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Seeing is believing
2017 board diversity survey

FOREWORD



Early in my career with Deloitte—more than thirty years ago—I accompanied a more senior consultant, who happened to be a woman, on a client call. Since this was my first client meeting, I knew very little about our business or the client and I was not expecting that I would be saying much or answering many questions.

But the client, who was male, initially directed all his questions to me. Why? Because it was more than thirty years ago, and men held almost all relatively senior positions. In that meeting, I fielded the client's questions by steering them toward my colleague, and after about fifteen minutes he understood who was more senior and who could give him more information.

I think about that story often because it taught me two things. First, it taught me

that in any human interaction, and certainly in consulting, you are going to encounter unexpected things that you will have to handle as gracefully as possible. Second, it tells me we have made real progress from the days when people in business could just assume that men held all the relatively senior positions.

But there is a lot of progress yet to be made.

That is the key takeaway from the 2017 board diversity survey. Specifically, this survey reveals that while executives believe in the benefits of diversity among board members, many have a difficult time defining it and developing practices for promoting it.

For that reason, this report closes with information on an approach to promote leadership diversity at Deloitte. While this approach incorporates several practices, here we focus on creating what I call a mixtocracy at the board level, which can generate more diversity than meritocracy on its own.

While not abandoning meritocracy, mixtocracy views the board as differing from a single position to be filled. It views the board as an advisory and governing entity composed of individuals who ideally complement and balance one another's differing viewpoints, skill sets, backgrounds, and experiences.

During my career at Deloitte, I've seen tremendous progress in leadership diversity at our organization, among our clients, and in organizations across

industries. That happens when leaders make leadership diversity a priority and embed it in the organization's processes for C-suite and board recruitment, selection, and succession.

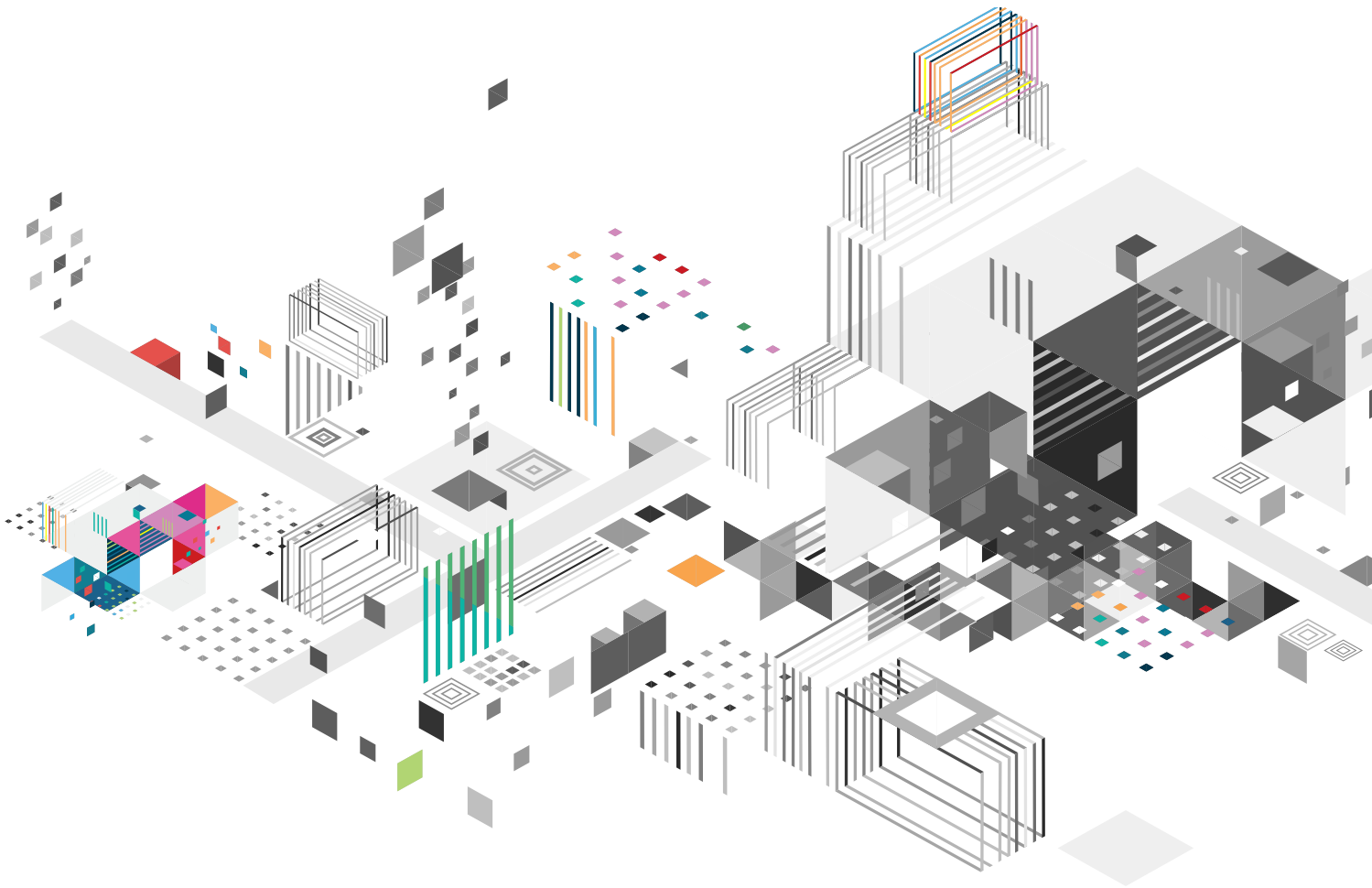
Changes to processes lead to changes in results. However, changes to beliefs and attitudes generally must precede changes to processes. Any member of a C-suite or board who is still skeptical about the benefits of diversity should digest the data on those benefits. You will find some of that data in this survey, including findings on improved capabilities to respond to disruption, to innovate, and to improve performance.

