DIVERSITY IN THE BOARDROOM: EXAMINING PROPOSALS TO INCREASE THE DIVERSITY OF AMERICA'S BOARDS

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DIVERSITY IN THE BOARDROOM: EXAMINING PROPOSALS TO INCREASE THE DIVERSITY OF AMERICA'S BOARDS

Thursday, June 20, 2019

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:06 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Maloney, Sherman, Meeks, Clay, Scott, Green, Cleaver, Perlmutter, Foster, Beatty, Vargas, Gottheimer, Tlaib, Axne, Casten, Ocasio-Cortez, Adams, Dean, Garcia of Illinois, Garcia of Texas, Phillips; McHenry, Wagner, Lucas, Posey, Luetkemeyer, Huizenga, Duffy, Stivers, Barr, Tipton, Williams, Hill, Loudermilk, Mooney, Davidson, Kustoff, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Gooden, and Riggleman.

Chairwoman WATERS. The Committee on Financial Services will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "Diversity in the Boardroom: Examining Proposals to Increase the Diversity of America's Boards."

I now recognize myself for 4 minutes to give an opening statement.

Today, this committee convenes for a hearing on the lack of racial, ethnic, and gender diversity on Federal and corporate boards. Strong diversity in the boardroom is critical to continued U.S. competitiveness and to ensuring that consumers of all backgrounds are served and not excluded.

Unfortunately, corporate and Federal boards are not living up to their responsibility to reflect America's rich diversity. According to the Alliance for Board Diversity, over 80 percent of new board directors at Fortune 500 companies in 2017 were white males.

The Federal Government also has a long way to go. For example, our own Federal Reserve System has been in existence since 1913, but it wasn't until 2017 that Raphael Bostic became the very first African American and first openly gay man to serve as a Federal Reserve Bank President.

At the same time, America continues to become more demographically diverse. According to the 2018 census projections, youthful minorities will be the leading source of future workers, taxpayers, and consumers. In our May 1st Diversity and Inclusion Subcommittee hearing entitled, "Good for the Bottom Line: A Review of the Business Case for Diversity and Inclusion," we set the record straight that highly inclusive companies outperform their competitors, rate themselves 170 percent better at innovation, and generate 1.4 times more revenue.

Despite the clear benefits of inclusivity and diversity, white males still remain in the majority of seats on corporate and Federal boards. Women of color, in particular, have been excluded from participation on boards, although some reports show that the percentages of women on boards may be increasing. The raw numbers reveal that compared to white males and white women, African American, Asian, and Latino women still have the fewest seats.

In order to understand these trends, we must continue to have access to board diversity data. Diversity is one of the best investments a company can make. Diverse boards intentionally guide companies and industry toward business solutions that maximize returns on that diversity investment.

Before us today are witnesses who can share perspectives on the status of board demographics. I look forward to drilling down on the current state of board diversity and discussing solutions so that more women and minorities can be appointed to board seats.

I now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 2 minutes for an opening statement.

Mr. MCHENRY. Thank you, Chairwoman Waters. Thank you for your leadership on this very important issue.

I want to start by thanking the ranking member of the Subcommittee on Diversity and Inclusion, Mrs. Wagner, for all her work. She and her colleagues on the subcommittee have spent a great deal of time gathering information about diversity and inclusion in our jurisdiction. I also want to commend Chairwoman Waters and Chairwoman Beatty for their leadership on these issues as well.

It is extremely important to increase the diversity inclusion of American boardrooms. Pursuing more diverse boards is the right thing to do as a matter of economic interest for these institutions, but there is also a good reason for corporate leaders to prioritize diversity. Research shows that when you have a more diverse array of inputs, you actually get better outcomes. Wider experience and perspectives actually lead to better decision-making and risk management.

The statistics show that women and minorities continue to be underrepresented, though. Women and minorities only hold approximately 38 percent of board positions at America's top 100 companies. While we have made progress, progress does not mean we have arrived. Progress does not mean we have completed the job. We have a lot more work to do in order to ensure that we have diverse boardrooms and diverse decision-making at the top level and all levels of corporate America.

We are fortunate today to have witnesses who can share the strategies that have been effective. Nominating committees cannot simply rely on a pile of resumes from C-suite social networks and personal relationships. Recruiting more diverse board members is only part of the challenge. Dr. Stephanie Creary, who is testifying today, interviewed board directors across a variety of industries and found that the board's culture is also critically important. I look forward to hearing about Dr. Creary's research today and to hearing from the distinguished panel.

And with that, I yield back.

Chairwoman WATERS. Thank you.

I now recognize the Chair of our Subcommittee on Diversity and Inclusion, Mrs. Beatty, for 1 minute.

Mrs. BEATTY. Thank you, Chairwoman Waters, for examining diversity in the boardroom. It is simple: America's boards should be more representative of our rich, diverse culture. According to research, greater diversity in leadership leads to better possibility, more financial stability, and creates better gains for shareholders.

It is in that spirit that I am honored to have this point of personal privilege to introduce a good friend of mine, Skip Spriggs III, the president and CEO of the powerful Executive Leadership Council, who is here today with his colleagues. His organization of some 300 Fortune 1,000 companies leads the efforts to increase the number of global black executives in C-suites and on corporate boards. We are honored that he and his colleagues have pledged their support to help us with this movement.

With that, I yield back. And thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you very much.

I now recognize the ranking member of the Diversity and Inclusion Subcommittee, the gentlewoman from Missouri, Mrs. Wagner.

Mrs. WAGNER. Thank you, Ranking Member McHenry, and thank you, Chairwoman Waters, for holding this hearing today. Chairwoman Beatty and I have been speaking with many experts versed in these issues and are proud of the steps that financial services leaders are taking to ensure that workforces are more diverse and inclusive.

Many of the most successful corporations in the financial sector and throughout the economy are proactively seeking to improve the diversity of their workforce. It is the right thing to do and a highly effective way to increase innovation and profitability. Studies continue to show that diverse corporations outperform their less diverse competitors.

We must continue to treat diversity and inclusion as complementary, but separate, issues. Although a company may be able to increase recruitment, it is also critically important to focus efforts on making sure an environment is inclusive for retention purposes. More can be done in both areas, but it is encouraging to see that more corporations are taking on this mission. Efforts to diversify should include entry level positions all the way through executive and director-level positions.

My goal today will be to identify the conditions that lead to meaningful diversity and uncover best practices so more companies can follow the lead of the firms that have already been successful on this front.

I look forward to hearing about strategies for improving diversity and inclusion, and I am proud, very proud, of this committee for examining these very important issues. I welcome our witnesses, one and all, and look forward to their testimony.

I thank you, Madam Chairwoman, and I yield back the balance of my time.

Chairwoman WATERS. Thank you very much.

I would like to welcome today's distinguished panel:

Ms. Chelsa Gurkin, acting Director, Education, Workforce and Income Security Team, U.S. Government Accountability Office; Mr. Luke Visconti, founder and chairman, DiversityInc; Mr. Ron Lumbra, managing partner, Heidrick and Struggles; Ms. Linda Akutagawa, Chair, Alliance for Board Diversity; Ambassador Vilma Martinez, who represented the United States in Argentina from 2009 to 2013, and has served on numerous corporate boards and public commissions; and Dr. Stephanie Creary, assistant professor of management, Wharton School of Business, University of Pennsylvania.

Without objection, all of your written statements will be made a part of the record. Each of you will have 5 minutes to summarize your testimony. When you have 1 minute remaining, a yellow light will appear. At that time, I would ask you to wrap up your testimony so we can be respectful of both the witnesses' and the committee members' time.

Ms. Gurkin, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF CHELSA GURKIN, ACTING DIRECTOR, EDUCATION, WORKFORCE, AND INCOME SECURITY, U.S. GOVERNMENT ACCOUNTABILITY OFFICE (GAO)

Ms. GURKIN. Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to share GAO's work on strategies to increase diversity on boards of directors. Over the years, GAO has worked with the Financial Services Committee to share information on progress for minorities and women in the financial services industry. I look forward to continuing to work with you and with today's witnesses to address the challenges to increasing board diversity and identify strategies to boost representation.

Boards of directors make decisions that affect the lives of millions of employees and consumers, and influence the policies and practices of the global marketplace. Research suggests that diversity in the workplace can help organizations better identify and address risks, provide innovative solutions to complex problems, and enhance the quality of decision-making and monitoring.

My statement today draws primarily from two key GAO reports on board diversity: one of the reports examines the representation of women on corporate boards; and the other examines the representation of women and minorities on the Federal Home Loan Bank boards. I will discuss the challenges we found that contribute to fewer women and minorities on corporate and Federal Home Loan Bank boards and the strategies that we identified to address them.

It is well known that women and minorities have fewer seats at the table when some of the most important decisions are being made in corporate America. Our analysis in 2015 of corporate boards found that while women's representation on corporate boards had increased, it would likely take decades before women and men had an equal number of seats in America's boardrooms.

We also found that while the share of women on the 11 Federal Home Loan Bank boards across the country increased from 2015 to 2018, women still comprise less than one-fourth of all of those directors. We found a similar increase in the number of Federal Home Loan Bank Directors from minority groups, including African American, Hispanic, and Asian, but they also made up only a small portion of all board seats.

To understand these trends and to identify what can be done to increase the representation of women and minorities on boards, we spoke with industry representatives, board members, and with other stakeholders.

We found three key barriers to increasing board diversity and a number of strategies that could help overcome them. First, organizations were not always prioritizing diversity in their board recruiting efforts. Second, organizations looked to the traditional CEO pipeline for potential board candidates, often overlooking other talent pools of potentially qualified directors. And third, few board seats open up each year.

For each of these three broad challenges, we identified a number of strategies that could address them, and along the way we heard from industry representatives and others that there was no silver bullet, no one-size-fits-all solution to these challenges.

They said boards should pursue diversity using whichever strategies best suit their organization. While industry officials we spoke with generally agreed on the potential benefits of having more diverse boards, they also identified some advantages and disadvantages to the specific strategies discussed today. However, despite the strategy employed, stakeholders generally agreed that without an intentional and deliberate commitment to increasing diversity, increased representation on boards would remain slow.

Among the strategies we identified was that boards could prioritize diversity by requiring a diverse slate of candidates any time a board position became available, for example, a slate would have to include a number of women for consideration. Boards could look beyond their traditional CEO candidates and recruit talent from other senior level positions, for example, accounting or legal executives or from other institutions like academia. And boards could consider increasing their size, either permanently or temporarily, to overlap with long-tenured board members or as a tool for succession planning and to create more opportunities for women and minorities to join.

Many stakeholders we interviewed supported improving disclosure requirements to include more specific information on board diversity. These disclosures not only increased the transparency, but they demonstrated the board's commitment to diversity to their investors and to the public.

I look forward to further discussing strategies to increase board diversity. This concludes my remarks, and I look forward to your questions.

[The prepared statement of Ms. Gurkin can be found on page 64 of the appendix.]

Chairwoman WATERS. Thank you.

Mr. Visconti, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF LUKE VISCONTI, FOUNDER AND CHAIRMAN, DIVERSITYINC

Mr. VISCONTI. Good morning, Chairwoman Waters, Ranking Member McHenry, and distinguished members of the committee. Thank you for inviting me to testify. I am Luke Visconti, founder and chairman of DiversityInc. I stepped aside as CEO on May 7th of this year. Carolynn Johnson, our CEO, asked me to provide today's testimony. She is with us here today.

DiversityInc is a business publication dedicated to the business benefits of diversity. The cornerstone of our publication is the annual top 50 companies for diversity competition.

Diversity is commonly seen as an issue concerning everyone but white men. This is erroneous. Diversity is a concern of every American, because our destiny is shared by all. Professor Steve Phillips, author of, "Brown is the New White", recently wrote that, "There are 7,000 more people of color added to the U.S. population every single day as compared to just 1,000 whites through a combination of birth, deaths, and legal immigration."

