



# DIVERSE BOARDS HAVEN'T LED TO DIVERSE LEADERSHIP TEAMS (YET)

By Frances Brooks Taplett, Matt Krentz, and Ulrike Schwarz-Runer

**O**VER THE PAST SEVERAL years, organizations around the world have made notable progress putting more women and people of color on their boards. In some countries, it has happened as a result of legal requirements, in others it has come from a growing awareness that diversity is directly correlated with business performance and innovation. Peer pressure has likely helped the cause as well. This progress is worth celebrating, but it addresses just one aspect of the diversity challenge and masks a wider and more stubborn problem: senior and midlevel leadership teams at most companies remain nearly as white and male-dominated as they've been for decades.

The problem is even more urgent given recent economic challenges from the COVID-19 pandemic, which threatens to reverse even the modest progress that companies may have made. Some executives will argue that—with their companies at risk of going under—they don't have the time or the bandwidth to think about diversity and inclusion right now. But such

thinking is shortsighted and counterproductive. The existential threats facing many companies can only be solved with the best possible talent bringing a full range of perspectives and solutions. Diversity isn't a hindrance to bold solutions; it's the means by which companies develop and implement those solutions.

Boards must therefore take responsibility and play a more direct role in putting diverse candidates into the C-suite. Directors have the ability to shine a light on the underlying problems, ask the tough questions, and decide on leadership incentives.

## Growing Diversity on Boards ...

The evidence that diversity and inclusion (D&I) improve innovation and business performance is clear. According to the IMF, adding one more woman to a company's board or senior management team, while keeping the overall size of the board unchanged, correlates with an increase in return on assets of 8 to 13 basis points. Similarly, according to BCG's research, compa-

nies with above-average diversity on their leadership teams generate increased revenue from new products—19 percentage points more than at companies with more homogenous leadership teams—and deliver 9 percentage points more in terms of EBIT.

Many organizations have taken steps to put more diverse candidates, particularly women, into director roles. And several governments have set minimum thresholds for female representation on boards. Germany, for example, mandates that women make up at least 30% of a company's supervisory board; in France and Norway, the minimum threshold is 40%, and India requires at least one female board member (California requires the same of companies headquartered in that state). Even in countries without such laws, market forces and growing awareness of the benefits of diversity are pushing organizations to take action on their own. For example, Goldman Sachs has stated that it will no longer take a company public if all its directors are white, straight, and male. In addition, companies are facing growing pressure from investors, shareholders, employees, and customers to address environmental, social, and governance (ESG) issues, including diversity.

As a result of these developments, the number of women and people of color on the boards of Fortune 500 companies has risen to an all-time high of 34%, up from 30% in 2016.

### ... but the Diversity of Senior Leadership Lags

Notwithstanding this progress, however, diversity in senior leadership roles remains far lower. Among companies in the UK's FTSE 100 Index in 2019, for example, women held 39% of nonexecutive directorships, but they represented just 11% of executive positions and only 7% of CEOs.

This disparity has real consequences, because the senior leadership team sets the overall tone for the company in areas like hiring, promotions, and organizational culture. Without women and people of color

in executive roles, organizations fail to capture the benefits of D&I. Boards may be more diverse, but they are still likely to be following the recommendations of less diverse executive teams.

We believe that boards can play a key role in meeting this challenge. While they cannot set the agenda or execute a strategy, they can focus management's attention on D&I. To be clear, this is not just the obligation of the women and people of color who sit on boards. Rather, now that all directors have seen the benefits of diversity, it is up to them to use their influence to accelerate progress on D&I by ensuring that the leadership pipelines within their companies are more diverse.

This perspective is shared by Thomas S. Wurster, adjunct professor of strategy at the UCLA Anderson School of Management and a member of the board of directors of Synnex, who notes: "Board members have the ability to influence. Indirect moves, such as asking the right set of questions or highlighting the investor perspective, are very powerful and can be key in driving the leadership focus to diversity and inclusion." Of course, board members also have a significant role to play in building on a board's own progress in D&I. (See the sidebar, "How to Further D&I on Boards.")

### Three Priorities for Directors

We believe there are three main ways for board members to boost D&I: making sure the executive team is onboard, applying the right levers, and holding leaders accountable.

**Ensure that the executive team is committed and shares a common baseline.** First, boards can make sure that leaders understand the importance of D&I, not just as a basic principle of fairness and equity but also as a critical means of boosting business performance. Executives who still cling to outdated beliefs about women or people of color (increasingly rare, but they're out there) need to catch up quickly or risk being forced out. Boards can also

## HOW TO FURTHER D&I ON BOARDS

Most corporate boards are more diverse than their company's leadership team, but that doesn't mean they truly reflect society just yet. Directors have significant leeway in reshaping boards to further D&I objectives and create more balanced governance overall. For instance, they can modify the nomination process by rethinking the criteria for future directors and making clear to headhunters the importance of diversity. And they can share the successes of companies that broadened their pipeline of board candidates beyond the usual suspects.

In addition, boards should make sure to provide structured support, such as one-on-one mentoring, to accelerate the integration of new members who are women or people of color and ensure that they feel supported. This is particularly important in cases where these new members are more junior than other directors. Over the long term, the goal should be to create a critical mass of diverse directors (at least 30% of the total board), so that D&I is no longer treated as a goal but rather as a given.

ensure that leaders have the right metrics in place to gauge their diversity baseline on the leadership team and throughout the organization. And they can use those metrics to ensure that leaders understand talent flows, key pain points, and obstacles to increasing D&I.

Here are some key questions for directors to ask in the boardroom:

- Do senior leaders understand the case for D&I and are they committed to change?
- Does the organization track key metrics like leadership composition, recruiting percentages, and turnover across diverse groups?
- Does the company's engagement survey ask about D&I?

### Apply the right levers to accelerate change.

Next, boards can identify leaders who exemplify the benefits of an inclusive culture. They can also call out bad behavior when they see it and include diversity in succession planning for senior positions. In particular, boards can work with leaders to create a plan to boost inclusion on the frontlines.

Some key questions to ask in the boardroom:

- Does the organization have a diversity strategy in place?
- Are there visible role models of leaders from diverse backgrounds, along with a pipeline of diverse future leaders?
- Does the organization have an inclusive culture extending from the C-suite to leaders at all levels and beyond?
- Does the strategy address all aspects of diversity, including gender, ethnicity, LGBTQ status, and physical ability, among others?

**Hold leaders accountable for results.** Last—and perhaps most important—boards need to set explicit goals for D&I, track progress, and hold leaders accountable for results. Multiyear goals need to be established for the organization and broken down by individual business unit. Metrics and progress must be tracked continually, rather than just on an annual basis. And performance assessments of senior leaders need to incorporate D&I as a crucial component.

Key questions to ask in the boardroom:

- How is leadership compensation tied to D&I goals?
- What are the CEO's objectives for D&I over the next one, three, and five years?

- What strategic programs and tactical interventions are in place to support diversity? How are they used?
- What happens when the company doesn't hit its D&I goals?

and not sufficient on its own—particularly given the economic challenges that many companies now face. If organizations are to capture the broader benefits of D&I, including improved innovation and financial performance, they need to build on that progress by making their senior leadership teams more diverse and by building a more diverse pipeline of future leaders.

**T**HE INCREASING NUMBER of women and people of color on boards represents progress, but it is only the first step

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