Given boards' responsibility to oversee management's strategies and decisions related to disruption, innovation, risk, talent, technology, and other fast-moving developments, the need for diversity will likely continue to intensify. Therefore, boards should increase their knowledge about diversity—what it means to them, how it benefits them and the organization and its stakeholders, and most of all, how to achieve it.

A handwritten signature in black ink that reads "Mike".

Michael Fucci
Chairman of the Board
Deloitte

“Specifically, this survey reveals that while executives believe in the benefits of diversity among board members, many have a difficult time defining it and developing practices for promoting it.”



INTRODUCTION

The evidence is in. Business leaders clearly believe in the benefits of diversity on their boards of directors. Yet it's equally clear that current methods of sourcing and selecting candidates tend to reinforce a lack of diversity.

Dismissing this as boards paying only lip service to diversity would mischaracterize the situation. It would also overlook the progress boards have achieved in becoming more diverse. Yet factors limiting progress at this point include unclear and evolving definitions of diversity as well as difficulty changing recruitment and selection processes. Those processes remain quite traditional in that they rely primarily on resumes and recommendations and on criteria favoring candidates much like directors currently serving on boards.

The 2017 board diversity survey provides a window on board attitudes and practices related to diversity. It confirms that boards consider diversity in their recruitment practices and recognize its potential benefits. Yet it also reveals some internal conflict within boards, not in arguments about the merits of diversity (which is not a topic of this survey) but in conflicting motivations and drivers.

For example, many boards seek qualified members by tapping existing pools of executives and directors, but this doesn't

necessarily generate diversity and may work against it. Boards see benefits in diversity, but some do not see a lack of diversity as particularly problematic. Although the survey found that more than 90 percent of directors want greater diversity, about half of surveyed organizations lack a process for recruiting candidates with diverse skill sets or new perspectives.

That last item—process—is likely to be critical if boards are to take a more intentional and successful approach to achieving diversity.

Based on our analysis of the survey results, as well as our extensive experience consulting with boards of directors, we offer the following recommendations.

It is time for boards to:

- Engage in more vigorous efforts to achieve board diversity, including more robust processes for sourcing and evaluating diverse candidates
- Adopt broader definitions of diversity while continuing to focus on the role that

gender, race, and ethnicity can play in shaping perspectives and experiences

- Abandon simplistic board composition tools in favor of more sophisticated tools and programs that link board composition to the organization's strategic needs
- Move beyond exclusionary search criteria, such as board or CEO experience, to include more holistic and flexible ways of identifying and selecting candidates

As an advisory and oversight body focused on governance, management practices, and risks, a board can benefit tremendously from diverse perspectives, experiences, and skills. The business, competitive, and risk environment—and stakeholder groups—have commonly become too complex and dynamic for traditional recruitment and selection methods to deliver what management and shareholders now need from the board.

