

# Governance Watch™ Webcast #2: Diversity in the Boardroom

Egon Zehnder and The Conference Board Governance Center are pleased to present a new Governance Watch webcast focused on accelerating the path for women on corporate boards. Investors have been vocal about the lack of female representation in the boardroom and about a need for greater diversity on the board overall.

In this discussion, Susan Tomasky, Director, Public Service Enterprise Group, Tesoro & Summit Midstream Partners will speak about her experiences as a director and what Boards and C-suite executives can do to move the needle and increase the number of women directors. The webcast is moderated by Carol SingletonSlade, Head of the Egon Zehnder U.S. Board Practice, and Judy McLevey, Assistant Director, The Conference Board Governance Center.

*Judith McLevey:* Hi, I'm Judy McLevey with The Conference Board Governance Center. With women directors only holding about 19% of the seats on corporate boards in the US, we're here to talk about board diversity and what we can do to help increase that representation of women on boards. I'm joined by Susan Tomasky, who is a director on three public company boards: Summit Midstream, PSEG, and she's also the lead independent director on Tesoro Corporation's board. She has an impressive career in the energy industry as a regulator and senior executive. I'm also joined by Carol SingletonSlade, who is the head of the US Board Practice for Egon Zehnder.

Carol is going to start us off in the conversation today. Carol. Welcome to you both, Carol and Susan!

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## Chapter 1: Expanding the Definition of “Qualified Candidates”

*Carol SingletonSlade:* Thank you Judy. Diversity on board's a passionate subject for all of us here of course. If we look at where we are now with as you said 19% across the US ... If you look at the rate of turnover in board seats, and then the rate of women actually coming onto boards and actually play that calculation out, it's going to take us until almost 2050 until we get to 50%. That's not a good thing. Let's talk about how we can accelerate that. The first question everyone always asks is, "Do we have a sufficient pool of quality candidates?"

*Susan Tomasky:* The interesting thing about that question is really what does it mean? What is a sufficient pool for what? I think the way to think about it is that if you said, "Is it a sufficient pool to achieve parity on a board in a relatively short period of time, equal men and women, filled with people who have been CEOs, who have had P&L responsibility, or are CFO?" The answer is clearly no. There is not a sufficient pool. If the question is, "Can we move the needle significantly? Is there a pool of women who have had those positions along with positions when you think outside the box that are also relevant to boards going forward," then I think the answer is we do have a pool.

The path forward, the acceleration, is not simply the path of taking what we have. It's also expanding that pool. It's cultivating the skill sets that are required for women to be good candidates, and it's also throwing the net much larger or more broadly than we have tended to do in the past in order to be able to make sure that we're capturing a variety of skill sets and we're really looking at people that we might not have thought were prime board candidates, and recognizing that if you look at people on an individual basis you're going to find a lot of depth of experience that's relevant to what current boards need.

*Carol SingletonSlade:* Absolutely. I think certainly as I focused on finding quality women for board seats. If you look across women who have strong P&L experience for example, and executives in companies now, many female executives ... They may not be CEOs or CFOs of course, but they don't have board seats. Certainly when we place them on boards, they performed extremely well. From your perspective as a director, Susan, how do you think we can make sure that every board looks at a diversity slate?

*Susan Tomasky:* Well, it's a simple act of leadership within the board. People have to decide intentionally that diversity criteria is an important part of the elements that you're looking for when you go to put together a board seat. One thing I'm very pleased about is that I have seen a huge amount of progress. Certainly not everywhere, the numbers would tell us it's not everywhere, but I've seen a lot of attention to the whole question of, "What do you need in terms of total board composition?" That's really where it starts. You start by saying, "What's the diversity of skill set we need? What kind of dynamic do we want in the boardroom? How often do we want to refresh the composition of the board?"

That leads you to think about a broader range of candidates. I also think you have to say to your search firms, to your colleagues, "We want to see women candidates." The dialogue will go something like this, "Well, does it have to be someone who spent 30

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years as an electrical engineer and then became a CEO," and you have to say, "No." It can't be that specific, but is it someone who is familiar with her industry, someone who's familiar with a comparable industry, someone who has as you say had P&L experience even if not at the CEO level. Once you begin that conversation around specific candidates that a search firm or your colleagues bring to the table, then I think it opens up the dialogue a lot.

You won't always decide upon a woman, and a woman won't always decide that she wants your board, which is a really important point, but you will open up the dialogue, you will establish a precedent. Once you get to that critical mass in the boardroom, and I think that's 2 or 3 women sitting at a table depending on the relative size of the board, then I think the issue becomes automatic.

### Chapter 2: Embedding Diversity into Board Succession

*Carol SingletonSlade:* I think you're talking about board succession. Of course I think boards need to be more proactive than they have been in the past. Certainly from our perspective we are seeing that happening, and I think it is a great direction. Just being more thoughtful about the content of the current board, and is it appropriate and optimal for where the company is, and more importantly where it's heading. Absolutely. I do believe that search firms have the obligation to put forward a diverse slate. Not just for board work of course, but absolutely. There should be, and there are certainly in other parts of the world and something that we're working on as well, a code of conduct if you like. What should the goal be?

