Leveraging internal audit to help monitor and assess corporate culture

As boards seek to improve their effectiveness and consider how best to carry out their oversight role amid rapid change and shifting expectations, diversity—of skills, background, and experience—must be top of mind. Institutional investors and other stakeholders, including employees and customers, continue to focus on board composition by considering whether the board includes the right mix of skills and experience to support the company’s strategy, as well as how the board considers diversity in assessing director candidates.

By Jose R. Rodriguez and Tracey Keele

While gender is only one of the many facets of diversity, the underrepresentation of women on corporate boards remains a key area of focus for investors, proxy advisors, and regulators. Here, we look at the current state of gender diversity on corporate boards, efforts to accelerate the pace of progress, institutional investor and proxy advisor views, and recommendations for boards to consider.

The slow pace of progress in boardroom diversity in the United States is well documented. Currently, fewer than one in five directors serving on the boards of US public companies are female. The percentage of women on Russell 3000 boards was 19.3 percent at the end of the first quarter of 2019, according to Equilar’s Q1 2019 Gender Diversity Index. That compares with 17.6 percent as of midyear 2018, 15.7 percent in 2017, and 12.9 percent in 2014, based on Equilar’s Board Composition and Recruiting Trends report. Among the large companies in the S&P 500 Index, which tend to have more diverse boards, the percentage of women directors has also increased gradually, to 24 percent in 2018, up from 22 percent in 2017 and 18 percent in 2013, according to Spencer Stuart’s 2018 US Board Index report. July 2019 marked the first time all S&P 500 companies have at least one female director on their boards.

Gender diversity mandates

Outside of the United States, a number of countries have adopted quotas as part of their efforts to increase board gender diversity. Norway, which was the first country to institute a gender quota, in 2003, currently has the highest percentage of women serving on the boards of large public companies (46 percent), according to Spencer Stuart. Based on data published by Spencer Stuart (see Figure 2), only companies in Norway, France, and Germany have exceeded the applicable mandates. (See Figures 1 and 2).

Gender diversity mandates

Outside of the United States, a number of countries have adopted quotas as part of their efforts to increase board gender diversity. Norway, which was the first country to institute a gender quota, in 2003, currently has the highest percentage of women serving on the boards of large public companies (46 percent), according to Spencer Stuart. Based on data published by Spencer Stuart (see Figure 2), only companies in Norway, France, and Germany have exceeded the applicable mandates. (See Figures 1 and 2).

The state of board gender diversity globally and the evolving US landscape

By Susan M. Angele and Annalisa Barrett

As boards seek to improve their effectiveness and consider how best to carry out their oversight role amid rapid change and shifting expectations, diversity—of skills, background, and experience—must be top of mind. Institutional investors and other stakeholders, including employees and customers, continue to focus on board composition by considering whether the board includes the right mix of skills and experience to support the company’s strategy, as well as how the board considers diversity in assessing director candidates.

While gender is only one of the many facets of diversity, the underrepresentation of women on corporate boards remains a key area of focus for investors, proxy advisors, and regulators. Here, we look at the current state of gender diversity on corporate boards, efforts to accelerate the pace of progress, institutional investor and proxy advisor views, and recommendations for boards to consider.

The slow pace of progress in boardroom diversity in the United States is well documented. Currently, fewer than one in five directors serving on the boards of US public companies are female. The percentage of women on Russell 3000 boards was 19.3 percent at the end of the first quarter of 2019, according to Equilar’s Q1 2019 Gender Diversity Index. That compares with 17.6 percent as of midyear 2018, 15.7 percent in 2017, and 12.9 percent in 2014, based on Equilar’s Board Composition and Recruiting Trends report. Among the large companies in the S&P 500 Index, which tend to have more diverse boards, the percentage of women directors has also increased gradually, to 24 percent in 2018, up from 22 percent in 2017 and 18 percent in 2013, according to Spencer Stuart’s 2018 US Board Index report. July 2019 marked the first time all S&P 500 companies have at least one female director on their boards.

Gender diversity mandates

Outside of the United States, a number of countries have adopted quotas as part of their efforts to increase board gender diversity. Norway, which was the first country to institute a gender quota, in 2003, currently has the highest percentage of women serving on the boards of large public companies (46 percent), according to Spencer Stuart. Based on data published by Spencer Stuart (see Figure 2), only companies in Norway, France, and Germany have exceeded the applicable mandates. (See Figures 1 and 2).