This report aims to shed light on this subject, and to point to a potential path forward.



CONTENTS

The structure of this report

PART 1

Perceptions of board diversity presents the key findings related to respondents' views of diversity.

PART 2

Recruitment and evaluation practices reveal current approaches that boards take, and the skills and experiences they prioritize, when seeking and selecting new members.

PART 3

A path forward—The Mixtocracy Model discusses an approach to board recruitment and selection that has the potential to change the outcomes as well as the board composition generated by current practices.

About the survey

The 2017 board diversity survey was conducted in spring 2017 among 300 board members and C-suite executives at U.S. companies with at least \$50 million in annual revenue and at least 1,000 employees. Conducted by Wakefield Research via an email invitation and online questionnaire, the survey sought to ascertain respondents' perspectives on board diversity and their organizations' criteria and practices for recruiting and selecting board members. The margin of error for this study is +/- 5.7 percentage points at the 95 percent confidence level.

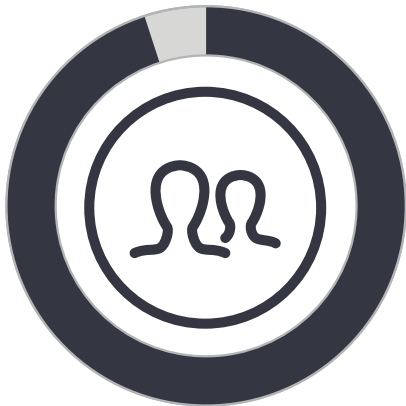
PART 1

Perceptions of board diversity

The findings in this section show that the survey found nearly universal agreement on the need for diverse skill sets and perspectives on the board, and on the potential benefits of diversity.

Boards agree on the need for diversity

Ninety-five percent of respondents agree that their boards need to seek more candidates with diverse skills and perspectives



Note, however, that this finding does not reveal where diversity of skill sets and perspectives are needed. Thus, the skills and perspectives could be those of, say, financial or operating or information technology executives. Such backgrounds would represent diversity of skills and perspectives, but not the demographic diversity that the term “diversity” usually implies.

Demographic diversity remains an essential goal in that gender and racial differences are key determinates of a person’s experiences, attitudes, frame of reference, and point of view.

As the next finding reveals, however, respondents do not see demographic diversity as enough.

Board members see diversity as going beyond basic demographics

Nine in ten respondents agree that gender and racial diversity alone does not produce the diversity required for an organization to be innovative or disruptive. This may be surprising, given that gender and racial differences are generally seen as contributing to diverse perspectives. Yet those contributions may be tempered if recruiting and selection methods skew toward candidates with the backgrounds and experiences of white males with executive experience.

Almost 90 percent of leaders agree that gender and racial diversity alone does not produce the varying perspectives required for a company to be innovative or disruptive



More to the point, it would be unfortunate if a focus on diversity of skills and perspectives were to undermine or cloud the focus on gender and racial diversity. In fact, typical definitions of board diversity include a demographic component. Deloitte’s 2016 Board Practices Report found that 53 percent of large-cap and 45 percent of mid-cap organizations disclose gender data on their board’s diversity; the respective numbers for racial diversity are, far lower, however: 18 percent and 9 percent¹.

So, the deeper questions may be these: How does the board go about defining diversity? Does its definition include gender and racial factors? Does it also include factors such as skills, experiences, and perspectives? Will the board’s practices enable it to achieve diversity along these various lines?

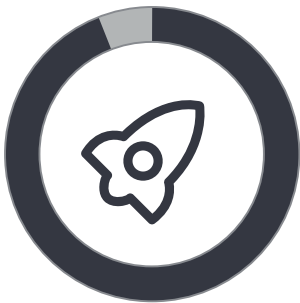
Before turning to practices, we consider the potential benefits of diversity.

