directors on a case-by-case basis).

Stock Exchanges

Nasdaq:¹²

Nasdaq-listed companies, subject to certain exceptions are, (A) to have at least one director who self-identifies as a female, and (B) to have at least one director who self-identifies as Black or African American, Hispanic or Latinx, Asian, Native American or Alaska Native, Native Hawaiian or Pacific Islander, two or more races or ethnicities, or as LGBTQ+, or (C) to explain why the company does not have at least two directors on its board who self-identify in the categories listed above.

Investor and proxy advisor mandates continued in the Appendix (page 15).

2. The Diversity Landscape

2.1. Emerging Regulations & Stakeholder Demands

State Laws

California's Board Diversity Mandate:¹³

By 2021: Companies with at least five directors would need to have two or three female directors, depending on the size of the board, according to the new law.

New Jersey's Board Diversity Mandate:¹⁴

By 2021: If a company has 6 or more directors, 3 must be female; if 5 directors, 2 female; if 4 or fewer directors, 1 female.

Washington's Board Diversity Mandate:¹⁵

By 2022: If a company has 20 or more directors, 30% must be female; if 10-19 directors, 3 must be female; if 9 or fewer directors, 1 female.

Michigan's Board Diversity Mandate:¹⁶

By 2021: 1 female director. By 2022: If a company has 6 or more directors, 3 must be female; if 5 directors, 2 female; if 4 or fewer directors, 1 female.

Hawaii's Board Diversity Mandate:¹⁷

By 2022: If a company has 6 or more directors, 3 must be female; if 5 directors, 2 must be female; if four or fewer directors, 1 must be female.

Illinois' Board Diversity Mandate:¹⁸

By 2021: Companies must disclose information about (1) the racial, ethnic and gender diversity of their boards of directors; (2) how demographic diversity is considered in their processes for identifying and appointing director nominees and executive officers; and (3) their policies and practices for promoting diversity, equity and inclusion among the board of directors and executive officers.

Shareholders

Ten plaintiff shareholder derivative actions¹⁹ in California and Washington, DC, alleging lack of diversity on boards of publicly traded companies.

Consumer class-action law firm **Bottini & Bottini**²⁰ has filed lawsuits against Oracle, Facebook, Qualcomm, Norton LifeLock, The Gap and Monster Beverage, alleging lack of board diversity.

2. The Diversity Landscape

2.2 Diversity Insights: Opportunities & Challenges

Diverse boards deliver better results. Diverse companies have consistently outperformed peers that lack diversity.

For boards to be effective, they need to address contemporary challenges such as rapid globalization, accelerated digitization and evolving customer needs. Diversity at the leadership levels creates competitive advantages that cannot be achieved by homogeneity. While gender equity is high on many boards' radar, attributes such as socio-economic background, sexual orientation, gender identity, geography, industry experience and soft skills also need to be considered.

Out Leadership has compiled more than 30 pieces of research that **demonstrate the benefits of diverse boards²¹**, including:

- Decreased groupthink
- Improved decision-making
- Heightened innovation
- Better risk mitigation

- Improved brand reputation
- Easier talent acquisition
- Greater investor demand
- Better access to new markets
- Increased shareholder return
- Elevated employee engagement and motivation
- Closer connections with customers
- Lower staff turnover

Despite the opportunities that board diversity has to offer, progress has been slow. Boards often cite lack of eligible diverse candidates as a reason hindering their recruitment efforts.

To address the shortcomings of traditional recruiting processes, companies are adopting new technologies to recruit for board positions and tap into wider networks of more diverse profiles. In fact, experts highlight that creating **unrestricted access to a pool of diverse candidates is a crucial foundational step in building diverse boards²²**.



Diverse companies²³ are 33% more likely to have greater financial returns than their less-diverse industry peers.



Companies with above-average diversity at the management level generate **19% higher innovation revenues²⁴** than companies with below-average diversity.



Greater board diversity²⁵ correlates with lower stock price volatility, more consistent investment in R&D projects over time, and better performance overall.