From a business perspective, diversity is an issue of profitability, ethical corporate governance, and, for publicly traded companies, return on equity. It is not an issue for the future; it is an urgent issue of today.

A lack of diversity on corporate boards of directors is an ongoing and persistent problem across all industries, but in the banking industry, it has an especially deleterious effect on our country, holding back our national GDP by denying equal access to finance, and as a result of poor workforce diversity, thwarting innovation and the talent needed to compete.

We have been conducting our top 50 competition for 18 years. It is voluntary and open to any company with more than 1,000 employees. There is no cost to compete and results have no association with business conducted with our company. Thousands of companies look at our survey every year, and hundreds complete it. The survey takes a deep look at human capital performance and governance, including supplier diversity. The survey has 1,200 fields of data, including boards of directors, top four levels of management, total management, total workforce, and management best practices statistically associated with superior human capital results.

There are 5 banks on our 2019 top 50 list: Wells Fargo at 13; TD Bank at 19; Key Bank at 36; HSBC at 40; and U.S. Bank at 46. We do not disclose the companies who compete but do not rank; however, we do not provide anonymity to companies who choose not to compete. Wells Fargo and TD are the only top 10 largest banks in the U.S. that compete for a spot in the top 50; JPMorgan Chase, Bank of America, Citigroup, Goldman Sachs, Morgan Stanley, PNC, and Capital One do not fill out a survey or bother to compete. In contrast, heavily regulated companies such as AT&T, EY, PwC, Comcast, Abbott, Eli Lilly, Mastercard, and TIAA are all in the top 15 of our list.

On the boards of the 10 largest U.S. banks, 30 percent of the directors are women and 22 percent are not white. This is better than the average for Fortune 500 companies, which is 16 percent women and 23 percent not white, but far worse than the diversity in the top 10: 30 percent women and 34 percent not white. It is important to note, however, that for people in the age range of directors, more than half of 4-year degrees were earned by women, and today, more women than men earn 4-year degrees, master's degrees, and Ph.D.s.

There are several diversity management best practices that we have measured to be associated with superior results. The only one appropriate for board of directors purview is an executive diversity committee, or EDC.

In the top 10 companies on our list, 86.7 percent in the top 10 includes 6 companies which were previously number one on our list; 86.7 percent of the top 10 companies have a CEO chairing the committee, and it meets monthly. And if you consider that meetings focus on metrics-driven results and the accountability of diversity management efforts, particularly regarding advancement and retention of non-majority groups, especially high-potential people, this is why they are on the top 10 of our list. The results bear out the attention to detail that the CEOs provide.

This would be an easy report-out to a board and, standardized, could be included in the EEO–1 report, which would make everybody equal in that regard in terms of measurement. However, the board has to be competent to understand the diversity report. Unfortunately, boards of financial institutions are not competent in managing their own diversity.

The progress of everyone not white and male in banking, executive leadership, and board seats is too slow to lead to nonaccountable techniques, in my opinion. For example, the Rooney Rule was established in the NFL in 2003, but the NFL is still a plantation; 88 percent of head coaches, and 97 percent of owners are white; and only 30 percent of players are white.

Fair access to capital is an essential competitive advantage for our country and it will remain an aspiration until boards of directors develop the discipline to have fair representation themselves. The lack of transparency in the process of selecting board members and of the data in general is a real hindrance, and I recommend that regulation be implemented.

[The prepared statement of Mr. Visconti can be found on page 94 of the appendix.

Chairwoman WATERS. Mr. Lumbra, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF RON LUMBRA, MANAGING PARTNER, CENTERS OF EXCELLENCE, AND PARTNER, CEO & BOARD PRACTICE, HEIDRICK & STRUGGLES

Mr. LUMBRA. Good morning. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee, for this opportunity to speak with you today and provide remarks on this important topic.

My name is Ron Lumbra. I am managing partner for Centers of Excellence, and a partner in the board and CEO practice at Heidrick & Struggles. I am in New York.

We are a global executive search firm that advises companies around the globe on leadership, on board succession, on leadership development, and succession. I have had the privilege of being in the executive search business for 21 years and have had the privilege to advise boards throughout the economy in various industries on board succession and board recruitment.

Over this period, I have seen a number of trends emerge. The biggest one, the most prominent one we are currently facing is diversity in the boardroom. It is a hot topic that companies are acting on and calling us to act on with them.

In 2019, our U.S. Board Monitor, which is a survey we do that talks about director trends in the Fortune 500, was just published. We saw that women last year—2018—filled 40 percent of new board seats. That is double from a decade ago. Minorities filled 23 percent of new board seats, up from 14 percent in 2009.

Despite the recent progress and gains, however, the total share of minority and female directors on boards is still quite low. According to a 2018 report from Deloitte and the Alliance for Board Diversity, from 2010 to 2018, the percentage of women on boards only moved from 16 to 22.5 percent. The movement of minorities on boards only moved from 13 to 16 percent in that nearly a decade period of time. Progress has been slow, as you can see.

We have observed a few key obstacles that are standing in the way of the progress of diversity on corporate boards. First, as was mentioned previously, low turnover. Most directors who run corporate boards serve on the board for more than a decade. Turnover is slow.

On average, companies only add a director approximately every 18 months. For example, in the Fortune 500, over the last decade, in any particular year, about two-thirds of companies would add a director, to give you a sense of the velocity of how new directors come on corporate boards.

Second, demand for CEO experience: It is a key attribute that boards look for. There are reasons for that. Having strategic perspective matters, having a CEO perspective matters. However, we understand that the pool of Fortune 500 CEOs is not a particularly diverse pool, so concentrating on that pool, by definition, has you looking at nondiverse populations to join corporate boards.

Third, board culture: Culture matters. Typically, boards like to bring on people that they can get familiar with quickly, who are often in their networks, known to them, or easily referenced or introduced to their networks. It makes it very difficult if those networks don't happen to be diverse.

Those are three inhibitors we see that are fairly universal in slowing the trend of bringing diverse talent onto corporate boards. Despite these challenges I have talked about, some progress has been made recently, and that progress continues. Here are some of the things that are helping.

First and foremost, board assessment. Rather than waiting for terms to expire, for directors to retire, best-run boards are looking carefully at their constituencies, looking at, are we bringing the best skill set for the challenges and the strategy the board is facing at the moment or could we do better, and they are moving away from directors whose skill sets no longer fit, and bringing on new contemporary directors. Those new directors are often diverse.

In addition, the best boards expand opportunistically. Although some boards have been shrinking in size, boards that see great diverse talent will occasionally expand in order to capture diverse talent and bring it on. That has been a best practice.

Casting a wider net is a critical factor. Rather than looking in the networks that already exist, looking at the CEO network, looking at business unit heads, division heads, and P&L leaders, considering people from academia, former government officials, and former military veterans provides a much broader, more diverse pool to look at. And best companies are now doing that, looking at diverse pools.

Having a disciplined process-oriented approach: Being intentional about the desire for diversity on boards. Companies that have the discipline to follow a process and not jump at the first person they see that they might know have more success bringing on diversity than others. It requires patience, and it requires discipline.

Last year, at Heidrick & Struggles, 57 percent of our board placements—57 percent—were diverse. That tells you it can happen. Boards can bring on diverse talent. If you cast a wide net, are disciplined, and look in new areas, you have the ability to do it; that has been proven. It is our belief that that will continue. This is a passion for me.

Thank you for the opportunity to share these remarks with you today.

[The prepared statement of Mr. Lumbra can be found on page 86 of the appendix.]

Chairwoman WATERS. Thank you very much.

Ms. Akutagawa, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF LINDA AKUTAGAWA, PRESIDENT & CEO, LEADERSHIP EDUCATION FOR ASIAN PACIFICS (LEAP); AND CHAIR, ALLIANCE FOR BOARD DIVERSITY

Ms. AKUTAGAWA. Thank you.

Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to testify before the committee today on behalf of diversity in the boardroom.

My name is Linda Akutagawa, and it is my honor to be here in my dual roles as president and CEO of LEAP, Leadership Education for Asian Pacifics, a national nonprofit organization dedicated to developing, growing, and uncapping the talent of Asian and Pacific Islander leaders, and as the Chair of the Alliance for Board Diversity, a collaboration of four leadership organizations working together to increase the representation of women and minorities on corporate boards.

LEAP, together with Catalyst, the Executive Leadership Council, and the Hispanic Association on Corporate Responsibility are the partner members of the Alliance for Board Diversity (ABD), along with our adviser, Diversified Search, and our report partner, Deloitte.

Individually, our organizations are advocates for our communities, and we provide programming from board preparations, sponsorship, research, and referral that is uniquely tailored to the needs of our constituencies. Fifteen years ago, we formed the Alliance for Board Diversity as a means of combining our collective strengths to better address our common goal.

There is a saying that you may be familiar with: What gets measured gets done. Our report, “Missing Pieces: The Board Diversity Census of Women and Minorities on Fortune 500 Boards”, shines the spotlight on the fact-based board census numbers to dispel misunderstandings and misconceptions. In addition to our research, we also collectively identify and refer diverse candidates for board opportunities because, while the numbers tell a significant story, we know it is not enough.

From 2016 to 2018, the total number of available corporate board seats increased by 230. That is good news. The pie is slightly larger, and that has enabled women and minorities to go from sharing a sliver of the pie to sharing a slice. It is nice to have more than one bite. Before we cheer, though, advancement does continue to be slow, and corporate boards are still not fully reflective of the change in demographics.

In disaggregating the women and minority data, you will see that African Americans grew fastest in the Fortune 100, Asian Americans grew fastest in the Fortune 500, and Hispanics grew the least overall.

I also offer this caveat for context. On the Fortune 100, African-American women grew by what seems like a whopping 44.8 percent, but that in raw numbers was only 13 seats. For Asian-American women, a 38.6 percent increase in the Fortune 500 and 30.8 percent growth rate in the Fortune 100 may seem like progress, but in the Fortune 100, the raw number is really only 4 seats. For Asian Americans, the starting number was small to begin with, so any growth will seem significant. And despite being one of the fastest growing populations, Hispanic women experienced the smallest number of board appointments from 2016 to 2018.

A noteworthy indicator is the recycle rate or the rate at which individuals are serving on more than one board. The higher the number, the more boards a person sits on. Fortune 100 boards were better at seeking out unique directors versus recycling the same directors. African-American men, however, had the highest recycle rate among Fortune 500 board members, and Hispanic women have the highest recycle rates among Fortune 100 board members. Interestingly, Asian Americans have the lowest recycle rates on both Fortune 500 and Fortune 100 boards, but remember, Asian Americans still only occupy 4 percent or less than 4 percent of total board seats.

On a closing note, there is a bright spot for optimism. In 2018, there were 35 Fortune 500 companies, up from 29 in 2016, that had at least one director from each of the four major racial and ethnic groups, and at least one female director.

Diversity works, it matters, but supporters, policymakers, and advocates like us need to stay aware to ensure that we and the boards don't get complacent. With each census, we get a better lay of the land, we know the gaps, and where to keep strengthening. Our great nation needs the best that all of our diverse communities can bring to the boardrooms.

Thank you for inviting me today. I look forward to answering any of your questions.

[The prepared statement of Ms. Akutagawa can be found on page 54 of the appendix.]

Chairwoman WATERS. Thank you, Ms. Akutagawa.

Ambassador Martinez, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF AMBASSADOR VILMA MARTINEZ (RET.), ON BEHALF OF THE LATINO CORPORATE DIRECTORS ASSOCIATION (LEAP)

Ms. MARTINEZ. Madam Chairwoman and members of the committee, I thank you for this invitation and the opportunity to provide the views of the Latino Corporate Directors Association (LCDA) at today's hearing. I am Vilma Martinez. I am pleased to present my views and the summary of LCDA's full statement submitted to your committee.

I want to thank LCDA's Board Chair Roel Campos, founding Chair Patricia Salas Pineda, and CEO Esther Aguilera, for their contributions.