Gender diversity mandates

Outside of the United States, a number of countries have adopted quotas as part of their efforts to increase board gender diversity. Norway, which was the first country to institute a gender quota, in 2003, currently has the highest percentage of women serving on the boards of large public companies (46 percent), according to Spencer Stuart. Based on data published by Spencer Stuart (see Figure 2), only companies in Norway, France, and Germany have exceeded the applicable mandates. (See Figures 1 and 2).

The state of board gender diversity globally and the evolving US landscape

By Susan M. Angele and Annalisa Barrett

As boards seek to improve their effectiveness and consider how best to carry out their oversight role amid rapid change and shifting expectations, diversity—of skills, background, and experience—must be top of mind. Institutional investors and other stakeholders, including employees and customers, continue to focus on board composition by considering whether the board includes the right mix of skills and experience to support the company’s strategy, as well as how the board considers diversity in assessing director candidates.

While gender is only one of the many facets of diversity, the underrepresentation of women on corporate boards remains a key area of focus for investors, proxy advisors, and regulators. Here, we look at the current state of gender diversity on corporate boards, efforts to accelerate the pace of progress, institutional investor and proxy advisor views, and recommendations for boards to consider.

The slow pace of progress in boardroom diversity in the United States is well documented. Currently, fewer than one in five directors serving on the boards of US public companies are female. The percentage of women on Russell 3000 boards was 19.3 percent at the end of the first quarter of 2019, according to Equilar’s Q1 2019 Gender Diversity Index. That compares with 17.6 percent as of midyear 2018, 15.7 percent in 2017, and 12.9 percent in 2014, based on Equilar’s Board Composition and Recruiting Trends report. Among the large companies in the S&P 500 Index, which tend to have more diverse boards, the percentage of women directors has also increased gradually, to 24 percent in 2018, up from 22 percent in 2017 and 18 percent in 2013, according to Spencer Stuart’s 2018 US Board Index report. July 2019 marked the first time all S&P 500 companies have at least one female director on their boards.

Gender diversity mandates

Outside of the United States, a number of countries have adopted quotas as part of their efforts to increase board gender diversity. Norway, which was the first country to institute a gender quota, in 2003, currently has the highest percentage of women serving on the boards of large public companies (46 percent), according to Spencer Stuart. Based on data published by Spencer Stuart (see Figure 2), only companies in Norway, France, and Germany have exceeded the applicable mandates. (See Figures 1 and 2).

Gender diversity mandates

Outside of the United States, a number of countries have adopted quotas as part of their efforts to increase board gender diversity. Norway, which was the first country to institute a gender quota, in 2003, currently has the highest percentage of women serving on the boards of large public companies (46 percent), according to Spencer Stuart. Based on data published by Spencer Stuart (see Figure 2), only companies in Norway, France, and Germany have exceeded the applicable mandates. (See Figures 1 and 2).
Current US developments

In 2018, California became the first state with a board gender diversity mandate. The law requires all public companies headquartered in California and traded on a major stock exchange (i.e., NYSE or Nasdaq) to have at least one woman on the board by Dec. 31, 2019, and for most companies, the minimum requirement will increase, depending on board size, to either two or three women by Dec. 31, 2021. Companies that do not report compliance may be subject to fines. In the first half of this year, more than 200 women were added to boards of California companies. (This article does not examine the presence or absence of a causal link between the law and any individual board appointment.) As of June, more than 80 percent of public companies headquartered in California were in compliance with the 2019 requirement, based on an analysis of BoardEx data.

Other state legislatures are considering similar bills. In New Jersey, Assembly No. 4726, introduced in November 2018, would impose the same requirements as the California law. More than one-quarter (29%) of New Jersey-headquartered companies had all-male boards, according to a Board Leadership Center analysis of BoardEx data as of June 2019. In Massachusetts, where 15 percent of companies had all-male boards, Senate No. 1879, introduced in January, would require at least one woman on the board by Dec. 31, 2021, and, depending on board size, a minimum of two or three women by Dec. 31, 2023. As of this writing, other states, including Michigan, have introduced similar bills.

Disclosure initiatives have been introduced elsewhere. A law passed in Illinois in August 2019 requires publicly traded companies headquartered there to report the demographics of their board and executives, including the self-identified gender and race of each board member, as well as their policies and practices for promoting diversity. The University of Illinois will publish an annual report card on Illinois companies’ diversity. The New York legislature enacted a law that requires the Department of State and the state Taxation and Finance Department to study the number of women directors who serve on each board of directors of companies licensed to do business in New York state. The information will be collected as part of the corporation’s filing statement required by the Business Corporation Law. In addition, bills introduced in the US Congress would require disclosure by public companies.
**Investor and proxy advisor approaches**

