Race and accountability in the boardroom

The wave of protests and social unrest following the death of George Floyd and others, along with the detrimental effects of COVID-19 and the economic downturn disproportionately affecting employees and communities of color, are driving a national dialogue and heightened consciousness of systemic racism and inequities. During a September 24 Board Leadership Center (BLC) webcast, panelists discussed the pivotal question facing corporate America: *What's different this time?*

This intensified awareness is driving critical conversations in boardrooms today: Is the company doing enough—using its financial resources, making its views known to policy makers, engaging in public/private partnerships—to make real and lasting changes to combat systemic bias and racism? Is the company leading by example—"walking the walk"—by driving diversity, equity, and inclusion throughout the business, including in the boardroom?

"These are not new questions," noted Stephen Brown, KPMG BLC senior advisor. "But the events of 2020 have clearly given diversity and racial justice a new urgency."

"We'll see how all of this unfolds," Gwen Houston, former chief diversity officer for several Fortune 100 companies and head of GM Houston Consulting, said during a September 24 BLC webcast. "What I think is different this time is the depth of introspection across corporate America and the attention to the lack of diversity in this day and age."

Little progress, mounting pressure

In recent interviews, CEOs, chief diversity officers, board members, and others have acknowledged the painful reality that the country—and corporate America—have not made enough progress and there is much work to be done. Indeed, Houston notes that the number of Black CEOs among the Fortune 500 has actually declined in recent years. And a recent report indicates that only 4 percent of directors in the Russell 3000 are Black and less than 2 percent are Hispanic.[1]

Headlines such as "CEOs Talk Social Justice, and How They Can Do Better," "Corporations Have Failed Black America," and "U.S. Businesses Must Take Meaningful Action Against Racism" point to the soul–searching that many companies have been doing. Watching, listening, and acknowledging the pain that Black Americans and communities of color are suffering is imperative, and speaking out with statements of concern and support matters. It is clear, however, that employees, customers, investors, and communities expect companies to help drive real, lasting change—to back up their statements with action and to demonstrate progress, starting with getting the company's own house in order.

"The situation we're in is not an event, it's a progression," said Dane Holmes, CEO of Eskalera, a technology start-up that uses data analytics to help companies drive diversity and inclusion. "Companies have to change their mindset from crisis and reaction mode to long-term planning mode."

Actions to help drive progress and accountability

To that end, the webcast panelists discussed a number of considerations to help drive diversity and systemic change:

— **Clearly commit** to building the company's pipeline of diverse employees and board members. This commitment should come directly from the CEO, and employees should see it in the CEO's actions and follow–through.

[1] ISS Analytics, U.S. Board Diversity Trends in 2019, May 2019.

— **Define diversity and consider setting aggressive goals** at all levels, including leadership and senior management, business unit heads, middle ranks, and internships. "Diversity metrics should be in there with all the other KPIs as a business performance measure to hit—not simply a nice-to-have or extra credit."

— Consider linking diversity goals to compensation to help measure progress and **hold the CEO and leadership team accountable**. "Diversity incentives have to start at the top, where the sustainable, long-term decisions are being made."

— Consider robust tracking of diversity metrics—and **get underneath the data**. Disaggregating the data can provide a clearer picture. "Good diversity and representation numbers don't necessarily add up to an inclusive culture."

— **Consider using the Diverse Slates/Rooney Rule[2] as a baseline** for a diverse slate of candidates, and be skeptical if told that lack of progress is due to a lack of qualified candidates. "That can be an excuse for insufficient recruitment efforts." To that end, understand the extent of a **recruiter's connectivity to diverse communities** and ability to tap a wider pool of diverse candidates.

— For roles that require managing people, as part of the recruiting process, consider, where appropriate, having **job candidates provide a written statement on how they value diversity and inclusion**, and why. "During the interview, ask the candidate to elaborate on their views; that's where authenticity will show."

— When choosing **vendors/consultants**, consider their track records on diversity. Do the company's third-party providers track and periodically report on the inclusion of people of color and other underrepresented groups on their client teams? "Be clear with vendors what your company's standards and priorities are."