*Susan Tomasky:* Well, I have not really come to a conclusion with respect to a number, and I'm not sure that's the answer quite frankly. Certainly if you have a heart for equity you want to achieve parity, but really that's not to me what the fundamental question is. The fundamental question is, "What's in the interest of the shareholders as you're moving forward with board composition?" I think we have seen plenty of studies that draw a link between performance and diversity on boards. When you dig down, what that really means is a variety of perspectives that come into the boardroom, a variety of experiences, different approaches to problem solving because of the experiences that it brings.

To me, I don't focus so much on a number. If I did, I'd probably get a little discouraged given the numbers that are out there. I go back to this concept of a critical mass. There is a difference, based on my experience, in being the single woman in a boardroom and being one of 2 or 3. I think what happens is the issue kind of goes away at that point in time. I do want to say that I've never really felt ill at ease in a boardroom being the only one there, but I do think that the recognition of the value of diversity broadens. When you have a critical mass, a lot of good things happen. First of all, the model that's set for executives within the company I think is extremely important.

You have a variety of experiences of getting up through the system that are brought to the table. My experience is not the same as the experience of another woman, and it's

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really important for our male colleagues to understand that. We also have different experiences with customers, with vendors, with a whole range of people. It's that diversity of experience that you're looking for, I think, in the boardroom because that's what will create the kind of creative tension within a boardroom that asks the right questions for shareholders. That's what I think you're after. That to me will produce more women in the boardroom. I think we've already seen it begin to do that, and that's where I believe the focus should be.

*Carol SingletonSlade:* Absolutely.

### Chapter 3: Boards Need to Drive the Conversation

*Judith McLevey:* Those are really good points, and it's also really good to hear that there are a lot of candidates out there who are ready to take on a board spot. Some countries have put in quotas, and I wondered if maybe you could give us a little bit of a global perspective of what's happening?

*Carol SingletonSlade:* Of course. We've seen quotas being put in place in Europe, France for example, Norway that have set 40%. We've also seen the UK that has put in place guidelines. Given that maybe the US is more reticent to a quota perspective. From your Director position, what do you feel could be a different approach that we could use to accelerate the cause?

*Susan Tomasky:* I think there is a huge opportunity for initiatives to come within boardrooms themselves. I do think it is imperative for women who are in boardrooms to be advocates and to not shy away from the issue. Women have to remember that if they are in a boardroom, it's because they've gone through a very complex process of scrutiny. There's a reason they're there. They should be there with confidence, and they should bring the full breath of their experience. At least for me and most of the women I know in boardrooms, that experience includes a desire to see more women advance both within the executive ranks and on boards. The other thing that must happen is, whether it's man or woman, there has to be leadership within boards.

I really think that's the heart of it. It is not that hard to say to a search firm, to your colleagues that every search we're going to do for a new board member is going to include a diverse slate. The other thing I think, and this is harder, but the other thing that some boards are beginning to talk about in their self-assessments is the whole broad issue of board composition and refreshment. This does not mean term limits, it means boards looking at their composition and saying, "Should we have another position for diversity? Are there members whose expertise are no longer relevant to the board," because businesses do change over time.

These sometimes are hard conversations. I'm not suggesting that we should be out retiring important contributing members in order to achieve diversity, but I do believe that boards are recognizing that over time, it is the case that the needs of the board change. When that happens, then you begin to think about refreshment. It's important to say,

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"Okay, how often do we bring in new blood? Are we making sure that when we bring in new blood we're looking at a broad range of candidates?" It's got, I think in the US, to come from those kinds of dialogues, and we have to be pressing for that.

*Carol SingletonSlade:* That's absolutely the right dialogue. I think many organizations are obviously heading that way. There are some external organizations that are saying, "Can we accelerate it again a little further through voluntary goal setting, self disclosure, et cetera?"

*Judith McLevey:* Mm-hmm (affirmative). Yes, there's a number of organizations, Catalyst, the 30% Coalition, The Conference Board has an Every Other One initiative through the Committee for Economic Development. It sounds like what you're saying is a little bit more level setting as to what the director role is and how long the director will serve. If you start out at the beginning to say this isn't necessarily a permanent position, that opens up the door to those types of strategic changes that one has to make when the board or the company changes direction in their strategy.

*Carol SingletonSlade:* If we're advocating self-regulation, what can we do to promote or accelerate that?

*Susan Tomasky:* Well I think disclosure ... The first conversation happens in the boardroom. The second conversation I think happens with shareholders and with the larger community. I don't think we have the perfect model yet around disclosure, but I do think that companies are exploring particularly in the context of social responsibility reports. They're beginning to talk about how they talk about their commitment to diversity. It is one thing to make a statement that we're committed to diversity, it's one thing to show a board that is actually gender and racially diverse. I think that companies are going to struggle with picking a number, and quite frankly, I struggle with picking a number because boards are of different sizes.