¹ 2016 Boards Practices Report – A transparent look at the work of the board Tenth edition, 2017, Society for Corporate Governance and Deloitte Development LLC. < <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/center-for-board-effectiveness/us-cbe-2016-board-practices-report-a-transparent-look-at-the-work-of-the-board.pdf>

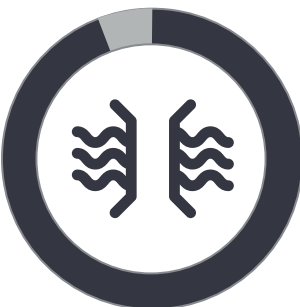
Leaders overwhelmingly perceive benefits in diversity...

Over 90 percent of respondents believe that greater board diversity will enable the organization to improve its...

...ability to innovate:



...ability to manage disruption:



...overall business performance:



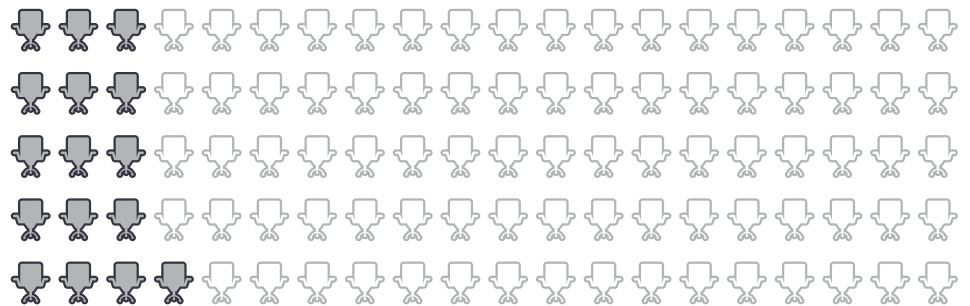
Taken at face value, these answers indicate that boards believe in diversity, however they go about defining it, for business reasons and not just for its own sake or reasons of social responsibility.

...Yet relatively few see a lack of diversity as a top problem

The foregoing findings show that leaders believe that boards need greater diversity of skills and perspectives, that demographic diversity alone may not produce that diversity, and that diversity is seen as beneficial in managing innovation, disruption, and business performance.

Yet, somewhat surprisingly, few respondents cited a lack of diversity as a top problem.

Only 16 percent rate lack of diversity among the top problems they face in recruiting new members or planning succession.



So, while 95 percent of respondents agree that their board needs to seek out more candidates with diverse skills and perspectives, far smaller percentages cite lack of diversity as among the top problems they face in candidate recruitment or selection.

Does this reflect contentment with current board composition and acceptance of the status quo?

Perhaps, or perhaps not.

However, we can say that many board recruitment and selection practices remain very traditional.

PART 2

Recruitment and evaluation practices

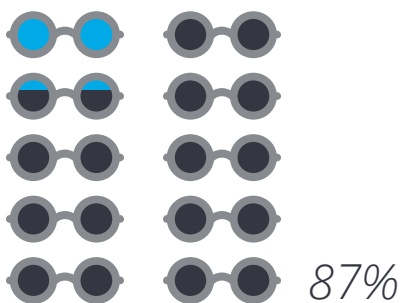
Board recruitment practices have arguably not kept pace with the desire and need for greater board diversity.

Boards still rely on traditional candidate criteria

More than 90 percent of respondents would see a candidate without executive experience as unqualified



Almost 90 percent of board members see current or retired CEOs as the most effective board members



In addition, 81 percent of respondents would expect multiple board members to see a candidate without executive experience as unqualified to serve on the board.

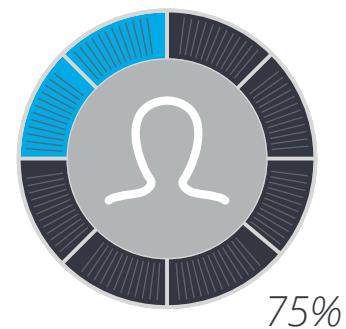
Boards also source a majority of their candidates from other boards—within their own industries



The low percentage of women candidates (16 percent) is striking, as is that of racial minorities (19 percent). However, that may be a logical outcome of a process favoring selecting candidates with board experience—who historically have tended to be white and male.