— Ask management to conduct a **diversity risk assessment** to better understand the strategic, legal, talent-related, and reputational risks posed by the company's diversity profile. At one company, such a risk assessment helped the board understand the potential for, and take proactive steps to avoid, a human capital–related class-action lawsuit in which a peer company was a defendant. At another company, the assessment revealed that its broadest consumer base was not White, as it thought, but Black and Latinx consumers.

— Tell the company's **diversity story** in detail. "This is a difficult story for most companies to tell—but an honest picture of the company's progress and the goals it's striving for are important in terms of credibility and confidence."

— Redouble **employee training** to combat bias. Such training should be provided in the context of the company's culture, values, and emphasis on inclusive leadership. "Make sure that facilitators are well-trained—this is an emotional issue that's not easy to navigate."

— Reassess effectiveness of **the company's voice** in the public sphere. To what extent is the company advocating for social justice programs versus taxes and regulatory issues? "One question we had to ask ourselves was, are we supporting legislators who agree with our views on diversity and racial justice?"

— Understand the risk of racial and other **bias in the company's data**, particularly as COVID-19 accelerates the use of data analytics and artificial intelligence.

It's about leadership and long-term performance

A sustained commitment from leadership is critical. Many companies have released statements or taken stances on Black Lives Matter, being an ally for diversity and inclusion, and combatting systemic racism. Yet, as Margaret Huang, president and CEO of the Southern Poverty Law Center, has emphasized, "It's not a temporary battle. If you're going to take these issues on, it's not because it's a moment and you think you can do a press statement or a couple of steps and then move on. This is the work. This is a lifetime of work. If you're going to get into it, you have to be absolutely committed that you're going to do it internally in your organization and externally in the work that you're doing."[3]

"This needs to be led from the very top," said Houston. "The message is only as important as the messenger. CEOs have to step up. This work has to be central to a company's culture and viewed as mission-critical and driving the long-term success of the business."[4]

[2] The Rooney Rule, named after Dan Rooney, former owner of the Pittsburgh Steelers and former chair of the NFL's diversity committee, started as an NFL policy that requires teams to interview minority candidates for head coaching and senior operation jobs. It doesn't give preference to those candidates or impose a quota.

[3] Janeen Williamson and Natasha Shields, "What Can Brands Do To Foster Social Justice? The Southern Poverty Law Center Has Ideas," Atlantic57.com, August 4, 2020.

Ultimately, it's an economic argument, said Victor Arias of Diversified Search. "Where is the growth of your business coming from in the future? Who are those consumers? Who are those stakeholders?"

Indeed, the economics of diversity continue to move front and center. A recent study estimates that since 2000, U.S. gross domestic product lost $16 trillion as a result of discrimination against African Americans in a range of areas, including in education and access to business loans.[5]

Brown noted that investors and other corporate stakeholders will be watching closely whether companies' statements of commitment and support for diversity, equity, and inclusion are followed up by action. "What's also different this time is the sustained scrutiny and pressure for progress that I'm sure we'll see."

For more on how boards are tackling diversity, equity, and inclusion, listen to the KPMG Board Leadership webcast Race and Accountability in the Boardroom—a conversation with Gwen Houston, Dane Holmes, and Victor Arias, Jr.

The views and opinions expressed herein are those of the speakers and do not necessarily represent the views and opinions of KPMG LLP.

[4] Knowledge at Wharton, "Why Inclusion Starts in the C-suite," August 17, 2020.

[5] Adedayo Akala, "Cost of Racism: U.S. Economy Lost $16 Trillion Because Of Discrimination, Bank Says." NPR, September 23, 2020.

About the KPMG Board Leadership Center

The KPMG Board Leadership Center (BLC) champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including the KPMG Audit Committee Institute, the WomenCorporateDirectors Foundation, and more—the BLC engages with directors and business leaders to help articulate their challenges and promote continuous improvement of public- and private-company governance. Drawing on insights from KPMG professionals and governance experts worldwide, the BLC delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more at kpmg.com/us/blc.

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