As you noted, I am the former U.S. Ambassador to Argentina, the first woman to represent our country in that post. I also had the privilege of serving as a director on the boards of Anheuser-Busch companies, Fluor Corporation, Burlington Northern Santa Fe Corporation, as well as Sanwa Bank California, Bank of the West, and the U.S. Board of Shell Oil Company.

LCDA is comprised of U.S. Latinos who serve on publicly traded and large private company boards, along with C-suite executives and board-qualified candidates. Our mission is to support Latino directors, develop the next phase of Latino/Latina directors, and increase their numbers serving on corporate boards.

We thank you and the committee for providing a forum to have this important conversation.

As you know, our duties as directors are to add shareholder value and promote good governance as we strive for healthy, sustainable, long-term corporate growth.

Today, U.S. Latinos total nearly 59 million or 18 percent of the U.S. population and are projected to add, on average, over 1.2 million people a year between 2017 and 2060. We account for the vast majority of the growth in the U.S. workforce; 74 percent of the 10.5 million workers projected to be added to the U.S. labor force from 2010 to 2020 will be Latino. The U.S. Latino gross domestic product is $2.13 trillion and is on a par to grow $80 billion to $90 billion a year.

An additional good news aside: Latino entrepreneurs are driving job creation and economic growth. There are 4 million Latino-owned businesses that together contribute in excess of $660 billion to the American economy.

Unfortunately, despite a strong talent pool, Latinos and Latinas are the least represented on America's corporate boards. Based on our analysis of new data released today on boardroom demographics, women, racial, and ethnic groups continue to lag, with Latinos following far behind.

As part of LCDA's and my statements, we have released a comprehensive table based on data compiled by ISS Analytics on board composition of S&P 1500 companies comparing the 2019 statistics to 2008. In summary, the data demonstrate that over the last 10 years, gender diversity on corporate boards has increased by about 11 percent, with more room to go, but at the same time, the rate for board diversity has been much slower for communities of color, with an increase of 3.12 percentage points.

By all measures, Latinos and Latinas are woefully underrepresented. In 2019, Latinos overall held only 2.28 percent of these board seats, an increase of just .56 percentage points from 2008. Latinas represented only less than one half of a percent of board seats, and this despite the growing body of research which has been testified to today demonstrating the correlation between board diversity and positive corporate financial performance.

Disclosure and transparency on the diversity composition of boards is an important step to advance board diversity. Disclosure of this information helps investors and shareholders make informed investment decisions since board composition is an important component of good corporate governance. For this reason, LCDA endorses the Improving Corporate Governance Through Diversity Act, which would require public companies to disclose data based on self-identification of the racial, ethnic, and gender composition of their boards of directors, nominees for the boards, and corporate officers.

In summary, LCDA seeks to be a part of the solution to close this underrepresentation gap of U.S. Latinos on corporate boards. Ultimately, greater boardroom diversity that includes Latinos is an integral component to accelerating the growth potential of our U.S. companies.

LCDA and I stand ready to be a resource to help advance these efforts. We appreciate your consideration of these views. Thank you, again, for your consideration on this issue and the time today.

[The prepared statement of Ambassador Martinez can be found on page 89 of the appendix.]

Chairwoman WATERS. Thank you very much, Ambassador Martinez.

Dr. Creary, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF STEPHANIE J. CREARY, ASSISTANT PROFESSOR OF MANAGEMENT, THE WHARTON SCHOOL OF THE UNIVERSITY OF PENNSYLVANIA

Ms. CREARY. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee, for this opportunity to testify today.

My name is Stephanie Creary, and I am an assistant professor of management at the Wharton School of the University of Pennsylvania. I will focus on sharing excerpts from an article published on March 27, 2019, by Harvard Business Review, highlighting some of the findings for my recent research on corporate board diversity and board culture.

Based on interviews with 19 board directors who held seats on 47 corporate boards in the United States, across a variety of industries, my colleagues and I found that diversity doesn't guarantee a better performing board and firm; rather, the culture of the board is what can affect how well diverse boards perform their duties and oversee their firms. Specifically, we found that board diversity matters, but concentrating on only one form of diversity isn't enough.

Our interviewees suggested that social diversity, for example, gender, race, ethnicity, and age diversity, and professional diversity are both important for increasing the diversity of perspectives represented on the board. Many of our interviewees suggested that their boards had made progress on gender diversity, but not on other forms of diversity, such as race, nationality, and age.

They also raised concerns with what they referred to as checking-the-box initiatives and tokenism for the sake of board diversity.

One interviewee revealed how she turned down a board position because she felt that the interviewing board members were not able to comment on her expertise, only on their desire to have gender diversity on the board. She shared, "I can understand what it means to be a token person. I don't like that." I said, "If you think my only value is the fact that I am a female, I can't add value to your board."

To offset these concerns, some boards are ensuring that skills and expertise along with demographics are front and center in their recruiting processes. One board member shared, "We look at diversity in a lot of different ways: experience; age; ethnicity; and gender."

Many boards are also broadening the range of professional backgrounds considered for board member positions, allowing them to attract socially diverse directors. This is easier to achieve when boards avoid filling open seats with people already in their personal and professional networks.

One interviewee with current boards said they are shifting to a different approach, a process of assessment where the board periodically looks at the skill sets that they would ideally want on the board, given the business the firm is in, and then the skill sets that are represented on the board and then identifying any missing. So as long as they are going to look for a new board member, they use it as an opportunity to build diversity.

It is also important to consider recruiting from outside of the CEO and CFO pool to increase board diversity. One interviewee commented on how having social diversity wasn't good enough if all board members were former CEOs or CFOs. She said, "Having board members that come from a different background is really good, such as chief information, chief technology, and chief human resource officers."

My colleagues and I also found that diversity doesn't matter as much on boards where members' perspectives are not regularly elicited or valued.

Some boards are more hierarchical in their communication orientation while others are more egalitarian. These dynamics appear to shape whether diversity on the board actually matters to the board's work. On more hierarchical boards, the CEO, chairman, or lead independent director tends to dominate board meetings. In contrast, more egalitarian boards have a more collegial board culture.

One interviewee explained that their collegial board culture resulted from information being shared openly with little back channeling or meeting outside of the formal meeting to raise concerns.

Collegial boards are more likely to accept and integrate differences of opinion. Members of these boards believe that both their expertise and willingness to learn is recognized and incorporated into the board's work.

Interestingly, several interviewees told us that boards that value open communication are more likely to engage in conversations about diversity. One interviewee commented on how longer-term board members still struggled to understand the value of diversity. Another explained raising issues around diversity in the leadership pipeline and his desire to make this a higher board priority. He said, "One of our board members who is African American came up to me after I raised this issue and said, 'Thank you for bringing this topic up, because I brought it up years ago, not so delicately, and nothing ever happened. Maybe if we get more of us board members looking at this issue, it will move the needle.'"

In closing, it is clear from this research that the benefits of having a socially and professionally diverse board cannot be realized without an egalitarian board culture where different perspectives are regularly elicited and integrated into the board's work. Therefore, I encourage the committee to consider, not only how to increase board diversity, but also how to create more inclusive boards.

I thank the committee for considering these important issues.

[The prepared statement of Dr. Creary can be found on page 57 of the appendix.]

Chairwoman WATERS. Thank you very much.

I now recognize myself for questions.

The first thing that I would like to talk about or the question I would like to ask is about what we hear so much about from corporations and Federal agencies, that they are taking steps to expand their recruitment efforts more deeply into diverse communities, such as Historically Black Colleges and Universities (HBCUs) and affinity groups. We also know that the talent is out there, but these efforts alone may not be enough.

Can any of you, starting with Ms. Gurkin and going right, in the few minutes that we have, tell me what you think can be done to improve recruitment, because we hear so much, "Well, we are interested but we can't find the talent."

Ms. Gurkin, have you heard that?

Ms. GURKIN. Yes. That was actually one of the key challenges that we heard was that board members relied on their personal networks or on the CEO position to identify new talent. Some of the strategies that we heard from our industry stakeholders, however, were that there were a lot of potential talented board members out there, if they were willing to look in other professions. Someone mentioned the chief human resources officer or in the chief technology or even looking at supply chain logistics experts who are retired military.

Chairwoman WATERS. Okay. Mr. Visconti, what about you? What can be done to dispel this argument that, "We can't find any of them?"

Mr. VISCONTI. Well, the talent hasn't been treated very well in corporate America. It has failed to be promoted and recognized to reach the levels where people are considered for boards of directors. So, we have to look a little bit lower than what is traditionally in terms of hierarchy, in terms of where we normally select board members. They are there. There is plenty of talent. It has to be looked at differently.

Chairwoman WATERS. Thank you.

Dr. Creary, do you have any thoughts about that?

Ms. CREARY. Yes. I think one of the biggest issues that we found was that there weren't established criteria, other than needing a CEO or a CFO, in order to take a board position or in order to recruit for a board position. And when prompted, there wasn't consensus around why a CEO or CFO was actually needed, and there is a long history of research established both in academia and in the practical sector that the criteria are too narrow and they are not necessarily objective.

So, I think by focusing on what are the criteria, some of these issues around who is talented and who should be represented will go away.

Chairwoman WATERS. Mr. Lumbra?

Mr. LUMBRA. A disciplined process works very well. Defining what a board truly needs in terms of the skill set and then having the discipline to look for that kind of person will often yield diverse results, rather than someone who is already known and easy to find.

Chairwoman WATERS. Ms. Akutagawa?

Ms. AKUTAGAWA. I am going to add that looking to some of the nontraditional sources for potential candidates is another opportunity to expand that or cast that wider net. I think that there are organizations like the Alliance for Board Diversity members who do have access to a wide array of very qualified diverse leaders who can step up into these board roles.

Chairwoman WATERS. Ambassador Martinez?

Ms. MARTINEZ. Yes. If I could just reiterate some of the comments that were already made, such as require a diverse slate of candidates. The board assessment process that Mr. Lumbra spoke about is very effective in articulating what this particular board might need at any point in time and casting that wide net beyond the friends of people already on corporate boards.

Chairwoman WATERS. Thank you. It seems that we can find qualified people serving as presidents of colleges and universities, and we seem to have more minorities who have achieved that level of representation. So, why aren't we getting more from colleges and universities? Mr. Lumbra?

Mr. LUMBRA. I had the privilege of co-heading a presidential search committee for a university president recently, and I was stunned at the amount of diversity that showed up in the candidate pool. There are truly numbers of diverse talent in academia.

I think one of the challenges and one of the differences between that world and the corporate world is demand on campus. In the campus community, there is a demand, a natural, latent demand for diversity, so it is top of mind. No one needs to be convinced of that, and that was apparent. It is a little different in the corporate world. The intentionality in the corporate world needs to be more disciplined and planful.

Chairwoman WATERS. Mr. Visconti?

Mr. VISCONTI. Discipline is key, and right now, the process is not disciplined. And if it were disciplined, you would see different results. There is an acceptance of the bad results over and over and over again, which is why I think regulation needs to be put in place.

Chairwoman WATERS. So, this is an area that you think we can all do more in, in making sure that we develop databases, that we are able to identify people, refer people, et cetera.

All right. Thank you very much.

The gentleman from North Carolina, Ranking Member McHenry, is recognized for 5 minutes.

Mr. MCHENRY. Dr. Creary, your research goes a level deeper than race, ethnicity, and gender, right? What is the practical effect? The discussion here in Congress is largely about that. Your research is a level deeper, which is simply—is that having a threshold question of diversity is only one layer of this conversation, not that it is meaningless or more meaningful, but that it is a separate question. But then, it is a practical effect.

Having a diverse board does not actually mean you have diverse thought when you have those metrics of diversity. What you are saying is, they could all be former CFOs and CEOs, which actually doesn't give you a diversity of experience either.