So, in the recruitment process, board members are often seeking people who tend to be like themselves—and like management. Such a process may help to reinforce a lack of diversity in perspectives and experiences, as well as (in most companies) in gender and race.

Boards rely heavily on resumes in recruitment and selection.



Relying on resumes, which reflect organizational and educational experience, helps to reinforce traditional patterns of board composition.

About half of organizations have processes focused on diverse skills and disruptive views

Given all their other responsibilities, many boards understandably rely on existing recruitment tools and processes. They use resumes, their networks, and executive recruiters—all of which tend to generate results very similar to past results.

However, our current disruptive environment likely calls for more creative approaches to reaching diverse candidates. Some organizations have taken steps to address these needs.

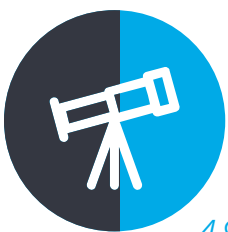


About half of organizations with succession plans do not have a specific process for recruiting candidates with diverse skills



46%

About half of organizations with succession plans do not have a specific process for recruiting candidates who bring disruptive perspectives to their industry



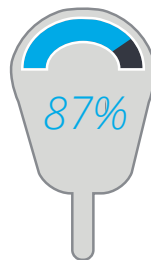
48%

Our survey did not assess the nature or extent of the processes for recruiting candidates with diverse skills or perspectives, indicating an area for further investigation.

Policies affecting board refreshment

Policies, as well as processes, can affect board composition. Low turnover on boards can not only hinder movement toward greater diversity but also lead to myopic views of operations or impaired ability to oversee evolving strategies and risks.

Almost nine in ten leaders agree that term limits and required retirement ages would be useful



87%



85%

While board members expressed agreement with term and age limits, the latter are far more common. Our separate 2016 Board Practices Report found that

81 percent of large-cap and 74 percent of mid-cap companies have age limits, but only 5 percent and 6 percent, respectively, have term limits². This evidences a large gap between agreement with term limits as an idea and term limits as a practice.

Current practices tend to limit diversity

Deloitte's 2016 Board Practices Report also found that 84 percent of large-cap and 90 percent of mid-cap organizations most often rely on current directors' recommendations of candidates³. That same study found that 68 percent and 79 percent, respectively, use a recruiting firm when needed, and that 62 percent and 79 percent use a board skills matrix or similar tool.

Relying on current directors' recommendations will generally produce candidates much like those directors. Recruiting firms can be valuable, but tend to adopt the client's view of diversity. Tools such as board competency matrices generally do not account for an organization's strategy, nor do they provide a very nuanced view of individual board members' experiences and capabilities.

In other words, bringing people with diverse skills, perspectives, and experiences to the board—as well as women and racial and ethnic minorities—requires more robust processes than those currently used by most boards.

² 2016 Boards Practices Report – A transparent look at the work of the board Tenth edition, 2017, Society for Corporate Governance and Deloitte Development LLC < <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/center-for-board-effectiveness/us-cbe-2016-board-practices-report-a-transparent-look-at-the-work-of-the-board.pdf> >

³ *ibid.*

PART 3

A path forward—The Mixtocracy Model

The term *meritocracy* describes organizational advancement based upon merit—talents and accomplishments—and aims to combat the nepotism and cronyism that traditionally permeated many businesses. However, too often meritocracy results in *mirrortocracy* in which all directors bring similar perspectives and approaches to governance, risk management, and other board responsibilities.

A board differs from a position, such as chief executive officer or chief financial officer, in that it is a collection of individuals. A board is a team and, like any other team, it requires people who can fulfill specific roles, contribute different skills and views, and work together to achieve certain goals.

Thus, a board can include nontraditional members who will be balanced out by more traditional ones. Many existing recruiting methods do too little to achieve true diversity. The prevalence of those criteria and methods can repeatedly send boards back to the same talent pool, even in the case of women and minority candidates. For example, Deloitte's 2016 Board Diversity Census shows that female and black directors are far more likely than white male directors to hold multiple Fortune 500 board seats⁴.

Therefore, organizations should consider institutionalizing a succession planning and recruitment process that more closely aligns to their ideal board composition and diversity goals.

