

NACD NJ PROGRAM

MAY 19, 2016

DIVERSITY 2.0: WHY ISN'T IT HAPPENING?

On May 19, the Chapter hosted a dinner meeting with a distinguished panel of experts who discussed why achieving Board diversity has been such a slow process. What is standing in the way of progress?

The panel was comprised of keynote speaker Eric Peterson from the Cook Ross consulting firm and a national expert on the topic of unconscious bias; Steven Klein, President, COO and Board member of Northfield Bank, a recognized leader in boardroom diversity among New Jersey public companies; and the heads of two recruiting firms who are widely known as leading the charge to bring diversity candidates to the attention of their client companies—Thomas Fuller of Epsen Fuller Group and Karen Fenaroli of EFL Associates. Joining the panel as special guest was Reatha King, the Chairwoman of the Board of the NACD National organization.

The statistics remain eye opening, in a negative way. For example, according to a recent study done by PwC for the Executive Women of New Jersey, the percentage of director seats held by women on the Boards of New Jersey public companies has only held steady over the last few years and currently stands at a mere 15%. And more than 25% of such companies have no female directors at all. Other studies from psychology show that when there are only one or two women on a Board, they “hold back” in expressing their opinions. Having three women on a Board may be the “sweet spot” for producing meaningful gender diversity, rather than symbolic gender diversity only.

According to Mr. Peterson, the prevalence of unconscious bias is a major factor to consider. The term “bias” is not to be construed in a pejorative manner. Bias is neither good nor bad, and it is not the same thing as discrimination. Bias is really an evolutionary concept that is the opposite of objective thinking. It is part of the human condition’s survival instinct and cannot be erased. It is simply the proclivity of the brain, working without our permission at a subconscious level, to “work fast” and find broad patterns in new experiences that mimic familiar patterns learned in prior experiences. It helps us find mental shortcuts and create meaning out of what is observed. Bias is natural and unique to each person. Using some simple slide exercises, Mr. Peterson convinced attendees that the effect of bias is real and not part of conscious thought.

The problem is that many human activities, such as finding qualified Board members, require a “slow brain,” thoughtful approach to avoid mistakes. The key for an individual to overcome bias and avoid discrimination is to learn what bias is and what it is not, catch him or herself from following one’s instincts and slow down the thought process to make an objective decision. Even if a decision is “important,” that does not mean it is “urgent.” There is simply no objective reason why new people invited to join a group need to “look like” those already there.

Mr. Klein explained the ways a commitment to diversity is beneficial to Northfield Bank. Although the positive effect on financial results is difficult to quantify, since it is part of the fabric of the Bank, a staff

and Board that mirrors the Bank's customer base makes customers feel like neighbors. In the Bank's multiethnic service area, this benefit is absolutely essential to the Bank's survival. Furthermore, the Bank's employees, 70% of whom are women, respect and like the fact that the Bank has a diverse Board, 30% of whom are women.

The complaint is frequently heard from recruiting firms that "there are no qualified women or minorities out there." This is simply untrue, according to the recruiters on the panel. The problem is that recruitment specifications are too narrow. Many companies restrict themselves to interviewing sitting CEOs or those with heavy financial experience. And there is no doubt that improving the pipeline of senior executives would help matters. But the real key is to seek diversity of thought and experience beyond the usual.

One finger of blame needs to be squarely pointed at recruiters who refuse to evolve beyond merely being order takers. They need to play the role of consultant, helping the nominating committee shape the search specifications in a "mapping project" that will maximize the possibility that nontraditional candidates will be given the opportunity to be considered. This is important to company survival since many of the tough problems being faced by businesses today transcend the experience of the usual candidates. The "order taker" mentality is frequently the result of a database that has been constructed to maximize the income of the recruiter, rather than provide what the client truly needs.

Are investors pressing for increasingly diverse Boards? The answer unfortunately appears to be no, although dialogue with investors appears to be progressing as studies seek to show that there is a positive correlation between a diverse Board and bottom line results. Should there be diversity quotas established by law? The panel felt that, although such a system can work in some cultures, it would not work in the U.S. Likewise, the panel also felt that setting age limits for directors was a bad idea since it would be totally arbitrary and just as limiting as rejecting all women and minorities.

Moving beyond recruiting firms, the panel went on to identify several concrete actions that could be taken by candidates and companies looking for directors to help move the "diversity needle" faster.

- Diversity candidates can and should update their credentials and get themselves known to a wide audience. Traveling and setting up meetings in informal settings can be very effective in casting the net more broadly. Private and small to midcap public companies would seem to present the best opportunities.
- Companies need to abandon a "check the box" approach and become proactive. Increasing Board size would be a good first step. Requiring a recruiter to present a diverse set of candidates would be important. To overcome "nerves" that some diversity candidates may feel about interviewing at a nondiverse company, it could be beneficial to schedule group interviews and even provide the interview questions in advance. The notion that a candidate must "fit" within the existing Board should be changed from looking backward to instead looking forward as to what "fit" should mean in the company's probable future.

At the conclusion of the panel, Chapter President Tony Buonaguro committed the Chapter to finding ways to assist New Jersey diversity candidates in becoming known to nominating committees of the

many companies headquartered in New Jersey. And Ms. King committed to take additional steps at the NACD National level to hasten the pace of achieving diversity in Boardrooms across the nation.