



Extra Steps To Enhance Board Diversity

👤 leadership management DEI

Summary: Ensuring a truly diverse board necessitates identifying weaknesses in your current board composition and working toward filling those gaps. While gender and race are major factors in board diversity, they are not the only things that organizations should seek in their quest for diverse thinking and oversight.

When George Gershwin's English language opera "Porgy & Bess" was first performed in Boston, Massachusetts in 1935, it was the subject of significant controversy. Though most shows until that point used white actors in blackface to portray black characters, Gershwin was adamant that the cast for his show would be comprised primarily of African Americans. Despite the controversy this created, the show drew large enough audiences to make it to Broadway, followed by stops in several major cities around the country. In fact, a protest among the opera performers during its showing at Washington, D.C.'s National Theatre resulted in the first-ever integrated audience at that venue.

To this day, "Porgy and Bess" continues to serve as a springboard for conversations about the issue of race within the United States. While the banking industry has made significant efforts over the past few decades to enhance its own diversity, there's more to diversity than factors such as gender and race. With a lesser focus on other forms of diversity, such as areas of expertise, [socioeconomic background](#), and age, there are still major gaps in the makeup of most financial institution boards. Recent research shows that greater diversity at the board level can have tangible benefits.

More Work Ahead To Achieve Board Diversity

While the efforts of organizations to better diversify their boards have been helpful, there is still more room for improvement. Companies face ongoing pressure from investors and regulators alike for boards to have broader representation of women and individuals of color and differing ethnicities. As of 2021, women comprised roughly [one-third of board directors for S&P 500 companies](#), individuals of color represented 22%, and women of color held only 10% of seats. Diversity declines even further among private companies, where women represent only 14% of directors and fewer than 22% of seats are held by people of color. Some states, such as California and Hawaii, have been working on legislation that would require gender diversity on the boards of companies based in their states.

At the same time, research has repeatedly demonstrated that greater diversity leads to stronger organizations. Recent research from Moody's Investors Services found a direct correlation between the strength of organizations and the number of women on their board. Boards where women comprise [44% of board seats rated Aaa](#), Moody's top rating for high quality. Boards where women account for only 15% of members, however, rated Caa, which is a poor standing. Such findings are not lost on the investment community, and diversity, equity, and inclusion (DEI) efforts have become a significant determinant of which companies investors choose to support.

Thought Diversity and How To Achieve It

Enhancing a board's diversity requires an in-depth understanding of where an organization's current board composition is coming up short. While the steps to add greater diversity to a board made up entirely of senior

white men may be obvious, the characteristics missing from a board are not always so clear.

Determining how to strengthen diversity within any organization should begin with an assessment that factors in not only gender and race, but also experience levels and demographics. According to Bloomberg, “[diversity of thought is also critical](#), and that is often best achieved by also looking at factors like age, skill set, and background.”

Ideally, boards should be evaluated on an annual basis, with attention paid to the contributions that individual board members make to ensure that the most crucial areas of expertise are represented in the board. One factor that has led to stagnation among many boards, as well as a lack of diversification, is the absence of term limits, which are only implemented at 6% of public companies. As we’ve previously discussed, there are a number of ways to evaluate your board’s effectiveness to determine what [qualities and knowledge your board may find useful in a new member](#).

Enacting Change and Increasing Diversity

As your institution looks to enhance the diversity of its board, here are a few key things to keep in mind:

- **Conduct objective evaluations.** Knowing how to plug the gaps in your board requires knowing where they are. Many organizations turn to third parties to help with board evaluations, as doing so can help provide a more objective look at your board’s strengths and weaknesses. The New York Stock Exchange, for example, requires that the board members of its listed companies [perform annual self-evaluations](#).
- **Extend diversity beyond skin color and gender.** Including younger individuals on the board can add a whole new perspective and provide an opportunity to train key people within your organization who will likely fill the shoes of senior individuals nearing retirement. Having individuals with disabilities on your board can help you navigate ADA compliance more thoughtfully. Involving an advisory committee with the board is another way to mentor future board members and ensure they will be beneficial additions.
- **Institute rules like term limits to avoid complacency.** If board members serve in their roles for too long, a board’s overall perspective can become stagnant. Community financial institutions might consider implementing term limits to prevent complacency. Rotating committee chairs on a yearly basis is also a good way to keep board members more actively involved and avoid the likelihood of tunnel vision with any one particular leader.

Enhancing the diversity of boards remains a major concern of investors and regulators alike and is an issue that should be paid attention to. If your institution doesn’t already conduct annual board assessments, now is the perfect time to begin — doing so can identify opportunities to diversify your board, which has been proven to foster more success and improve the decisions your organization makes.

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ECONOMY & RATES

Rates As Of: 08/29/2023 08:16AM (GMT-0700)			
Treasury	Yields	MTD Chg	YTD Chg

3M	5.58	0.03	1.16
6M	5.56	0.03	0.80
1Y	5.37	0.01	0.67
2Y	4.92	0.04	0.49
5Y	4.31	0.13	0.31
10Y	4.16	0.19	0.28
30Y	4.26	0.25	0.30
FF Market		FF Disc	IORR
5.33		5.50	5.40
SOFR		Prime	OBFR
5.30		8.50	5.31

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