Go that next level deeper about what you do for a board to ensure that there is that openness. You said "egalitarian", but you get in and you say, I can actually share my perspective without it being a meaningful relationship, not a brittle relationship, so you can go in and have a strong perspective and you get a better outcome from that.

Walk me through that, because this is a much deeper layer than the conversation that we have been accustomed to.

Ms. CREARY. Yes. Thank you. I think the first place to start is what makes a high-functioning or an effective board. What my research has shown is that effective boards are boards where the members are actually utilized for the skill sets for which they are recruited. But what we see time and time again is the person who is in the lead, whether that is the chairperson, the CEO, or the lead director, is dominating the board meeting, so the other 6, 7, 8, 9, 10 board members are actually not contributing much to what we think might be happening.

If you start with that as the crux of the issue, then we add diversity on top of that. You can add any form of diversity: professional diversity; race; or gender ethnicity. If that board is not eliciting any perspectives, it is not going to matter. So, the issue becomes changing board dynamics so that it actually utilizes the expertise of the people on the board.

The issue of which type of diversity is helpful is, I think, an issue that many of the boards aren't wrestling with so much as much as they want to begin to understand whether diversity actually can help. They recognize that different types of diversity may play different roles. So, race, ethnicity, and gender, social forms of diversity, help to connect to a wider market base. It is representative of the people in the economy.

A professionally diverse board can bring different ideas about how the strategy should unfold in the company, so those are the complexities that we are wrestling with.

Mr. MCHENRY. But you also get into this really—more of the behavioral piece, which is, you have a diverse board on paper, but they are not functionally diverse, right? Meaning, you go in, the Chair dominates the board, and it doesn't matter that you have these metrics of diversity because you may not have diversity of thought or a willingness to actually, say, object, right? So, that is a deeper level of conversation.

Let me ask this question, within your research, is there a threshold by which people are more willing to speak up? Meaning, I have seen in other research, other behavioral research that simply having a woman in the meeting with 15 other men actually doesn't mean that you have an empowered woman. There is a threshold question here by which you then have women willing to speak up, as an example. Is that consistent with your research on boards?

Ms. CREARY. Yes. I would say there is the side of the equation that is about if we have a critical mass of people who are willing to push on the chairman, the CEO, or the lead director, then voices will be heard. But in all actuality, it really is the competency and the willingness of that person in the lead seat to actually ask people what it is that they believe.

Even if there is only one woman or one African American on the board, if we actually have a chairperson who goes around the table and elicits perspectives, that one voice can be powerful.

Mr. MCHENRY. Right. So, recruiting based off of race and ethnicity alone is not sufficient for empowered boards. We need to have diverse candidates who are well-qualified, and diverse and diverse thoughts, diverse experience, and it is a multilayered effect, is one of the takeaways.

Ms. CREARY. Certainly. Board dynamics are critical.

Mr. MCHENRY. A part of the takeaway?

Ms. CREARY. Yes.

Mr. MCHENRY. Thank you.

Chairwoman WATERS. The gentlewoman from New York, Mrs. Maloney, who is also the Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is recognized for 5 minutes.

Mrs. MALONEY. Thank you so much, Madam Chairwoman.

I thank you and the ranking member and all of the panelists today for holding this important hearing which will address a bill, H.R. 3279, which I have introduced for the past several Congresses, the Diversity in Corporate Leadership Act.

Back in 2015, I asked the Government Accountability Office to look at the gender makeup of corporate boards, and the result of this study convinced me that we need to do much, much more.

Women make up 47 percent of the workforce in America, yet they hold only 21 percent of board seats at S&P 500 companies.

The most startling finding in the GAO report was how long they project it will take to achieve gender parity on corporate boards. They found that even if we assume that equal proportions of women and men started joining boards right now, it would take more than 40 years for there to be an equal number. Clearly, something needs to change.

And let's be clear, increasing diversity on corporate boards is not just a social issue; studies show that it is very, very good for business.

Study after study has shown that companies with greater gender, racial, and ethnic diversity on the boards outperform other companies financially. McKenzie found that companies with the highest racial diversity on their boards were 33 percent more likely to have above-average profits. And a study by Credit Suisse found that companies with at least one woman on the board, just one, outperformed their competitors by at least 3.5 percent a year for the last decade.

With these kinds of numbers, investors actually want the companies they invest in to increase the diversity of their boards. And, actually, I introduced the legislation and the GAO study at the request of investors, pension fund investors, and others who want to know this information because their clients say that they want to invest in diverse boards.

My bill would help investors accomplish this by requiring public companies to report the gender, racial, and ethnic composition of their boards in their annual proxy statements. The GAO found that this one very simple metric is actually very, very important to investors. And by putting this information in one place that is easily accessible without requiring them to go look at pictures of board members or guess the gender, race, or ethnicity of board members based on their names, the bill would enable investors to quickly sort the companies that do and do not have diverse boards.

And my bill would also establish a diversity advisory group at the SEC which would support best strategies, best practices to increase gender, racial, and ethnic diversity on corporate boards annually.

My bill would not be burdensome on companies. I worked closely with the business community on this bill, and it is supported, actually, by the U.S. Chamber of Commerce and many other businesses. I would like to put in the record letters from the Chamber of Commerce, CalPERS—without objection—Catalyst, and LPL Financial, just to name a few.

Chairwoman WATERS. Without objection, it is so ordered.

Mrs. MALONEY. I have one brief question, if I have time for a question. I wanted to go down the line and ask all the witnesses, do you think requiring companies to disclose the gender, racial, and ethnic diversity of their boards to their investors every year would help investors make more informed and better decisions and would enable investors to put more pressure on companies to improve the diversity of their boards?

Because of time, just a yes or no answer and submit in writing any other ideas you have on this question.

First, Ms. Gurkin, yes or no?

Ms. GURKIN. Yes.

Mrs. MALONEY. Okay. Mr. Visconti?

Mr. VISCONTI. Yes.

Mrs. MALONEY. Mr. Lumbra?

Mr. LUMBRA. Yes.

Mrs. MALONEY. Ms. Akutagawa?

Ms. AKUTAGAWA. Yes and yes.

Mrs. MALONEY. Yes and yes. Okay.

Ms. Martinez?

Ms. MARTINEZ. Yes.

Mrs. MALONEY. And, Dr. Creary?

Ms. CREARY. Yes.

Mrs. MALONEY. Well, I think it is unanimous. We need to pass this legislation. We need to get more diverse boards. It is good for the economy, it is good for the country, and it is the right thing to do. It has taken us a long time to get to this point.

And I want to congratulate the chairwoman for having a hearing on this important issue. I have been trying for well over 10 years to get a hearing on this issue. Thank you.

Chairwoman WATERS. Thank you very much.

The gentlewoman from Missouri, Mrs. Wagner, is recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman.

Dr. Creary—and by the way, I am just overwhelmed by your expertise and the research that you have done—found that diversity in the boardroom leads to better outcomes when the board's cultures, as we have been talking about, is such that all, all directors, in fact starting at the top, are empowered to engage and apply their experiences.

In her study, she states that—and I want to quote this, because I found this to be something that I just totally agreed with: "To make diverse boards more effective, boards need to have a more egalitarian culture, one that elevates different voices, integrates contrasting insights, and welcomes conversations about diversity, welcomes conversations, encourages conversations about diversity."

I couldn't agree more, Dr. Creary.

Dr. Creary has also identified numerous companies that have broadened their candidate pool to increase boardroom diversity and enjoyed all the advantages that come with a diverse board.

Dr. Creary, we have seen laws enacted in other countries, such as Norway, Spain, France and Iceland, that require—require—that women comprise at least 40 percent of boards at publicly listed companies. Can you describe the effects of some of those laws with respect to the culture of the board?

Ms. CREARY. That is unclear. We have had quite a few studies in both academia and the practical arena looking just at the direct relationship between diversity and performance. What we have not been doing, which is what my study hopes to contribute, is examining what is actually going on in the boardroom to help us understand whether, and under what conditions, the diversity might matter.

It is still an open question as to what getting us to 40 percent women actually does to change the board's ability to do the work that it does.

Mrs. WAGNER. In your research, can you tell yet? Do you believe that these laws have created an environment where diversity of ideas can flourish, or is that unclear yet?

Ms. CREARY. It is unclear, because what we haven't accounted for is the type of board. The reason why in the research we specify hierarchical versus egalitarian is because it gives us one dimension to think about.

The idea would be, if we are looking at egalitarian boards that are 40 percent diverse in some capacity, we would imagine that those would be the boards that would actually be performing better and contributing to firm performance. But because we don't know whether these are hierarchical or egalitarian, we can't measure that, it is hard to make sense of the findings.

Mrs. WAGNER. What policy initiatives can we develop to bring greater transparency into women and minorities being represented on corporate boards while not creating a burdensome and costly disclosure process?

Ms. CREARY. While I think it is important to make the numbers known, because any time we can acknowledge that there, in fact, is an issue, it actually motivates people to begin to solve it, I think we have to continue to dig deeper.

From my perspective as an academic, it is hard for me to speak as to what policies, particularly at the governmental level, might be helpful, but I can speak to what policies at the board level might be helpful. And that is actually for the board to implement policies that speak to utilizing the skill sets that are there. How do they begin to engage? How do you use your board members most effectively, is really the important issue here.

Mrs. WAGNER. How can companies cast a wider net to identify applicants with diverse backgrounds and experiences, do you think?

Ms. CREARY. From my research, the issue is not that there aren't resources. There are many organizations. We have heard about the Executive Leadership Council. Another group that I am familiar with is The Athena Alliance based out of California that looks at gender diversity, and certainly companies that are represented here. The issue is not that there aren't pools; the issue is actually the board directors who are selecting the nomination and governance committees and vetting the board members.

Mrs. WAGNER. And this is something that I want to delve a little deeper into, because we have heard some testimony with regard to this idea about those that are interviewing and things. Would having gender, racially, or ethnically diverse interviewers lead to a more successful recruiting process? We have heard about how we need to have candidates who are diverse, but it seemed like a lot of the testimony we received said that interviewers have to have that culture and be diverse in their backgrounds and expertise.

Ms. CREARY. There is evidence, based on recruitment for other positions in companies, that having a recruiter who is somewhat similar in some dimension is important.

Mrs. WAGNER. I think I am out of time. Anything else that you could send us in that regard, I would very much appreciate. Thank you, Dr. Creary.

And thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. The gentleman from New York, Mr. Meeks, who is also the Chair of our Subcommittee on Consumer Protection and Financial Institutions, is now recognized for 5 minutes.

Mr. MEEKS. Thank you, Madam Chairwoman. And first, I want to thank you for your visionary work in making sure that in this Congress, we have a Diversity and Inclusion Subcommittee. It is tremendous work and vision on your part, and I want to thank you very much for doing that.

I also want to thank Chairwoman Beatty, who has been extraordinary as the Chair of the subcommittee, and the individuals who come before that subcommittee. I hear everywhere when they come before that subcommittee, the kinds of questions and how she is holding people accountable to try to make sure that we have diversity in our corporate boards. It is extraordinary at this time that that is happening, and it is because of your leadership, and I want to thank you for that.

Let me also thank these witnesses. I have been sitting here listening to you intently. You all are tremendous. Many of the questions that I initially was going to articulate or ask, you have covered in your statements. And it is tremendous. And even with the ranking member of the subcommittee, Mrs. Wagner, and the ranking member of the Full Committee, Mr. McHenry, it just seems that we really need to get at this question of board diversity to make our corporate America reflect our country. And it makes us all better. It is better for business, and it is how to do that.

And my colleague from New York, Mrs. Maloney, who has a bill and I have a bill; it just shows how we are trying to move in the right direction to get things done. It is tremendous.

And so let me ask, because one of the things—you all touched on it, because one of the things that concerned me all the time is the number of folks who get on a board, it seems to me, particularly, I think, with African-American males, you get one and you put that one on every board, and then you say you have met your requirement because you have that one person who is on several different boards. And everybody on all of those boards are scoring that one person as their diverse candidate, to show that they have diversity on their board.

