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AVOID THREE D&I PITFALLS BY STRENGTHENING THE BOARD'S AGENDA

April 4, 2019 By Michael Griffin

Boards are increasingly beginning to recognize diversity and inclusion (D&I) as an important agenda item. Why? D&I is a field of practice that requires board oversight as management teams expand D&I programs and investors make gender and racial equity concerns a major engagement priority. These conversations can present a unique challenge for boards that are often comprised of leaders who lack D&I expertise themselves and struggle to make their own composition more diverse.

To keep pace, corporate directors need to understand how the D&I conversation is evolving and how to avoid key pitfalls in providing effective oversight.

An Evolving Agenda

As corporate D&I initiatives have matured, internal priorities have also shifted. Having successfully established the business case for diversity, most organizations are now focused on realizing and measuring progress against their objectives. The conversation is becoming less about the reasons why D&I goals are important, and more about the substance of how to achieve and measure them. There is also an increasing recognition that the low-hanging fruit of basic policies and procedures, while necessary, are insufficient to achieving lasting D&I objectives.

As a result, the role of culture and leadership are increasingly coming into focus.

Without a supportive culture, any improvement in the workplace can be difficult to sustain. To unlock the potential of diversity programs, organizations are focused on creating a more inclusive culture where each employee has a sense of belonging. At the same time, there is a recognition that leaders, especially the board chair and CEO, have a critical role to play in creating and modelling that culture.

Evolving D&I Priorities

Foundational Priorities

Building the Business Case

Establishing Policies & Procedures

Mobilizing Affinity Groups

Emerging Priorities

Evaluating Effectiveness

Fostering an Inclusive Culture

Modeling Inclusive Leadership

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Three Pitfalls for the Board to Avoid

While every organization will find itself at a different level of maturity, there are a few common pitfalls boards should seek to avoid in providing effective advice and oversight to management teams.

1. Settling for “HR as PR”.

Growing evidence suggests that management teams tend to invest in well-intentioned D&I initiatives that are easy-to-measure but fail to drive meaningful outcomes. As boards provide oversight to D&I programs this is an important risk to monitor and probe.

In a desire to establish the right tone and signal commitment to D&I, companies often invest in one-off programs like bias training that are visible with easy-to-measure outputs (e.g. number of employees trained). However, there is substantial evidence that some of the most popular practices such as mandatory unconscious bias training fail to have any measurable impact and may even increase bias. (Some research suggests that anti-bias messages may unintentionally back-fire when employees perceive they are being told what to think.)

In some cases, public relations (PR) might be necessary, as many would argue was the case with Starbucks’ decision to close 8,000 stores to conduct anti-bias training.

However, easy-to-report training programs often fail to achieve their intended effect. This is particularly true of compliance-oriented training focused on avoiding lawsuits rather than improving workplace culture.

So what types of practices actually work? Evidence suggests that less flashy investments like mentoring programs, diversity committees that include employees from across the firm and of varying backgrounds, and active, intentional recruiting programs can all help improve outcomes.

Evidence also suggests that enhancements to rewards, such as same-sex domestic partner benefits and fertility benefits, can improve outcomes. Additionally, flexible work policies, supported by the right culture and environment, are increasingly important elements of the employee value proposition.

While it’s not the board’s role to identify specific initiatives that management undertakes, the board does play a critical role in ensuring management has a D&I strategy, establishes clear goals, and is tracking progress against them.

To that end, boards should ask management the following questions:

- How are you measuring the effectiveness of your D&I programs?
- Which ones are the most and least effective, and why?

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2. Not Listening to Employees.

One of the biggest mistakes boards make is not asking management for a direct line of sight into employee perceptions, beyond a grievance hotline, about the company's culture and policies.

From a risk assurance perspective, boards need to understand whether the company's culture is a strength or a liability. Organizations with a toxic culture are, by definition, not inclusive. They also face heightened legal and reputational exposures which can hide below the surface. For example, one large transportation company is facing discrimination lawsuits and reputational harm related to poor working conditions at an acquired warehouse.

Employee perceptions are also critical to understanding the effectiveness of policies. For example, one organization found that their flex time policy—intended to support women in leadership—had very low uptake because employees were worried that taking advantage of it would harm their chances of promotion. They found that the key to uptake was resetting perceptions of the policy and making flexibility the default, rather than the exception.

Culture is critical to understanding both risks and upside opportunities related to D&I investments.

And the only way to get a clear view into the culture is to listen to employees through surveys or other mechanisms such as collecting feedback during annual reviews.

To obtain better visibility into the risks and opportunities related to culture, boards should ask management the following questions:

Do employees perceive the workplace culture to be inclusive?
 How do employee perceptions compare with competitors' employee perceptions?
 How have perceptions changed over time?

3. Leading from Behind.

Traditionally, boards have delivered little oversight of human capital issues below the C-suite, focusing primarily on executive compensation and CEO succession. That is starting to change as investors scrutinize not only D&I, but also overall human capital strategy and risks.

As a result, the scope of board oversight is expanding to broader workforce issues, including diversity. Organizations are also examining broader social risks as investors evaluate companies' "social license" to operate and their relationships with key stakeholders and communities.

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As the scope of these conversation broaden, boards need to examine their own experiences and expertise. Your board may need to fill gaps in providing effective oversight for these risks.

Boards also have a significant opportunity to demonstrate leadership on D&I from the boardroom. When the board and executive committee publicly champion D&I—and commit to follow through on D&I objectives, regardless of their own makeup—it has a measurable impact on key talent outcomes, including employee loyalty and effort. To be successful, D&I initiatives require advocates and accomplices in places of power, including the board.

A recent study from Russell Reynolds found that when the board and executive committee champion D&I, a number of key human capital outcomes improved. Specifically, employees reported being:

- 25 percent more engaged;
- 47 percent more creative; and
- 43 percent more likely to stay.

Improving the inclusiveness of the workplace and changing toxic cultures has also been shown to improve the health and general wellbeing of employees, particularly women of color and others traditionally left out of corporate management.

As boards look to provide leadership on this issue to the broader organization, they should ask themselves the following questions:

- What can we do to improve the diversity of our board in 2019?
- What new skills and experiences do we need to provide effective oversight? Do we have an expert in D&I that can help expose blind spots?
- How can we signal our commitment to D&I to the broader organization?

We see the best boards advancing the company's D&I agenda by focusing on the three following priorities:

- Moving Beyond “HR as PR” to Gauge Program Effectiveness
- Focusing on the Employee Experience (Not Just Policy and Procedure)
- Modeling Inclusive Leadership for the Organization

As the D&I agendas for management teams and investors evolve, boards need to update their agenda as well.

Ref:

<https://blog.nacdonline.org/posts/avoid-three-di-pitfalls>