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Published on *VANTREO* (<https://www.vantreo.com>)

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Focus on Board and Leadership Diversity

Businesses can no longer avoid environmental, social and governance (ESG) matters, as these factors are becoming increasingly important to stakeholders and consumers. As a result, diversity and inclusion within leadership should be viewed as necessary components to push business goals forward and mitigate liability.

As litigation, regulations and legislation regarding diversity become more common, directors and officers (D&Os) may be at risk of failing to perform their duties by having inadequate levels of diversity on the board or in management positions. Businesses that lack board and management diversity may be subject to increased regulation directives in state laws, investment bank requirements and potential industry edicts.

Underrepresented ethnic and racial groups make up 40% of the U.S. population, but only 12.5% of board directors, according to the Institutional Shareholder Service's ESG

In 2021, for example, the Securities and Exchange Commission approved a Nasdaq proposal requiring companies listed on its exchange to report on board diversity. Boards must have at least one person who identifies as a woman and one who identifies as an underrepresented minority or LGBTQ person. Companies that don't meet these requirements must explain why. Other legislation includes California's Senate Bill 826, which mandates that all public companies with executive offices in the state must have at least one woman on their board.

However, board diversity shouldn't be a matter of checking boxes. There are several benefits to making concerted efforts to increase board diversity, including:

- **Improved company culture**—Diverse leadership can create a more inclusive company culture. D&Os should reflect their employees, stakeholders and consumers to better connect and serve.
- **Better decision-making**—A board that consists of various backgrounds, experiences and

perspectives may be better qualified to identify the full range of opportunities and risks the company faces when making a significant decision.

- **Increased profits**—A diverse board can lead to higher company profitability. Studies have shown that diversity often correlates with financial performance.

Board diversity won't happen overnight, but companies can begin implementing policies to ensure that diversity proclamations are supported by action. D&Os should:

- **Create and promote diversity and inclusion goals.** Focus on ambitious but attainable short- and long-term goals.

- **Identify and fill in the gaps.** Determine what personal and professional expertise are already present on the board and recruit candidates that offer something new. Look for candidates with varied expertise, including skill sets, leadership styles, and diversity of thought and background.

- **Develop a quantifiable plan.** Review, enhance and implement governance guidelines, board committee efforts and executive compensation criteria with diversity at the forefront.

Fostering diversity and inclusion can seem overwhelming, but companies can create initiatives that better the board, organization and community with sustained and intentional effort.

VANTREO is here to help. For more information, contact us today. [Reply here](#) [1].

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