What Prevents Companies from Driving Greater Board Diversity

- Lack of a structured board succession plan
- Lack of access to a qualified, diverse talent pool
- Lack of visibility into investor demands to identify potential red flags
- Lack of access to peer benchmarking
- Longevity of board seats
- Diverse perspectives are not regularly sought out or valued
- Diversity is treated as tokenism or a checkbox

“One specific tool that has been used is referred to as the ‘Rooney Rule,’ named after a practice that emerged in professional football and is adopted in corporate America in board searches. It requires that a diverse slate of candidates be brought for selection before a final decision is made. It doesn’t necessarily mean that the candidate selected be diverse, but you’ve got to start with a diverse pool, or you are never going to get a diverse candidate as part of the outcome.”

Matt Fust, Senior Advisor, Out Leadership²⁶



Diversity Initiatives Among Industry Leaders

Uber pledges to double Black leadership at company by 2025.

Google commits \$175 million to Black businesses and promises to diversify leadership.

RBC commits \$150 million to diversity push, aims for more minority executives.

Mozilla plans to increase Black representation in the U.S. to 6% at the director level and up.

GM is the only automaker with more than half its board comprising women.

HP joins the fight for diverse boards, purportedly making it the most diverse of any U.S. tech company, comprised of 42% women and 58% minorities.

2. The Diversity Landscape

2.3 The Imperative to Act Now

Leaders must act fast to stay ahead of this evolving landscape. Boards must begin by examining their current systems, processes and bylaws. They need to anticipate new mandates and make informed decisions that demonstrate progress on their internal and external obligations. For some, it may mean amending their board refreshment policies. For others, it may require implementing a qualitative analysis of their board composition or a complete overhaul of their board recruitment process.

Fortunately, technology can help.

Digital transformation and advanced analytics play a crucial role in guiding boards to fulfill these time-sensitive mandates. Nominating & governance committees, specifically, can make their roles more efficient by leveraging digital tools to evaluate board composition, streamline board succession planning and build a pipeline of board candidates with diverse experiences, demographics, competencies, cognitive abilities and other criteria.

Better tools and visibility not only enable boards to sidestep fines and negative votes, but they help companies meet the multifaceted requirements of the evolving landscape – legal, ethical, financial and reputational.



Why companies must accelerate their efforts now:

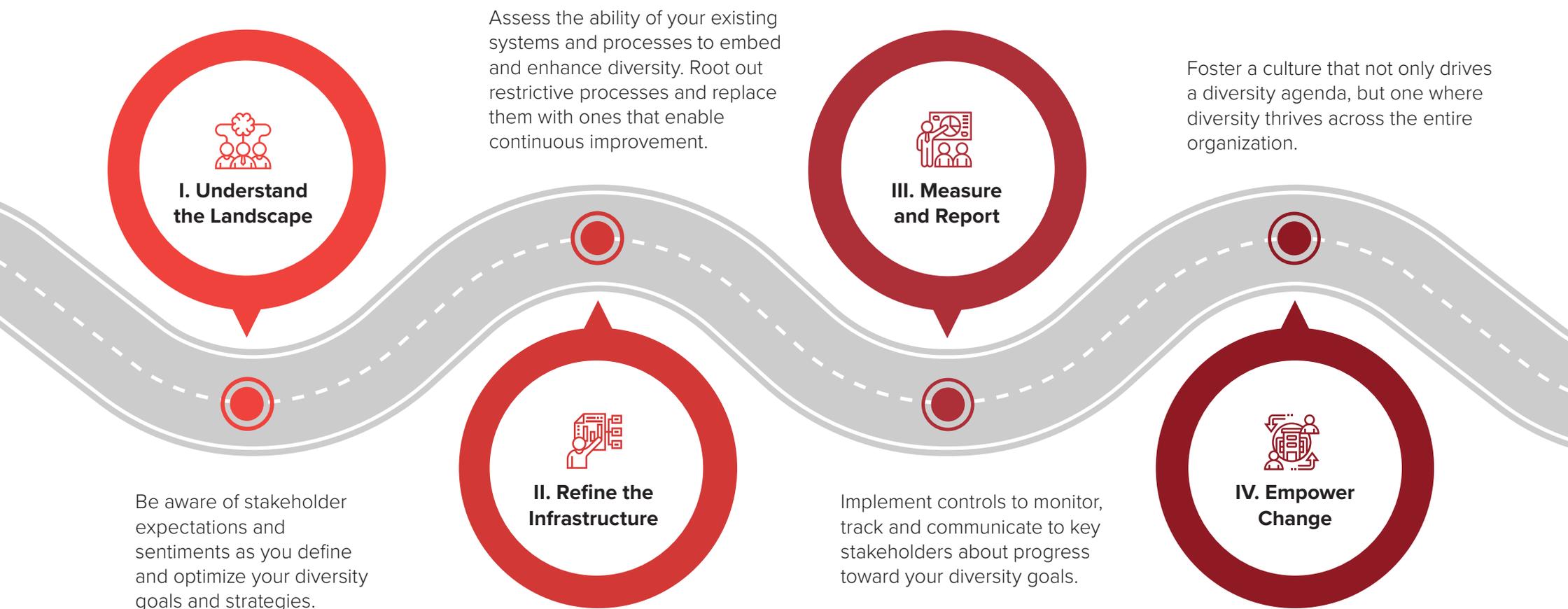
- Potential pressure and negative engagement from institutional investors
- Potential backlash from stakeholders
- Potential “No” vote from major proxy advisors and investors
- Reputational risk that can decrease company value