I am trying to figure out, as far as best practices are concerned, what do we do to defeat that? One of the things that we were thinking about and I know I had in my bill was to have the Director of the Office of Minority and Women Inclusion (OMWI) publish, the SEC to publish every 3 years best practices for compliance with disclosure requirements, and also to have OMWI at the SEC establish an advisory council that includes issuers and investors to advise on best practices. What do we do? How do we do it so that we can try to eliminate that? I will start with Mr. Visconti.

Mr. VISCONTI. I think if you looked at Congresswoman Maloney's bill and you think about what committees those board members are on—and anybody who has been on a nonprofit board or a board knows that if you are on governance, if you are on the important committees, compensation, you don't have time to serve on many boards. You have time to serve on one or two.

I think identification of who is on what committees in these boards will have its own factor in limiting the number of people who are counted on several boards.

Mr. MEEKS. And with that same question, let me go to Mr. Lumbra. Do you want to add anything to that?

Mr. LUMBRA. Representative Meeks, I am happy you raised the issue, because I am a little surprised it hasn't come up yet in the conversation. There is a strong preference for experienced directors. First-time directors, regardless of race, regardless of gender, have a difficult time coming on boards, because there is a preference for people who have been there and done that.

There is a theme in the room about how best boards are run: Egalitarian, inclusive. There is a developmental part of that. We talked about assessment and effectiveness. Having boards that think about, how do I bring on a first-time director and mentor that person, teach them how to be a director, et cetera, that is a really important part of the solution to both casting the wide net as well as getting people on the board and making them successful. So, that first-time director issue is the one that you have hit on very clearly.

Mr. MEEKS. And one of the things that you mentioned too and, people talk about is it seems as though at times the only folks that they want on a board is a CEO or a former CEO as opposed to other individuals who might have come from the field of technology or others. Even when I think HR, some HR executives sometimes can be the person, because they understand the industries and how you can have better folks in there.

Dr. Creary, in the limited time I have, can you comment on that?

Ms. CREARY. Yes. I think we actually do see today—I believe Bed Bath & Beyond is one company that recently overhauled its board and actually does have representatives from some of these more diverse professional backgrounds on it. So, there is a move to move in that direction, to expand the capacity of boards to do their work by recruiting people who are from, for example, HR and academia. It just hasn't happened to the extent that we would like to see.

Mr. MEEKS. Thank you.

Chairwoman WATERS. The gentleman from Oklahoma, Mr. Lucas, is recognized for 5 minutes.

Mr. LUCAS. Thank you, Madam Chairwoman, and I thank you and the ranking member for holding this hearing today.

In one of my other roles in this body in Congress, I am ranking member of the Science, Space, and Technology Committee. And we held a hearing on promoting a diverse workforce in the science/engineering/mathematics fields. We highlighted the lack of diversity in many STEM fields and how it prohibits the United States from reaching its full economic potential and hinders American competitiveness. It would seem that the same can be said for the lack of diversity in our corporate boards.

My first question is to Ms. Gurkin. In your written testimony, GAO identifies strategies that stakeholders and corporate boards are currently implementing to increase diversity. Can you elaborate on how some companies are taking steps to prioritize diversity, particularly diversifying that pool of candidates?

Ms. GURKIN. I think one of the common themes that we heard from all of the industry officials that we spoke with is that there are a number of different strategies that can be employed, but what is most critical is that there is a commitment to ensuring greater representation on the board.

And so the stakeholders we spoke with talked about a lot of different strategies in terms of looking beyond the CEO pipeline, being in kind of a continuous recruiting system where, as you identify great candidates, you bring them on, even if maybe you aren't actually having an active search and have an active opening, or expanding the number of board positions. But the stakeholders we spoke with commented that while there are a number of great strategies out there, it is that commitment to diversity among the board that was the most effective and important strategy.

Mr. LUCAS. For my next question, I think I will turn to Dr. Creary. You explain in your testimony that even though a board is diverse, the company still may not reap the rewards that diversity brings. Can you elaborate on that challenge for us, please?

Ms. CREARY. Yes. So, for example, we have people in my sample who do represent that one African-American board member who is on multiple boards, who has commented on the fact that they have tried to raise, for example, issues of diversity, and no one listens. That is an example of the fact that just by increasing the diversity does not mean we are going to get to the results that we want to, particularly if the result is to tackle issues of diversity in the leadership pipeline.

Mr. LUCAS. Lastly, I know this issue exists across industries. As I mentioned earlier, women are underrepresented in the engineering, science, and math fields. To anyone on the panel, how does the diversity of the financial services industry compare across industries, and are there any fields that are leading in their efforts to create a more diverse workforce? How does the financial services industry, when it comes to board participation, compare to other boards across different industries?

Please.

Mr. VISCONTI. I had a journalist who reports to me count heads. And the financial services, the top 100 banks are average compared to other industries. The top 10 banks are slightly above average compared to other industries. This is a common problem across-the-board.

Mr. LUCAS. Anyone else wish to address that? Please, Ambassador?

Ms. MARTINEZ. Yes. I was going to add that having served on two bank boards that were quite diverse, for foreign-owned companies, in fact, one Japanese, the other French, and the regulation is so intense that you actually need quite a diverse skill set among the board directors. And it was an area where the board directors really taught each other whatever it was they brought to the table. I think that has had a very beneficial impact on that industry.

Mr. LUCAS. Absolutely. Anyone else?

Mr. LUMBRA. To your other question, not about financial services but broadly speaking, we are seeing more progress in consumer.

Those companies tend to be more sensitive to the marketplace, who they are selling to, what their employee base looks like. So, I would say they are inching ahead in terms of this being top of mind.

Mr. LUCAS. Thank you. If no one else wishes to address that, I will yield back the balance of my time, Madam Chairwoman.

Chairwoman WATERS. Thank you very much.

The gentleman from Missouri, Mr. Cleaver, who is also the Chair of our Subcommittee on National Security, International Development and Monetary Policy, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman. Let me express my appreciation to you for this hearing. I was reading someplace about criticizing somebody else and you have a plank in your eye. The Federal Government has a bad record as well. There is a recent article in Politico talking about the lack of diversity in the Department of the Treasury, even at a time when they are denying a $20 bill in the memory of Harriet Tubman.

So, there are some components of our Federal Government that are embarrassingly absent of any diversity. Having said that, I am fascinated by this nation's heterogeneity, but I am frustrated by the homogeneity of the higher ranks of homogenized corporate America. And it is really an issue that we have to keep up front.

I just spent some time with one of these high-tech companies, these new high-tech companies where these billionaires are born every 5 minutes. And I would go in and the CEO would be 13 and the director of the production was still in the crib and made decisions after he would suck on the bottle. But there were no brown and black babies in the cribs in those places.

And I think we cannot have this discussion without discussing the ever-growing high-tech industry and a very, very visible absence of diversity. And I am wondering if any of you have had any views, based on the things that you are concerned about, of what is going on in the high-tech world and how we can impact them other than maybe starting to regulate them and making some requirements. Any ideas on how we can pierce this barrier that has been there with high-tech companies and the lack of diversity?

Ms. MARTINEZ. I would suggest that it is really important to try to get them to link in with K through 12 educators, because in most school districts they do have magnet schools or similar institutions where they emphasize STEM or high-tech fields, and there are invariably students and there are many students of color in the public school system. So that linkage, I think, could be made stronger. It exists in bits and pieces here and there, but I think that is a good area to look at.

Mr. CLEAVER. Yes.

Ms. AKUTAGAWA. I also want to suggest that I think that there are also issues around unconscious bias as well too that is going on in a lot of these areas, especially when you look at the leadership ranks of these high-tech companies. And I think that despite the media's portrayal that Asian men are overrepresented, they are overrepresented perhaps in the early to mid-career levels, but you certainly do not see them in the leadership ranks.

But within that, you do see then that the folks who are making these decisions have stereotypes I think of what constitutes a good tech worker. And oftentimes, I think that unconscious bias leads to people not necessarily searching out the diverse talent that is out there and is highly capable of working in many of these high-tech companies.

Mr. CLEAVER. Thank you. Yes, please?

Mr. VISCONTI. Sheryl Sandberg wrote, "Lean In." She was the only woman on the executive committee of Facebook. She is still the only woman on the executive committee of Facebook 6 years later. It doesn't work. The tech industry is the worst in this country, in my opinion, on this subject of diversity, the worst, bar none.

Mr. CLEAVER. I agree. My youngest son would point at things and say, "It is worser." And so, I agree that they are "worser." But we have to figure out a way to penetrate or it is going to get worse. Thank you.

I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you very much.

The gentleman from Colorado, Mr. Tipton, is recognized for 5 minutes.

Mr. TIPTON. Thank you, Madam Chairwoman, and I appreciate your holding this hearing today.

Ms. Akutagawa, I would like to follow up a little bit on Mr. Cleaver's comments in terms of some of the workforce development as well in relation to board diversity. And maybe, Dr. Creary, you would like to comment on this as well.

We have had a study that has come out from Glassdoor that found that two-thirds of job seekers said that workplace diversity is important to them when evaluating employers and job offers. Another from PricewaterhouseCooper found that 61 percent of women specifically considered diversity of an organization's leadership team in deciding where to take a job.

It is obviously clear that when people are looking for a job, they take in some of the leadership roles, obviously, for where they would like to actually be able to pursue, because they see upward mobility opportunities for them.

Would you comment on the PricewaterhouseCooper's studies, and the Glassdoor studies? How can that really play a role in terms of helping create jobs for people and opportunities?

Ms. AKUTAGAWA. I think if you can't see it, you sometimes can't be it. And I think that having that diversity in and amongst the different ranks of a company is going to be highly important. And we are looking at a highly diverse millennial generation who is looking for people who look like them and want to see the opportunities that they too can become someone who is going to be leading a company, someone who is going to be on a board of a company. And I think with that said, there are lots of different things that companies can continue to do, I think, and that are being done right now.

And just for the sake of the record, I would also encourage consideration of not just corporations, but when you look at all employers, not only the government but also nonprofits as well too and higher education institutions. And when you look at the leadership ranks of those areas, also lacking in diverse leaders as well too.

Mr. TIPTON. Just to follow up on that, are you starting to see companies starting to alter hiring practices, or is it still a work in progress?

Ms. AKUTAGAWA. I think it is a work in progress. And as was said earlier, I think you have certain companies, particularly those that are looking to serve consumers that are diverse. They are certainly much more conscious about that. I think we are also seeing ones in which they do need to have a really deep talent pool, that they need to, they are forced to cast as wide of a net. And I think that many of them are discovering that that is what they are finding.

Mr. TIPTON. Dr. Creary?

Ms. CREARY. Yes, I think this is an important question. Certainly, years of research has told us that people are attracted to places, particularly workplaces, where the people who are there in positions of success mirror somehow their own experience.

It goes without saying, I think, that all of us in academia and the government and corporate America are doing a lot of work to make sure that our positions of power are represented by all people who come from our country. At the same time, what we know is that just because you are given access to the position doesn't mean that you will stay in it. And what is happening in corporate America in many sectors is that people who are being recruited for diversity or for any reason are leaving their positions. For many reasons, they are not having the best experience.

And so I think it is important to make sure that when we have this conversation about boards, we understand and learn from the lessons of corporate America and all other sectors that just concentrating on getting people in the door doesn't mean that we won't have a revolving door.

We need to concentrate on the experiences of people in organizations if we actually want them to stay and contribute meaningfully.

Mr. TIPTON. And would you maybe expand? We talked on this a little bit, but some of the best strategies to be able to expand some of that diversity that are yielding positive results?

Ms. CREARY. Yes. I think certainly, on the workforce side, we have employers at my campus. They come and they visit and they host different sessions for people who are, for example, from underrepresented groups, to introduce them to the company and to introduce them to mentors very early on.