Investors have been increasingly focused on gender diversity on boards, and many have adopted or updated voting policies that consider diversity. In 2017, State Street Global Advisors (SSGA) adopted a policy initiative stating an expectation of at least one female director on every board. This year, SSGA updated its board diversity policy to state that, starting in 2020, it will vote against the entire nominating committee “if a company does not have at least one woman on its board and has not engaged in successful dialogue on State Street Global Advisors’ board gender diversity program for three consecutive years.” BlackRock encourages companies to have at least two female directors on their board, and its 2019 proxy voting guidelines state, “[T]o the extent that we believe that a company has not adequately accounted for diversity in its board composition within a reasonable time frame, we may vote against the nominating/governance committee for an apparent lack of commitment to board effectiveness.” T. Rowe Price’s 2019 proxy voting guidelines say it will generally oppose the reelections of governance committee members if it can find “no evidence of board diversity.”

Proxy advisors have also introduced policies related to diversity. Notably, for meetings held on or after Feb. 1, 2020, for Russell 3000 or S&P 1500 companies, Institutional Shareholder Services will generally recommend a vote against or withhold from the nominating committee chair (or other directors on a case-by-case basis) at companies with all-male boards. Effective for meetings held after Jan. 1, 2019, Glass, Lewis & Co. will generally recommend voting against the nominating committee chair of a board with no female members and, depending on other factors, may recommend voting against other nominating committee members.

Some institutional investors have formed coalitions to engage collectively with their portfolio companies on board diversity. The Thirty Percent Coalition’s Institutional Investor group includes institutional investors, asset managers, and owners with more than $5 trillion in assets under management. The institutional investor members work together to contact boards lacking gender diversity via letters asking for engagement meetings with coalition members. In several circumstances, boards that did not respond to such requests have faced shareholder proposals on board diversity topics filed by coalition members.

The California Board Diversity Initiative, which includes several public pension funds and a public university pension fund and endowment, engages companies headquartered in California with no women on their boards. The Midwest Investor Diversity Initiative—which includes public pension funds, foundations, and other institutional investors in the Midwestern region of the United States—requests that companies headquartered in six states adopt board recruitment policies that focus on board diversity. The group calls on boards to adopt a policy requiring the inclusion of females and minorities in the candidate pool for every director search the board undertakes.

**Implications for Boards**

Whether solely because of these initiatives or for other reasons as well, boards are carefully assessing their own composition with an eye toward diversity. It is important that they do so thoughtfully, and consider how diversity ties to strategy in the context of each and every director search. And given the focus on gender diversity, boards seeking to align board composition with strategy should be mindful that their gender diversity practices are inclusive of African-American, Latina, Asian-American, and LGBT women.

---

**Recommendations for boards**

- Review and discuss the research on how diversity adds value in the boardroom.
- Use company strategy and stakeholder lenses to establish board diversity goals.
- Construct a board matrix that considers multiple dimensions of diversity, e.g., skill sets, background, and decision-making style.
- Seek a diverse slate for every board director search.
- Edit search criteria to remove bias while maintaining linkage to strategic needs.
- Develop pathways for the board to tap into new, diverse networks of qualified board candidates.
- Consider how diversity and unconscious bias awareness can aid strategic insight.
- Exercise inclusive leadership to harness the full collective intelligence of the board.
- Be transparent.
- Routinely review an organizational diversity scorecard.
- Hold management accountable for inclusive leadership.
- Board members are looked up to as role models—consider how to leverage this position.

Source: WomenCorporateDirectors Thought Leadership Commission and KPMG, Diversity in the Boardroom: Pushing Forward, Reaching Back
In addition, boards should consider the following questions from Diversity in the Boardroom: Pushing Forward, Reaching Back by the WomenCorporateDirectors Foundation in partnership with KPMG Board Leadership Center:

— What are the needs of the company and the expectations of key stakeholders in both the country in which the company operates and the broader environment in which it does business?

— What are the challenges to building diverse boards and the tools boards are using to accelerate progress?

— How does a diverse board become more inclusive and maximize the value of different perspectives in the boardroom?

— How can boards set the tone and incent, encourage, and challenge management to move the needle on diversity and inclusion throughout the organization and become a strategic enabler to a strong culture and sustainable long-term growth?

In providing active legislative examples, KPMG is not undertaking any analysis or view that could be considered public policy advocacy, suggestive of the relevant importance of one state’s potential actions versus another’s, or the relative merits among proposed legislation.

This article originally appeared in The Power of Difference, an online supplement to the September/October 2019 issue of NACD Directorship magazine.

About the KPMG Board Leadership Center
The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG’s Audit Committee Institute, the WomenCorporateDirectors Foundation, and more—the Center 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 Center 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.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2019 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.