“Boards are dealing with challenging decisions. Unless you have the right perspectives in the boardroom, companies won’t be able to meet rising expectations and increasing pressures.... Companies and boards that accept and fully embrace diversity and inclusion will be at a lower risk to fail. They understand reflecting and responding to social shake-ups. They won’t fall behind and stall on their corporate and global growth.”

Meesha Rosa, VP of Corporate Board Services, Catalyst²⁷

3. Diversity Best Practices

3.1 Roadmap to Driving More Board Diversity



I. Understand the Landscape

- **Familiarize Your Board with Investor Expectations**

COVID-19 and increased attention on social justice movements have elevated the focus on diversity – a stance increasingly supported by investors and proxy advisors. Is your board familiar with investor expectations around board diversity? (See page 4.) Keep in mind that institutional investors are likely to **vote against companies that fail to show progress**²⁸.

- **Understand Sentiment of Company Stakeholders**

Is your board reflecting the needs of its employee and customer base? Implement technology that allows your board to keep a finger on the pulse of stakeholder sentiment – particularly around perceptions of diversity and discontent.

- **Benchmark Against Your Peers**

In the eyes of investors, the yardstick for comparison remains your peers. Understand how your board diversity stacks up to peers, and where the data may flag you as an outlier. Additionally, take the time to benchmark peer reporting and disclosures around their diversity efforts.