The whole recruiting process is one that is inclusive. If you think about it, some of these practices could actually be used at the board level. It is a courting possess, if you will, of helping people to understand that they can be—that that is a good fit for them as an individual and that they could be effective.

It is not just about, I think for many of our young people today, particularly people at my institution, wanting to go to an organization that is diverse. It is that diversity to them signals opportunity and that someone like them can be successful there. And I think it is important to keep that in mind.

Mr. TIPTON. Great. Thank you.

My time has expired, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you very much.

The gentlewoman from Ohio, Mrs. Beatty, who is also the Chair of our Subcommittee on Diversity and Inclusion, is recognized for 5 minutes.

Mrs. BEATTY. Thank you, Chairwoman Waters. Please excuse my voice today. And thank you to all of the witnesses.

This is an exciting and amazing day for me. As chairwoman of the Subcommittee on Diversity and Inclusion, I want to applaud you for your honesty and for helping us as we shape this vision under Chairwoman Waters. We have talked about a lot today. And what came to my mind was, and the first time I said, I have to give credit to Skip Spriggs with the ELC, because what he said is, "If you fish in the same pond all the time, you catch the same thing."

If we are only looking for seated CEOs or COOs when we talk about corporate leadership, putting people in the room, we need a bigger pool.

Now, I don't think that we have heard or that there is anything that has happened in the past that has gotten us there 100 percent or we wouldn't have Chairwoman Waters taking this national/international leadership for everybody in this room and everybody on both sides of the aisle to become a part of history, because that is what is happening today.

We talked about the Rooney Rule that started in 2003. Dan Rooney, I believe, had a great idea, and chaired the diversity committee for the NFL, because it was a start. It at least got people in the NFL talking about what they had not done, and yet they were making all this money on black players. And so we got great results, because it wasn't just putting a minority in the interview; it was a qualified great minority of thought, of gender, of race. And you can have diversity of thought and environment and end up with a black person. And that is what happened.

Chairwoman Waters mentioned Raphael Bostic, and thank you. It was about that same time that with my legislation patterned after the Rooney Rule, the "Beatty Rule", we went after the Federal Reserve and we got Raphael Bostic.

My question is to you, Ms. Akutagawa. Can you tell me, how does having a diverse slate of candidates positively impact the outcome of diverse candidates fielding the position?

Ms. AKUTAGAWA. Thanks for asking that question, Congresswoman Beatty. One thing that I want to just bring up is that when you have diverse board members, when you have diverse leaders or executives, I think that there is that perspective that they bring. And one of the things is that sometimes they can always also recognize leadership that may not show up in the normal way.

I think that in this country there is a prevailing perspective of what leadership is supposed to look like, and that if you can't see beyond it then it may be difficult to then see someone who is diverse that they too can also—

Mrs. BEATTY. To Mr. Lumbra: According to your most recent Board Monitor report, women fill 183 of the 462 open boardroom positions at Fortune 500 companies. However, racially diverse candidates did not seem to get the same gains.

Was your company retained to source diverse candidates or do you know how many diverse candidates were on the slate?

Mr. LUMBRA. To be clear, do we measure the slates and the amount of diversity on those slates?

Mrs. BEATTY. Yes.

Mr. LUMBRA. Indeed, we do. We made a commitment at the beginning of this year that we would, on a global basis in the aggregate, have diverse slates of at least 50 percent diversity introduced to clients around the world. What we have discovered in our business is, if you have a very small number of diverse candidates on a slate, it is almost a very low probability anyone will be chosen. If you have an amply diverse slate, then the probability of a diverse candidate being selected is much, much higher. So, we have endeavored that.

Mrs. BEATTY. Thank you. I have one last question that I am going to ask everybody to say yes or no to.

Do you see the relevancy of why many of us—and I have been doing this ever since I have been in Congress—trying to advocate for getting Harriet Tubman, a woman, a woman of color, on the $20 bill? Do you see the value when we talk about diversity and inclusion here in this Financial Services Committee? Would you support that initiative?

We will start with you, Ms. Gurkin. It is a yes or no.

Ms. GURKIN. I don't think GAO has a position on it, but the symbolism of women in leadership—

Mrs. BEATTY. Is that a yes? Okay, we need to go. I only have 70 seconds.

Mr. VISCONTI. Yes.

Mr. LUMBRA. Yes.

Ms. AKUTAGAWA. Yes.

Ms. MARTINEZ. Yes.

Ms. CREARY. Yes.

Mrs. BEATTY. Thank you, and I yield back.

Chairwoman WATERS. Thank you very much.

The gentleman from Arkansas, Mr. Hill, is recognized for 5 minutes.

Mr. HILL. Thank you, Chairwoman Waters. I appreciate the opportunity to have this panel. And I agree with my friends on the other side that this is a good day to have this very broad and good discussion on this topic.

Over my years in business—I am 40 now. I was looking at my college graduation notice. That is a little frightening. But in that time, I have spent a lot of time both in public companies and private companies over the years and have been the C-Suite officer responsible for HR in a public company.

And then in my own business, I was reflecting on forming it back in 1999, and we had 7 directors and 3 of those were women. And we had an outstanding outreach across our business on trying to recruit both employees and officers of color as well as having diverse leadership.

This is an important issue and I have studied it really even when I was going back to my days at the Treasury Department in the early 1990s, working on corporate governance issues. It led me to go to UCLA and become a certified corporate director, and I was a long-time member of the National Association of Corporate Directors. So, I am very familiar with the issues we are talking about today.

And I do think this issue that Dr. Creary talks about, which is a matter of intention, is critical. Think of the burdens these boards have. Let's look at post Sarbanes-Oxley corporate America. Let's say we have 11 people. We have people saying you should have a smaller board, not a bigger board, because it is more in line with Dr. Creary's point of view. We can build cohesion.

So, we move a board from 15 to 11 now. We want an odd number so we can't have an even vote split, right? Now, we are 9 to 11. One of those people has to be a financial expert, according to the Sarbanes-Oxley Act. One is probably the CEO. So now, we are down to 6 or 7. Mr. Lumbra testified and Ambassador Martinez did that we don't have a lot of turnover in those people. Ambassador Martinez herself serves on multiple—I can't remember how many—three or four corporate boards.

Now, we are down to this turnover issue. This is a hard job, is my point. All of the people here are working very diligently on it. One way that I think is a good way for corporate America to expand—and I want to thank my friend Joseph Vaughan at the Corporate Diversity and Inclusion Forum for helping me work on this in my district—was our HBCUs.

Alma Adams is not here, but she co-Chairs our Historically Black College and University (HBCU) Caucus here in Congress. It is something I have been very involved in since I was elected to Congress. And I had an HBCU Summit in my district, and it was all about bringing all the corporate and philanthropic people in our district to Little Rock and to think about our HBCUs as a very robust recruiting forum for diverse recruiting for corporate business.

So, Mr. Lumbra, if I could start with you, obviously, you are an expert in recruiting and retaining diverse talent, you have been doing it for a living for 2 decades. What is your best strategy when you recommend to your clients on that bench strength? You have a limited number of slots. You have to build expertise. What is your best—not employees now, but just stick with corporate governance now. What is your best way to build that bench that you recommend?

Mr. LUMBRA. There are a couple of things. You framed up the structure of a board really perfectly in terms of the world we are seeing today, smaller, tighter. Every seat matters even more. Being incredibly disciplined about what skill set do you need in that seat really. You need CEOs on the board, but you may not need seven of them. You need financial experts on the board. You may need people who do business internationally or know manufacturing or whatever the company's—

Mr. HILL. And 50 percent of the S&P 500's revenues are international.

Mr. LUMBRA. Right.

Mr. HILL. That is another diverse issue. Let's say you are an S&P 500 company and you have 50 percent of your revenue internationally, let's take one of our 9 to 11 slots and say it should be somebody from abroad. We are down another slot. How do you build those lists for IT, cyber, human resources, who are not C-Suite people and recommend them for boards? How many are on that list?

Mr. LUMBRA. First of all, you look for multidimensionality. You look for people who can do more than one thing. As an example, to use your notion, someone who has grown up in a Fortune 500, who has had international stints, who knows global business, who may be a woman or a minority.

You get all of those things you are looking for in one person. So, research is very, very key, and knowing that market is critical to be able to achieve that.

Mr. HILL. We want diverse boards that reflect—we want them with the skill sets to have the fiduciary obligations to meet the mission of a board of directors. And we thank all of you for your contributions to better boards.

I yield back.

Chairwoman WATERS. Thank you. The gentleman from Illinois, Mr. Garcia, is recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Madam Chairwoman. I also thank the Chair of the D&I Subcommittee for this hearing and, of course, I thank all of the panelists who have testified this morning.

Walmart is America's largest employer and, according to the firm, 43 percent of its U.S. associates are people of color and 55 percent are women.

Is the panel aware of the racial and gender composition of Walmart's board of directors? Let me help you. There are two people of color and three are women. Given the makeup of Walmart's workforce, do you believe that reforming corporate governance laws to include worker representation boards would dramatically increase board diversity? Any of you?

Mr. VISCONTI. Regulation is key. It has to be regulated. It is not working the way it is right now. And the impact of a company the size of Walmart on the average American is so outsized, we have a right to be represented on their board and in their senior management, we the people in our composition. So, yes.

Mr. GARCIA OF ILLINOIS. Anyone else? Ambassador?

Ms. MARTINEZ. I am going to make the point that mandates are, by definition, very hard to swallow, and I am sure you are familiar with this phenomenon. One of the thoughts that has been running through my head as I listen to all of you asking questions and answering them is you have now heard from people like us here, but what about inviting CEOs to get them to comment on all of the recommendations that your committee has put together and let's see what they would do with that, because ultimately they are the decision-makers. They are going to hire the high-driven struggles. They each have their own board culture to deal with. And trust me, as a person who has served on lots of corporate and nonprofit boards, every board has its own very distinct culture.

Mr. GARCIA OF ILLINOIS. Thank you. Not only do I think that worker representation would enhance gender and racial diversity, I also think that it would result in higher wages for workers. Beginning in the 1970s, for example, wages for the average American worker stopped growing in pace with worker productivity, and corporate boards began pursuing the business model that prioritized paying out their shareholders above all other considerations.

Boards even began paying their executives more and more through stock, and that led to an increase in stock buybacks, where firms juiced their own stock price by purchasing their own shares on the open market.

When firms adopt a shareholder-first mentality, they neglect other considerations: long-term business growth; research and development; and especially, worker pay.

Yesterday, I introduced the Reward Work Act, which bans stock buybacks and requires that one-third of each public company's board be directly elected by its own board. Research shows that wages in countries that require worker representation on corporate boards are 18 to 25 percent higher than wages in the United States.

For the panel, do you agree that worker representation would help lift wages and get companies to think beyond their wealthiest executives and shareholders? Anyone?

If not, I would just close by noting that Walmart has authorized to spend $20 billion on stock buybacks in 2018 and 2019. According to the Roosevelt Institute, if Walmart had ended its stock buybacks and spent $10 billion on increasing wages instead, one million low-wage Walmart workers would enjoy an hourly wage increase of $5.66.

Moving to another topic, an analysis of Fortune 1000 company boards found that 75 percent of those companies did not have a single Latino/Latina director. Ambassador Martinez, do you have any insight into why the number of Latino/Latina directors is declining?

Ms. MARTINEZ. It was never very big to start with, unfortunately. And I think, unlike other groups—I am thinking of women's groups. The women have been very creative, assertive, and they have developed many entry points.

And I think this new organization that I am representing here today is an effort to correct that. Added onto the work of, say, HACR, the Spanish Association for Corporate Responsibility, I think this new group is going to be very helpful in that effort.

Mr. GARCIA OF ILLINOIS. Thank you.

I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you.

The gentleman from Georgia, Mr. Loudermilk, is recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Madam Chairwoman. Thank you all for being here. It is a very interesting topic.