Here are three ways to potentially do that:

- Look beyond “the tried and true.” Even when boards account for gender and race, current practices may tend to source

candidates with similar views. Succession plans should create seats for those who are truly different, for example someone with no board experience but a strong cybersecurity background or someone who more closely mirrors the customer base.

- Take a truly analytical approach. Developing the optimal mix on the board calls for considering risks, opportunities, and markets, as well as customers, employees, and other stakeholders. A data-driven analytics tool that assesses management's strategies, the board's needs, and desired director attributes can help define the optimal mix in light of those factors.
- Use more sophisticated criteria. Look beyond resumes and check-the-box approaches to recruiting women, minorities, and those with the right title. Surface-level diversity will not necessarily generate varying perspectives and innovative responses to disruption. Deep inquiry into a candidate's outlook, experience, and fit can take the board beyond standard criteria, while prompting the board to more fully consider women and minority candidates—that is, to not see them mainly as women and minority candidates.

To construct and maintain a board that can meet evolving governance, advisory, and risk oversight needs, leaders should also consider the following steps.

Rethink risk

Digitalization continues to disrupt the business landscape. The ability to not only respond to disruption, but to proactively disrupt, has commonly become a must. Yet boards have historically focused on loss prevention rather than value creation. Every board should ask itself who best can help in ascertaining that management is taking the right risks to innovate and win in the marketplace.

The more diversity of thought, perspectives, experiences, and skills a board collectively possesses, the better it can oversee moves into riskier territory in an informed and useful way—and to assist management in making bold decisions that are likely to pay off.

Elevate diversity

Current definitions of board diversity tend to focus on at-birth traits, such as gender and race. While such diversity is essential, it may promote a check-the-box approach to gender and racial diversity. Boards that include those traits and also enrich them by considering differences gained through employment

⁴ Missing Pieces Report: The 2016 Board Diversity Census of Women and Minorities on Fortune 500 Boards, 2017, Deloitte Development LLC <<https://www2.deloitte.com/content/dam/Deloitte/us/Documents/center-for-corporate-governance/us-board-diversity-census-missing-pieces.pdf>>



paths, industry experiences, educational, artistic, and cultural endeavors, international living, and government, military, and other service will more likely achieve a true mix of perspectives and capabilities.

They may also develop a more holistic vision of gender and racial diversity. After all, woman and minority board members do not want to be “women and minority board members”—they want to be board members. In other words, this approach should aim to generate a fuller view of candidates and board members, as well as more diversity of skills and perspectives and gender and race.

Retool board composition

Current tools for achieving an optimal mix of directors can generally be classified as simplistic, generic, and outdated. They often help in organizing information, but provide little to no support in identifying strategic needs and aligning a board’s skills, perspectives, and experiences with those needs.

Successful board composition typically demands analysis of data on organizational strategies, customer demographics,

industry disruption, and market trends to identify gaps and opportunities. A board should consider not only individual member’s profiles but also assess the board as one working body to ascertain that complementary characteristics and capabilities are in place or can be put in place.

A tool to support this analysis should be the initial input into the succession planning and recruitment process. It should also be used in ongoing assessments to help ensure that the board equals a whole that is greater than the sum of its parts.

Revitalize succession planning

The process of filling an open board position may be seen as similar to that for recruiting C-suite candidates. But that would ignore the fact that the board is a collection of individuals rather than a single role.

An approach geared to creating a mixtocracy can strengthen the board by combining individual differences in a deliberate manner. Differing gender and ethnic backgrounds as well as skills, perspectives, and experiences can make

for more rigorous, far-reaching, and thought-provoking discussions, inquiries, and challenges. This can enable the board to provide a more effective counterbalance to management as well as better support in areas such as innovation, disruption, and assessments of strategies, decisions, and underlying assumptions.

In plans for board succession, the uniqueness of thought an individual will bring to the table can be as important as his or her more ostensible characteristics and accomplishments.

Toward greater board diversity

With the board responsible for providing management guidance on strategy, oversight of risk, governance of practices, and protection of shareholders’ interests, having diverse views of thought, experiences and expertise in the boardroom is paramount. Moreover, the board should serve as a role model for the C-suite, where the need for diversity is equally critical.

The path forward remains long, but it is becoming increasingly clear as boards continue to work toward achieving greater diversity on multiple fronts.

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