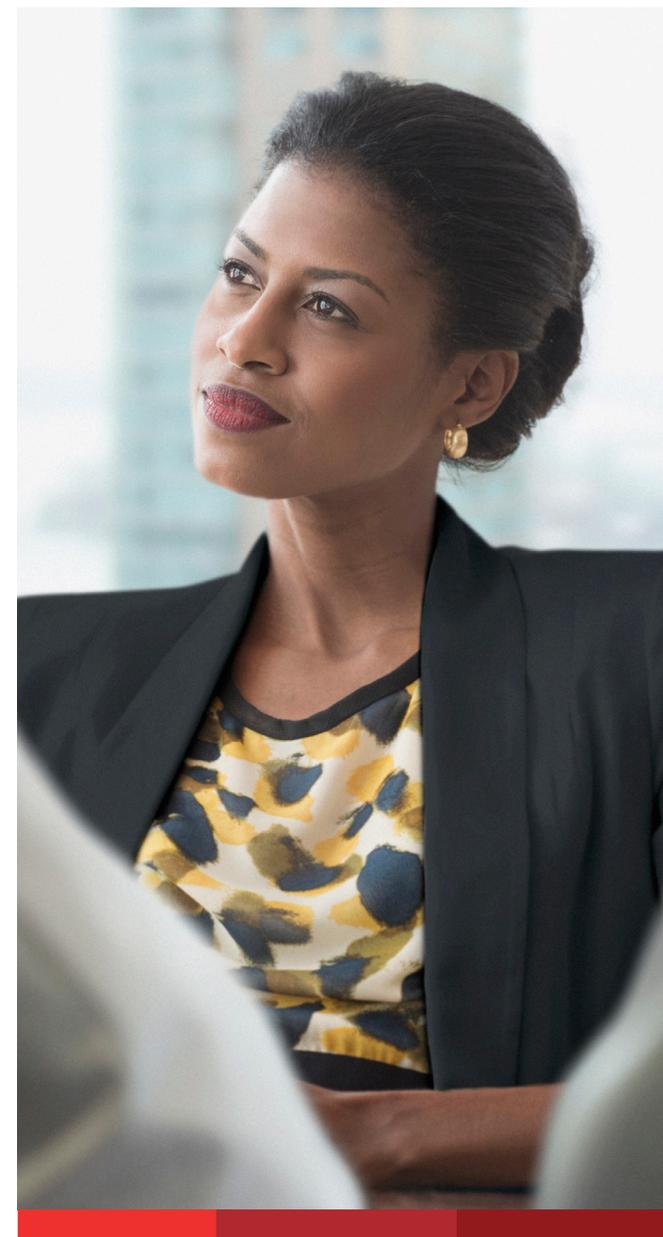
- **Anticipate the Challenges Ahead**

While few predicted a global pandemic, we can now imagine similar types of unprecedented challenges. Plan for potential obstacles your company will likely face in the years ahead and assess how diverse representation can be a competitive advantage.

See how Diligent supports stakeholder sentiment tracking, peer benchmarking and disclosure comparison (page 14).

“DE&I is not just about a nice-to-have. This is about [...] truly going after market share; if you’re truly serious about understanding your customer base, if you’re truly serious about being able to capture capital wherever that capital happens to show itself, then DE&I just cannot be a response to a moment, or it cannot be standalone, but it really needs to be an ethos.”

Wes Moore, CEO of the Robin Hood Foundation²⁹



II. Refine the Infrastructure

- **Set Board Diversity Goals**

What gets measured, matters. Boards should have their own set of diversity goals and targets. Analyze the role of diversity with respect to the business landscape and your corporate strategy. Establish concrete, numeric goals and work toward execution as you would any other business priority.

- **Examine Your Board Assessment Process**

Your board assessment process should be a valuable tool for introspection and continuous improvement in diversity. Analyze the board skills, experience and challenges ahead against short-term and long-term business goals. Don't treat it as a check-the-box exercise.

- **Take a Multi-Year View on Succession Planning**

Board succession planning should take a multi-year view – mapping stakeholder needs, business goals and talent criteria with the long-term needs of your company. The succession planning process should also consider talent

at the committee level to ensure diverse perspectives extend to all aspects of board work.

- **Assess Your Board Recruitment Process**

Homogeneous boards are often created from narrow definitions of “board-ready talent.” Reassess your talent-sourcing criteria: are your current criteria outdated? Weigh the merits and demerits of stringent requirements such as prior director/executive experience. Be proactive about building a talent pipeline based on needs and skills gaps.

- **Ensure Your Onboarding Program Supports Diversity**

Review your onboarding program with a diversity lens to assess if it is inclusive. Is it designed to integrate new directors into the board's social fabric? Does it give first-time directors the resources they need to succeed? Develop a streamlined process to onboard new members and help them integrate better with their fellow board members.

“Everybody has a general board evaluation where we all say ‘How’s the board doing?’ but they don’t necessarily get to the individual performance or relevance of board members. If you look at the composition of society, it’s changing mores and the changing issues that are in front of us today. We all have to really think of diversity.”

Phyllis Campbell, Chairman, Pacific Northwest, JPMorgan Chase & Co.³⁰



III. Measure and Report

- **Tell Your Story**

No matter where you are on your board diversity journey, it's important to communicate your commitment to investors, regulators and other stakeholders. Provide clear disclosures that satisfy stakeholder concerns and articulate your board diversity strategy, goals and progress.

- **Measure Progress and Refine Your Approach**

Board diversity cannot be executed as a one-time project; it is a continuous journey. Implement a framework that enables your board to track progress toward its diversity goals. What succession planning or pipeline-building strategies have worked well? Formalize the processes that will help your board achieve more long-term ambitious diversity goals.

IV. Empower Change

- **Recognize the Important Role of Board Leadership**

Diversity can thrive only with the right culture and tone at the top, driven by board leadership and the Nominating & Governance committee

chair. High-performing boards have a culture that facilitates healthy debate and diverse perspectives.