Dr. Creary, I appreciate the research you have been doing. And from what I understand of your research, what is showing as diversity in boards is positive, but it seems to be more so in the diversity of ideas and perspective more than just the demographics of race and gender, et cetera.

Does that summarize kind of what your findings have found, is more ideas and perspective?

Ms. CREARY. It is not suggesting that one form of diversity is better than another. It is suggesting that when we think about diversity of perspective in addition to thinking about demographics, that is when we actually begin to see, according to the people whom I have interviewed, positive effects.

It is hard to say. We are not doing that kind of research, where we are saying which one is better and which one is contributing to the effect. I want to make sure that is clear. It is not like a horse race.

Mr. LOUDERMILK. But sometimes perspective can transcend into gender or different communities, because of the needs of different communities or the customers who are in those areas. So, I can understand that.

One of the things that I was trying to do is to categorize this into different industries, especially in financial services. Georgia has a lot of fintech and payment businesses, and we have seen a significant rise in these companies. And some in the traditional banking industry feel somewhat threatened by these new automated type industries. They feel that they are going to take some of their market share in the future, which very well could be.

And it appears to me that it is because they are bringing in people with different ideas outside the status quo, bringing in ideas, bringing innovation, perspective, hitting certain customer bases that traditional banking may not be serving. Do you feel like that is kind of what drives these industries to innovate, is that they do go outside the status quo?

Ms. CREARY. Definitely. But I think the point that you are hitting on here is there is a level of discomfort with diversity. And so if we are trying to explain why there isn't diversity, it is because we have traditionalists who are concerned about what effect that will actually have on their firm. That is actually the issue we need to address, to help people who are traditionalists to understand why things need to change.

I think at the same time, it is also important to think about the fact that diversity of thought, which is an idea that has captured I think the minds of many people in corporate America, is not necessarily the only piece of the story here. When we think about what we are trying to achieve as a board or as a company more broadly, we are actually trying to access talent and we are actually trying to access markets. And so, we do need different types of diversity in order to do that, including the social forms of diversity.

What we are trying to accomplish, I think, through the research on boards and workforce, is to put all hands on deck, all forms of diversity on deck in order to target those two goals around accessing the best talent so that our companies will perform well and accessing the market so that our company will also and our economy will perform well as well.

Mr. LOUDERMILK. Okay. And I appreciate that. When we look at these boards, especially with the technology era we are in, it seems like diversifying on the board to bring in people from different communities than what you would traditionally see in a banking industry or something can bring a perspective from that particular community of needs of those customers. What can companies do to foster this new thought of diversity, of bringing in new ideas and perspectives?

Ms. CREARY. I have an example for you. Recently, Shaquille O'Neal, famed basketball player, was appointed to the board of Papa John's after Papa John's had some issues with its chairman saying a racial slur on a conference call. And I think many were concerned about Shaquille O'Neal being on this board, what is he going to do, not knowing that Shaquille O'Neal has been a master investor in fast food restaurants, including 27 Five Guys in the last several years. But he is also somebody who is really connected to the urban community.

And I think it is that narrative that is helping people to understand who might not at a surface level see his value that, in fact, he actually does have business value and he actually is connected to this community that you are actually trying to regain or to seek out in your efforts to diversify your market base.

Mr. LOUDERMILK. I see I am about out of time. It is very fascinating. Thank you for your responses. I yield back.

Chairwoman WATERS. Thank you.

The gentlewoman from Texas, Ms. Garcia, is recognized for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Madam Chairwoman, and thank you for bringing this topic to the table. It is one that I have followed for years. And it is very distressing that some of the numbers that we are seeing are not really significant improvements. In fact, they are barely improvements.

By way of background to the panel, I served as the elected city controller in Houston. In fact, it was my first elected position. And one of the things that always surprised me was that any boardroom that I was invited to, and especially whenever I went to Wall Street for any of the pricings that we did in our bond deals, I was faced with nice-looking white men in dark suits and a red tie maybe, but mostly blue ties. And there were no people who had my Spanish surname or women who looked like me. And it seems like we have not made much progress.

And it was really interesting to look at the handout that you had, Ambassador, that clearly paints the picture of, while the percentage looks like it has improved, the actual numbers are really small.

I just wondered, what is it going to take to really get some movement in this direction? Is it going to have to be this legislation? Is it more legislation? What do we have to do? And I wanted to start with you, because, as the only Latina at the table here—and Latinas have the worst record and, of course, all women of color have challenges in this area—what can we do so that when we look at diversity, we look at all of it?

Ms. MARTINEZ. I think what we need to do—and I think you want to especially focus on Latina diversity, if I understand your question. The Latino Corporate Directors Association is a very new organization. I think they have a very—

Ms. GARCIA OF TEXAS. Right. My office has met with them. By reference, I was involved with that, I said at the very beginning. I attended one of the Harvard programs that was there at the business school.

Ms. MARTINEZ. Yes. What I think would be really beneficial is for them to grow as quickly as possible and as strategically as possible, but also to leverage the other institutions. And certainly when it comes to women, there are catalysts. There are women corporate directors. There are so many different organizations. And I know that the Latino Corporate Directors Association has some very strategic plans in its near future, in terms of things that they have—

Ms. GARCIA OF TEXAS. But are you all getting the meetings with the CEOs who make the decisions on that to be able to implement the strategies, because we can have a great list of things to do, but if we don't have the meetings to effectuate that strategy, it might as well sit around collecting dust?

Ms. MARTINEZ. I agree. When you look at the membership roster, which I was just doing last night, it does seem to me that they have the connections, if you will. And as we all know in this room, it is all so much about connections and who do you know and who trusts you, who is going to vouch for you, who is going to say, "She is not crazy, she is going to be able to walk in and ask questions in the proper manner", sort of thing. That, I think, is the way for us to go at this point in time.

Ms. GARCIA OF TEXAS. Mr. Visconti, I will follow up with you, then. One of the things that I also saw was that there was recruitment sometimes for some of us to sit on what they call community advisory boards, which was really not the board. Is that still happening? Is that just another trick that is played with some of these numbers, or are all these numbers reflective of full board paid memberships?

Mr. VISCONTI. I am not an expert in that area, but what I will say is it is the accountability that drives home results. So, if a CEO or chairman of the board is holding people accountable, and firing people who cannot perform, that is when you see the numbers change, without excuses.

Ms. GARCIA OF TEXAS. Right.

Ms. Gurkin, when folks get on these boards, are they being pigeonholed, if you will, to serve on the committee on community relations or the committee for—I forget what other committee there was, but there were committees that were not the finance committee. They are not the decision-making committees on the major issues impacting those banks.

Ms. GURKIN. We actually didn't look at where women and minority board directors, which committees they were on, but one of the strategies that we actually heard was strategically putting women and minority board members on the governance or on the nominating board committee, to ensure that they were put into a position of power to increase the commitment to diversity and continue to recruit for more diverse board members. So, it is kind of the flip side.

Ms. GARCIA OF TEXAS. All right. Thank you.

And I yield back, Madam Chairwoman. I think I am out of time.

Chairwoman WATERS. Thank you.

The gentleman from Ohio, Mr. Davidson, is recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Madam Chairwoman. I thank you all for your devotion to this cause and your efforts to make the public more aware about it and to inform me and my colleagues. I want to ask something that hasn't come up yet. And I don't know for sure if any of you are prepared from looking through your comments to address it, but how diverse are our boards in America compared to corporate boards around the world?

Ms. MARTINEZ. May I address that, because—

Mr. DAVIDSON. Please.

Ms. MARTINEZ. —when I served as Ambassador to Argentina, there are 500 American companies doing business there, and there is an Argentine-American Chamber of Commerce, and I did a lot of work with that Chamber. And it was very interesting to me that the Argentine companies really valued the interaction they had with the American companies; and they especially were interested in the American companies' commitment to corporate social responsibility, to professional development of its employees, and they were starting to really look at board composition.

In Argentina, I don't know if it has a law with respect to corporate board service per se, but they do have a law with respect to their Congress, that X percentage of the Congress has to be women.

Mr. DAVIDSON. Thank you for that. And that is one comment you were quick on. And some people would talk about Europe, and they do have a mandate in the European Union for sex and really male and female, I believe. And here, I have I haven't heard the word "sex" used a single time. I have heard "gender."

So if I could just go down the line, maybe starting with Ms. Gurkin, do you differentiate between "sex" and "gender?" Just yes or no.

Ms. GURKIN. For the purposes of our work, we looked at male and female board members.

Mr. DAVIDSON. Mr. Visconti?

Mr. VISCONTI. Yes, the phrase "gender" is the one that is used commonly.

Mr. DAVIDSON. Okay. So, no differentiation. You just blur the two.

Mr. VISCONTI. I haven't used the word "sex" to describe a board member, so "gender" is the one that we use commonly.

Mr. DAVIDSON. Okay.

Mr. LUMBRA. "Gender" is also the word that we use.

Ms. MARTINEZ. "Gender" has been the commonly accepted term used, and I have used it.

Mr. DAVIDSON. All right.

Ms. CREARY. Same.

Mr. DAVIDSON. Okay. Some of the datasets are blurring sex and gender because we spent a lot of time talking about gender here lately and the concept of a social construct where biologically male and female are different. Does that kind of diversity matter?

Ms. MARTINEZ. Yes. Diversity is diversity, and it takes all shapes and forms. Curiously, some of the diversity that I provided on some of the boards on which I served was political diversity, that I was one of the few Democrats on the board.

Mr. DAVIDSON. We spent a lot of time on some of our things in the military talking about this. It came up as—clearly, there has been a difference in the current Administration and the past Administration on transgender and transsexual people, but you also have historically looked at sexual difference, male and female categorically versus gender. Only recently did we start to use gender to differentiate people other than male and female for some of these categories.

And that is my concern on the dataset. When you look at racial and ethnic diversity, our country really is different than most of the world. We have become the melting pot, truly the world's land of opportunity. Everyone around the world has people who are leaving their places and coming to our places. And to be fair, some Americans do leave here and go elsewhere. We have a large expat community, but truly this is the world's land of opportunity.

Our companies flourish, and I would say part of the reason we have flourished is we do actually have diversity in America. And so I am encouraged by the amount of progress that I have seen in diversity in my lifetime. I know, as a kid growing up, first, you don't know any difference about anything and then you see how people treat you differently. And then when you are with one group of friends, you will see how things happen differently with this group of friends, and when you are in a homogeneous group how things happen differently there. And sometimes that is with peers. Sometimes that is with people from an older generation. Sometimes, unfortunately, that is with people from law enforcement and other communities.

With respect to corporations, I think you have done a nice job highlighting some of it. I think we should do more to celebrate how strong the United States of America is, and, in fact, partially because of our diversity.

I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, is recognized for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman. I thank the ranking member, I thank the witnesses for appearing, and I would compliment the Chair for hosting this hearing and I acknowledge that the Chair is probably the hardest working—maybe I will just say one of the hardest working Chairs in Congress. She sits through these hearings, if you have noticed, and I think that sends a very strong message about the concern that she has. So, I compliment you, Madam Chairwoman.

Dear friends, I believe that a picture is worth a thousand words, and as a result I have a couple of pictures that I would like to show you. Ambassador Martinez, it is my belief that you have indicated that we should quiz the captains of industry about their circumstances with reference to having persons who are minorities, women.

Ms. MARTINEZ. As a diplomat, I would say invite them for a conversation. Yes, sir.

Mr. GREEN. All right. Let me just share this with you. We did that, and I would like to just share some of the conversation with you. But I did make a mistake when I had this opportunity. I mentioned women, and I mentioned persons who are of color, but I did not mention LGBTQ. I think we have to be inclusive in all ways. I don't think we can leave out any segment of society.

With this as my confession, I posed a question to the captains of industry, the heads of major lending institutions. The names need not be made available at this time, but I would like to show you this picture, because in this picture with these captains of industry, you will note that they are all seated and looking quite like the captains of industry they are. They all happen to be white men, all white men. I found that to be something worthy of noting at the hearing, and I did.

