Diversity and Inclusion

The Inclusion Imperative: How Boards Can Encourage Belonging

By Mike Fucci and Terri Cooper

The push for diversity on boards continues to be a front-and-center conversation among the investor and corporate governance communities. Shareholders, employees, customers, and business partners are increasingly pushing for their organizational leadership to better represent the demographics of the general US population. As a result, organizations are beginning to see some progress, however incremental in nature. The percentage of women on Fortune 500 boards rose to 22.5 percent in 2018, up from 15.7 percent at the start of the decade. Minorities on Fortune 500 boards increased to 16.1 percent in 2018, from 12.8 percent in 2010.

While such a push and focus on diversity is essential, it's not enough. According to a recent article in *Harvard Business Review* about diversity in the boardroom, researchers concluded that an inclusive culture is required for an organization to capitalize from the diversity of its board members. While inclusion is sometimes viewed as a business strategy, conversations about inclusion and culture are often focused on the role of human resources or at the leadership level, and rarely on the board's role.

Our research found that a board's impact on an inclusive culture can be substantial, not only to create a diverse workforce, but also to generate financial results. Now there is an opportunity for boards to recognize their ability to influence inclusion for the sake of their own organizations and other stakeholders.

The Diversity and Inclusion Equation

The first step for boards is to understand the difference between diversity and inclusion. Diversity refers to the presence of people who, as a group, have a wide range of characteristics, seen and unseen, that they were born with or have acquired. Inclusion refers to fostering a culture where all members of an organization feel welcome and have equitable opportunities to connect, belong, and grow—to contribute to the organization, advance their skill sets and careers, and feel comfortable and confident being who they are.

The main difference between the two is that diversity is a state of being and is not itself something that is "governed," while inclusion is a set of behaviors and can be "governed." For boards, promoting diversity as a strategic goal is itself an inclusive practice, as doing so demonstrates that the company is welcoming of all backgrounds and experiences. But there are additional opportunities for boards to further ingrain inclusive practices into the five key areas of board oversight.

Fostering an Inclusive Culture

Boards traditionally own responsibility in five key areas—strategy, governance, talent, integrity, and performance. As these responsibilities evolve to account for changes in regulations, the business environment, and society in general, the board's role in influencing inclusion within each of these five areas is becoming even more important.

Strategy: Ingraining inclusion. Embedding inclusion into an organization's culture can take time. Boards can expedite progress by helping management define a common vision for what inclusion means and embed that vision directly into the business strategy. In defining the vision for inclusion, the board and management will want to consider how individual, organizational, and societal biases may interfere with reaching inclusion goals.

Additionally, the definition of inclusion should tie into the organization's objectives, vision, mission, and strategy, perhaps using language from the organization's mission statement to ensure alignment. The tighter the orientation, the more deeply the inclusion message will resonate with board members, executives, and the broader workforce—and the more likely it will be to elicit behavior changes that contribute to a more inclusive culture.

Governance: Operating with an inclusive lens. It is incumbent on boards to govern and operate with a focus on inclusion—particularly as they preside over shifts in strategy, advise on major investments, and monitor risks. Boards that demonstrate inclusive governance practices integrate inclusive thinking in all board proceedings, and understand how their actions and decisions may lead to inclusion-related implications.

Similarly, inclusive board committees consider inclusion a key element when crafting and executing their separate charters, perhaps going so far as to explicitly detail expectations for operating in an inclusive manner. As a first step to holding itself accountable for inclusive governance practices, boards may even consider establishing a committee, temporary or permanent, focused specifically on inclusion.

Talent: Embedding inclusive leadership. Inclusion starts at the top. Boards can select for inclusive leadership traits among their own members, as well as by holding management accountable for developing the organization's talent into inclusive leaders. To promote a pipeline of inclusive leaders, boards can encourage management to set six signature traits—commitment, courage, cognizance, curiosity, cultural intelligence, and collaboration—as formal competencies for senior leaders to cultivate. They should be expected to embed these competencies into the organization's performance management, professional development, and succession planning processes.

Boards have a role in challenging management to cultivate inclusive leadership skills throughout their organizations. Directors can do this by setting management goals for championing and driving inclusive behaviors and practices. Collective accountability from all employees for fostering an inclusive culture is key to a successful and sustainable long-term inclusion strategy, and can be measured as a sign that the inclusion strategy is being successfully implemented by the management team.

Integrity: Showcasing accountability. By setting the tone for inclusion, boards have an opportunity to hold themselves accountable for maintaining the integrity of their inclusion vision and to improve public perception of the organization and its brand. Board members can advance inclusion by leveraging their unique social and political capital to be a champion of the topic at their company. They can promote their commitment to inclusion in communications to shareholders, in public appearances, in interviews and conference presentations, and informally in networking and professional conversations.

Elsewhere, the board can guide management to consider how the organization itself talks about or represents inclusion in communications—white papers, press releases, marketing materials—and what the organization's people say in the media. Finally, the board can encourage management to consider the integrity of a prospective partner's inclusion vision before entering into alliances or signing contracts with supply chain partners. After all, due diligence should be done for all strategic matters. Shouldn't the same be said for doing business with companies that share your values?

Performance: Measuring success. The key to maintaining an inclusive culture is measuring success and holding leaders accountable. Boards should monitor diversity and inclusion metrics at a high level, while requesting that management collect and analyze the relevant data.

Boards should consider linking some percentage of performance-based compensation for the most senior executives to meeting inclusion objectives. For the rest of the workforce, boards may also encourage management to develop ways to hold all employees accountable for, and to reward, inclusive behaviors. Boards should evaluate their own performance with annual board self-assessments, as well, or if a board decides to form an inclusion-specific board committee, through the inclusion committee members' due diligence into board-wide behavior.

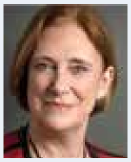
Taking the Next Step

Each board should tailor its approach for cultivating inclusion to the specific needs and values of the organization it serves. Boards should embed inclusion governance to take into account the company's size, geographic reach, the complexity of its organizational structure, and more.

Nonetheless, taking steps to promote inclusion in the board's five key areas of responsibility can help lay a path for boards to:

- articulate the current state of the board's approach to inclusion governance;
- assess that approach against leading practices;
- identify what can be done to achieve inclusive governance goals; and
- implement the changes necessary to accomplish those goals.

By setting an example of inclusion in the boardroom, by advocating for an inclusive culture both internally and externally, and by holding management accountable for taking concrete measures to embed a culture of inclusion throughout the enterprise, boards can move a needle that's been advancing far too slowly for far too long.

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