- **Prioritize Diversity in the Executive Ranks**

To propel diversity at the board level, it is imperative for all companies to prioritize diversity across the organization, especially the path that leads to the executive level. By reformulating talent policies from hiring to retention, you should strive to build a healthy and diverse leadership pipeline within the organization, which increases the supply of qualified diverse board candidates for everyone.

- **Elevate Your Network**

In your role as a board member or governance professional, what can you do to make a difference in your own network? Elevate qualified diverse candidates by opening doors to business circles and potential opportunities that may otherwise be inaccessible to them.

“There are lots and lots of women of color out there ready to serve on boards. I only had to ask.”

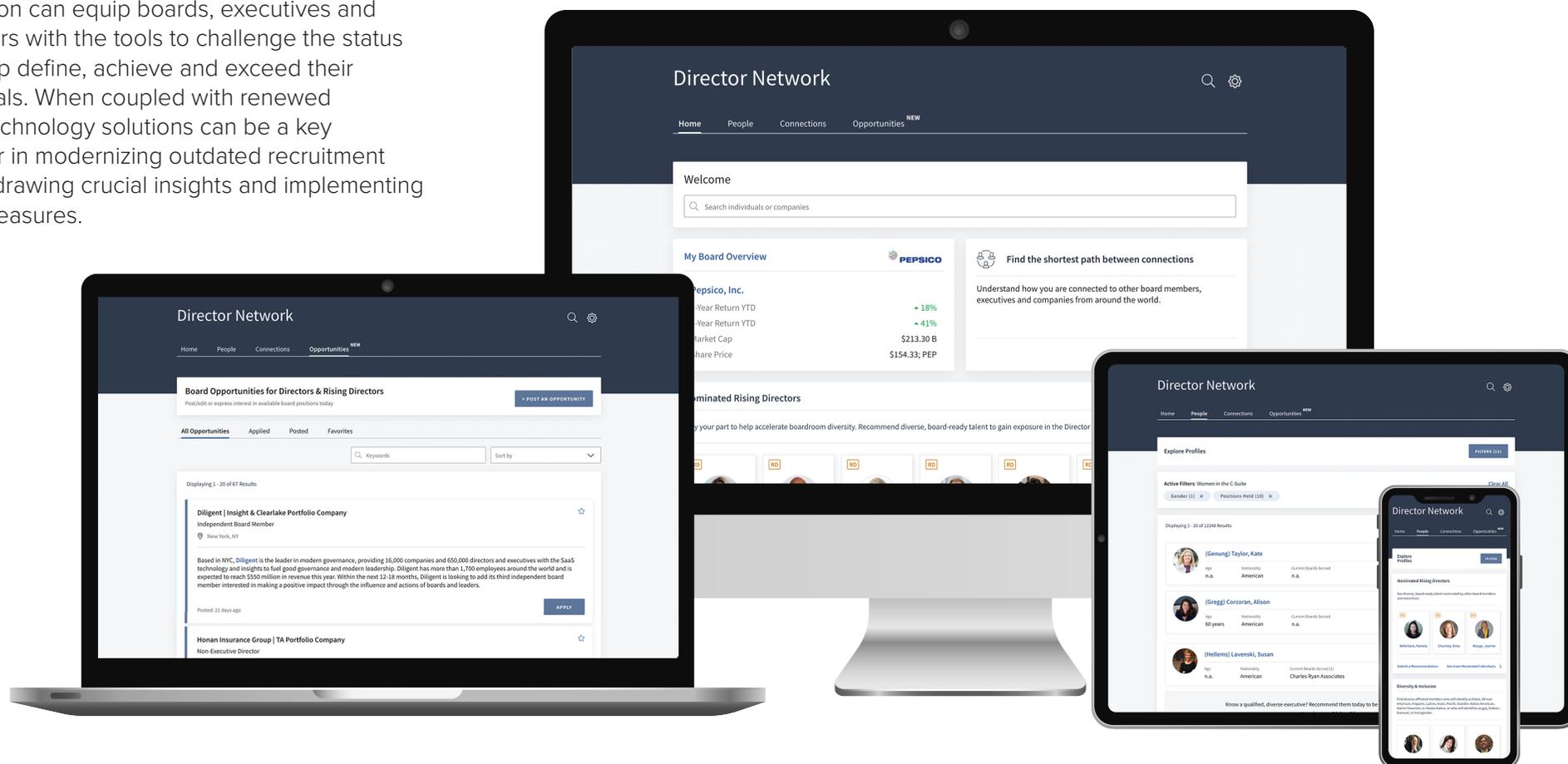
Coco Brown, Founder & CEO, Athena Alliance³¹