Your goal is to have a board that meets the needs of the company at a particular point in time that can sustain and meet those needs for a reasonable period because you want to have good experience. I'm really reluctant to say that there ought to be a uniform goal that applies to every corporation, but I do think that every corporation should have a conversation about whether or not they have those kinds of goals and if those goals can either be stated in terms of numbers, or in terms of over a period of time we would like to have a percentage of what we replace to be diverse, or you could simply talk about the kind of qualifications you're looking for.

Every conversation, every step forward to me is an incremental commitment to that diversity. While it doesn't change the number overnight, it really gets it into the heart of the conversations in the boardroom. That to me is the most important thing.

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## Chapter 4: Activists: Helping or Hindering?

*Carol SingletonSlade:* Obviously we've had an increase in activist activity, and many of that activity has resulted in changes in the board composition. Do you think it's helped or hurt the diversity agenda?

*Susan Tomasky:* It kind of depends on which activism you're talking about. If you're talking about shareholder and performance based activism, I see no evidence whatsoever that that's contributed to diversity in the boardroom. It may well in some cases improve performance. There may be some reasons that it's a perfectly reasonable thing to do for a company in a particular case, but when I see the slates of directors that end up being put up in those circumstances, I don't see very many women. I don't think that kind of activism, whatever its relative benefits, contributes to that issue. In fact, I think a board that is performing well is far more likely to be in a position to say, "We're going to figure out how to make ourselves better by improving our diversity."

However, I do think the activism that we've alluded to here, Catalyst, the interest of governments, is a very positive thing. Whether you embrace their goal or not, whether you report in relationship to theirs and other goals or not, I think that it has been invaluable in creating a dialogue. We are responsive to our shareholders, we are responsive to our communities. If we're not, that's part of our job. That doesn't mean you follow these things blindly, but you have to listen. That is part of the board's job. I think that this dialogue, the data that it's produced, and the resulting conversation, is invaluable.

*Carol SingletonSlade:* I think one positive from the activism piece is that it is prompting an increase in terms of turnover in seats. Without the turnover, how can we possibly introduce some of this mix whether it's diversity or performance appropriate. That is one positive.

*Susan Tomasky:* Mm-hmm (affirmative). I think that's right, and I think that's a fair point. I've tended to look at the short term turnover, which are the slates that come in from the activists, and I haven't seen the activists take on diversity as part of their responsibility. Perhaps I'm wrong, but my anecdotal sense is that that's not the case.

*Carol SingletonSlade:* The data supports you.

*Susan Tomasky:* If you then go to the next level and say, "Does activism then generate a more critical look at board composition for an under performing company," then perhaps that could well present the opening. I go back to the point I said before, someone within the boardroom, and hopefully more than one person, and the CEO of the company must lead. They must say, "This is an important goal, this is part of our picture," and they have to step up. That's to me why that's the heart of the issue.

*Carol SingletonSlade:* I think every board would prefer leadership in the boardroom rather than pressure from activists.



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*Susan Tomasky:* I think that's probably true, but I also think that leadership in the boardroom means asking the questions that you might not always want to ask. That's why that dialogue that comes from external voices is a really important part of making the board think about itself critically, and make the kind of changes if necessary that both improve performance and improve diversity in the board.

### Chapter 5: Diversity's Circle of Life

*Carol SingletonSlade:* We've obviously alluded to the positive impact of diversity in boards in the board context, but of course it's much broader than that in terms of the overall organization, in terms of demonstrating a commitment to diversity, and then the subsequent ability to attract talent into the organization itself.

*Susan Tomasky:* It's a great circle of life. The reality is I can't tell you how satisfying the experience has been for me to walk into boardrooms and see the occasional woman executive in the ranks, and to see how heartening it is. Tesoro has been really a fabulous experience in that regard. They have invited me to speak to not just their executives but a lot of business leaders within the organization. Very open conversations about experiences, about the life choices you make, and that sort of thing. It's just heartening. It is to me, to this day even though I'm now one of the senior ones, but it is heartening to see other women succeeding, to see them making these choices.

I think that's a really important part of it. The other thing is you're sitting there in talent reviews, and it is really important to ask questions that others might not see. Talent reviews can tend to be very personal, not in a bad way, but you're looking at the personal qualifications of an executive and their opportunities to move forward. A variety of personal experiences is very important to have at that table. I think that that makes a difference as well. The circle of life part is that as women advance, as they see role models that tell them, "You can make all this work," you have more board-ready women because they are moving into positions that we want them to be in so that we can say, "Yup, that's who we want."

*Carol SingletonSlade:* Yes, women advocating women.

*Susan Tomasky:* It's absolutely critical, it's absolutely critical.

*Judith McLevey:* I really like your circle of life comment. That brings it all together, thank you. That concludes our program for today. Thanks so much to Susan and Carol for joining us, and to all of you in the audience. We appreciate it. If you have any questions for us, please send us an email at [governancecenter@conferenceboard.org](mailto:governancecenter@conferenceboard.org). We hope you found this informative. Our next program will be on July 14th, so we'll see you at the next Governance Watch. Thank you very much.

## boardroom conversations



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