3. Diversity Best Practices

3.2 Driving More Diversity with Technology

For companies looking to overcome inherent obstacles and systemic roadblocks in their pursuit of board diversity, technology can be a powerful enabler. Strategic investments in digital transformation can equip boards, executives and administrators with the tools to challenge the status quo and help define, achieve and exceed their diversity goals. When coupled with renewed practices, technology solutions can be a key differentiator in modernizing outdated recruitment processes, drawing crucial insights and implementing proactive measures.



3. Diversity Best Practices

3.3 Leverage Diligent to Drive Board Diversity

✓ Upgrade Board Evaluation Process

Leverage Diligent Board & Leadership Collaboration to draw better insights and reporting from your board evaluation process, while keeping questionnaires confidential and secure.

✓ Benchmark Against Your Peers

Use tools such as Diligent Nominations to examine your composition through a shareholder's lens. Understand how you compare with your peers by accessing the same dataset used by global proxy advisor Glass Lewis.

✓ Compare Other Board Disclosures

Analyze how other companies are disclosing board diversity efforts through the CGLytics Disclosure Search Tool, which allows boards and governance professionals to search disclosures and compare across peers.

✓ Monitor Stakeholder Sentiment

Leverage tools like Diligent Governance Intel that can help you to stay updated on stakeholder sentiment and health scores. Stay abreast of new investor demands, shareholder proposals or new regulations around diversity.

✓ Expand Your Network

Free to all Diligent clients, Diligent Director Network offers a global database of qualified board candidates. Conduct advanced searches using a range of demographic, geographic and experience criteria.

✓ Join Diligent's Modern Leadership Effort

Modern Leadership is a Diligent program designed to elevate qualified diverse candidates and bring transparency to the board search process. Board members can nominate qualified diverse candidates, organizations can post open board opportunities and rising directors can apply for open opportunities.

4. Appendix

4.1. Emerging Regulations & Stakeholder Demands (Further Examples)

Investors & Proxy Advisors:

L&G:³²

FTSE 100 members and those in the U.S. S&P 500 index should have at least one black, Asian or other minority ethnic (BAME) director by January 1, 2022.

JP Morgan:³³

Investee companies should be committed to diversity and inclusiveness in their general recruitment policies. JP Morgan will utilize its voting power to bring about change where boards are lagging in gender and ethnic diversity.

Fidelity:³⁴

Board composition will be evaluated and generally will oppose the election of certain or all directors if there are no women on the board or if a board of 10 or more members has fewer than two women directors.

CalPERS:³⁵

On boards that lack diversity and do not make firm commitments to improving board diversity in the near term, votes will be withheld from directors who are nominating/governance committee members, board chairs or long-tenured directors (greater than 12 years on the board).

NYS Comptroller:³⁶

Boards that are not sufficiently diverse, including diversity of age, race, gender, ethnicity, sexual orientation and gender identity, geography, and disability, will be scrutinized. A determination that a board is not sufficiently diverse may result in the NYS Comptroller withholding support from incumbent board nominees.

Glass Lewis:³⁷

For boards that have no female members, Glass Lewis will generally recommend against the nominating committee chair and will note as a concern boards consisting of fewer than two female directors.

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About Diligent

Diligent is the leading governance, risk and compliance (GRC) SaaS provider, serving more than one million users from over 25,000 organizations around the globe. Our modern GRC platform ensures boards, executives and other leaders have a holistic, integrated view of audit, risk, information security, ethics and compliance across the organization. Diligent brings technology, insights and confidence to leaders so they can build more effective, equitable and successful organizations.

Start building a more diverse board today.

Request a demo to see Diligent's diversity tools in action.