But I posed the question to these captains of industry, all of whom are white men. You ought not be afraid to state facts. There are some people who don't want to hear me say, "white men", but you have to state facts. These were all white men, captains of industry.

The question that I posed was one that dealt with their successes: "If you believe that your successor is likely to be a woman or a person of color, raise your hand." This is the response. Raise your hand. Not one hand. Captains of industry, brilliant people all, not one hand.

Well, understanding that maybe that was just a circumstance for the immediate future, I then posed the question to all of these white men—remember, we cannot avoid facts. I then said, in the next 10 years or decade, are you likely to have a woman or a person of color to succeed in your position? One, two, three, four hands, five hands. But notice, two of the captains of industry are indicating that in the next 10 years, they are not likely to have a woman or a person of color.

That is why I am so grateful that the chairwoman is having this hearing. We have to be concerned about not only the lending that takes place in these institutions, but the leadership that takes place in these institutions. There is no empirical evidence to support the fact that doesn't exist, a fact that women, members of the LGBTQ community, and people of color, no empirical evidence supporting a notion that they cannot lead these organizations. There is none. We are beyond that old premise that we can't find any who are qualified. There are cable, competent, and qualified persons, and we have to change the circumstance.

Thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Ohio, Mr. Gonzalez, is recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Madam Chairwoman, for holding this important hearing. And thank you to our witnesses for your participation.

One of the things I am most proud of and enjoying the most in my time in Congress is my time on the Diversity and Inclusion Subcommittee here inside of the Financial Services Committee. Chairwoman Beatty, who spoke earlier, is doing a phenomenal job, as is Ranking Member Wagner, and I just can't be more appreciative of that. And I know that Chairwoman Waters is largely responsible, so I thank her.

Another thing that I work on a lot is diversity/inclusion inside of STEM fields on the Science, Space, and Technology Committee, as I mentioned earlier. And I will tell you, of all the work that I am doing here in Congress, when I am back home, which is the Cleveland area for me, when I am back home in northeast Ohio, the work we are doing here is probably that which folks are most excited to talk about. KeyBank, in particular, which is in many branches in my district, is doing a great job. I think, Mr. Visconti, you may have cited them in your testimony, so I am really pleased that we are having this hearing.

Dr. Creary, I want to kind of turn to you for my question, my first question. You talk a lot in your testimony about the difference between hierarchical and egalitarian board structures, and it is not in a diversity—just a check-the-box form of diversity that drives business performance, but really it is how you conduct yourself in the board environment.

How are those studies going? And are you finding direct causal relationships between the egalitarian version of a board meeting versus the hierarchical?

Ms. CREARY. We are not yet to the place where we can establish causality, so the report that I shared that was recently published on March 27th, is as far as I have gotten.

Mr. GONZALEZ OF OHIO. Got it.

Ms. CREARY. We have conducted a larger survey, although it has been extremely hard, as you can imagine, to get board directors to participate. We do have about 100 board members who have participated in that. And so we are looking at analyzing the data, which will only establish correlational effects, which is, essentially, what we have to deal with at this time. I think it is not easy, in general, to do science and certainly on this population, I think they are busy, but also there is a lot of concerns around anonymity and confidentiality. So, while I would love to have these answers, and I am sure we all would, it goes a long way to say that even getting 20 people to participate is good information.

Mr. GONZALEZ OF OHIO. Right. You said we can't—right now, the best we can do is the correlation component as opposed to the causation. What is holding us back? How could we get to causation?

Ms. CREARY. It requires a critical mass of people participating—we need data. We need lots of data.

Mr. GONZALEZ OF OHIO. Got it. Well, I encourage you to keep pushing forward on that. It is a great initiative, certainly.

Dr. Martinez, I am a son of Cuban immigrants. My father immigrated here from Cuba in 1960. And when I am home and I am speaking to the Latino community specifically, in many instances, they feel left behind, like we are not getting the attention that we deserve back in the community.

Are you seeing that? Yes or no? And if you are, what can we do to make sure we are more inclusive of the Latino community as well?

Ms. MARTINEZ. Get involved. Just stay involved, as you are, and encourage others to do the same. There is no substitute for involvement at whatever level interests you, you are especially interested in the STEM issues and diversity and inclusion, but education is going to be such a key, and there are more and more Latino advocacy groups near you in Cleveland and to get involved with all of them.

Mr. GONZALEZ OF OHIO. Thank you. And for my final minute, I want to turn to Mr. Visconti. You had one part of your testimony that was interesting, to say the least. You said the NFL is a de facto plantation. I have some experience. I played in the NFL for 5 seasons. I think that is patently false, first of all. But let me ask you a question, have you ever watched the NFL draft? Have you ever watched it?

Mr. VISCONTI. No.

Mr. GONZALEZ OF OHIO. Never?

Mr. VISCONTI. No.

Mr. GONZALEZ OF OHIO. Okay. Just to kind of catch you up, the way it typically works is, you are sitting there for hours, and if you are lucky, your name gets called. And typically, what happens is you see a scene where family is all around the individual—this is my own story—family is all around the individual, and it is a joyous celebration.

Normally, the individuals cry or they are giving hugs to whomever it is because it is a joyous occasion. It is literally the fulfillment of a lifetime of work and dedication. The average salary in the NFL is over a million dollars—$1 million average salary. This gives people an opportunity to take care of their family and a community in a way that they have never imagined. And I think words are really important and how we label things is really important, and to call the NFL a "plantation", which evokes the worst original sin of our past as a nation, I think is false, and I hope you will correct the record.

Mr. VISCONTI. May I respond?

Mr. GONZALEZ OF OHIO. I yield back.

Chairwoman WATERS. The gentlewoman from Michigan, Ms. Tlaib, is recognized for 5 minutes.

Ms. TLAIB. I would like to allow you to respond.

Mr. VISCONTI. How do you describe a system where almost 100 percent, except for one person, of owners are white, and 70 percent of the players who earn those people their money are black? It is called a "plantation", and that is what it is.

Mr. GONZALEZ OF OHIO. Can I get 30 seconds?

Ms. TLAIB. No. I reclaim my time.

Mr. GONZALEZ OF OHIO. Thank you.

Ms. TLAIB. Thank you so much for—I love it, because I have a chairwoman who believes in allowing, especially women of color, to have access and a voice in this committee.

I do want to tell you a story. When I first decided to run, it was like in February of last year, and there was a woman who comes up to me, and she is Palestinian like me, she also shares my faith, Muslim faith, and she kind of just, like, hugged me and looks at me and she said, you have to win. And, of course, the pressure. And I said, well, we have already won. The fact that I am running as is as a proudly Palestinian Muslim, as a woman, and all of these, important identifiers to me. And I paused and I look at her, and she says, "No, you don't understand, you have to win, because if you win, that means we belong."

And it was a powerful moment because I thought to myself, as I was running, it was for me fighting against corporate greed, the fact that I represent the third poorest congressional district and I wanted to fight back, but to me, I understood there was so much more to me being in this space. And it is very telling of why this committee hearing is so important.

And one of the things that I remember in the nonprofit sector is foundations would ask us the makeup of our board when we applied for grants to combat poverty. They wanted to make sure that the nonprofit boards and the folks who are serving those communities reflected the community. And I am wondering, in the corporate world, like, if I go to Walmart's website, if I go to these corporation websites, am I going to get that chart that many of these foundations ask these nonprofit agencies to do, the chart that said this is how many women, this is how many African Americans, Latino, all those, I think, important factors.

Do you see a move and some corporate responsibility in sharing that on their websites and very publicly? And I would like each of you to have time to answer that.

Ms. GURKIN. We actually didn't look to see if the information was available on their websites, but we did look, and we talked to a number of industry officials about sharing that information with their investors. And a number of industry officials said that the most powerful force of change is the demand of investors as shareholders to see increased levels of diversity on their board.

Mr. VISCONTI. It should be there, but it is not. More and more, you are seeing boards being pictured and executive leadership being pictured, and I think that is a very positive step in the right direction. You could look on the company's own website and see who they position as leadership. That's very important.

Mr. LUMBRA. In my experience, it is uneven. For some companies, it is quite easy to find out and you can see; for others, you have to do some research, so it is not consistent.

Ms. AKUTAGAWA. Yes. As someone who looks at a lot of this, it is inconsistent. But I also want to say as someone who is also looking a lot at nonprofits and foundations, they are not showing their data either, and that is why—especially the bigger ones. The power dynamic there is a lot different, so—

Ms. MARTINEZ. I have the same experience as Ms. Akutagawa.

Ms. CREARY. I just want to remark on the question earlier, were we inferring gender and sex and using those interchangeably? We have a long history of doing research in academia that is inferring gender and sex and making conclusions about its effect on anything, including board performance, based on the pictures that we have seen. It would be interesting to know that if we actually started asking people about their gender identity, how would any of these effects pair out.

Ms. TLAIB. No, it is important. And lastly, one of the things, and again, in the nonprofit sector, we did these diversity trainings. What is diversity training to you all? Because some of the trainings I have gone through, to me, they were not diversity. Can you shed some light into that? And I just want to get it on the record for this committee. I think there needs to be a discussion about what is defined as—people easily put "diversity" in front of something and say that is the training, diversity training, diverse board, and it is not reflective.

Mr. VISCONTI. When Starbucks got into trouble, they decided they could fix their whole issue in 6 months. It is going to take them 4 years to get rid of plastic straws. It is garbage, most diversity training.

Ms. TLAIB. Thank you so much. And I yield back the rest of my time, Madam Chairwoman.

Chairwoman WATERS. Thank you.

The gentleman from Kentucky, Mr. Barr, is recognized for 5 minutes.

Mr. BARR. Thank you, Madam Chairwoman.

And I would like to yield to the gentleman from Ohio, my friend, Mr. Gonzalez.

Mr. GONZALEZ OF OHIO. Thank you.

So, Mr. Visconti, you mentioned the Rooney Rule as a failure, and I want to just kind of go through some stats. From 1921 to 2003, there were 7 minority coaches—1921 to 2003. From 2003 to the present, 18. I think broadly, the NFL is like most of society, in my opinion. It is imperfect. There is a lot of work to do. There is a lot of progress still to be made, but to deny the opportunity that is created for the families and the athletes and call it a "plantation"—again, I think words matter.

I think we can talk about this and talk about the progress that we need to make and that will be a healthy productive dialogue, which I think has been the case for 99 percent of our time here in this hearing today, but I think we need to be very careful with how we are labeling things. And that is all I want to say.

But with that, I will yield back to my friend, Mr. Barr.

Mr. BARR. Thank you. And I appreciate your perspective, your personal perspective with the NFL. Not many of us have had the privilege or the talent to have played in the NFL, and I trust people with personal experience, and I appreciate your perspective.

The good news is that the number of Fortune 500 companies with boards that consist of more than 40 percent women and minorities has doubled since 2012, and I think we can all celebrate that increased progress in diversity.

Dr. Creary, can you speak to the recent trends regarding the diversity of boards, and what factors have contributed to that improvement over the last few years?

Ms. CREARY. That is a great question. Certainly, I think many would characterize the first wave of focusing on the business case for diversity, and we were there for a very long time just trying to establish some semblance of a relationship between the composition of a board and outcomes for the firm.

We have moved recently, in the past 5, 10 years, into a wave of, I would say, peer pressure, where institutional investors and asset managers are beginning to understand, not only that this is important, but they actually have to engage in peer-to-peer tactics to help boards understand that this is an important issue.

I would say that is where we are now, pressurizing boards to begin to take the responsibility for allowing the—all of the investment that we have done in research and in practice to actually be realized.

Mr. BARR. Dr. Creary, were any of the factors since 2012 in terms of enhanced diversity government-imposed diversity mandates?

Ms. CREARY. This would be where the corporate arena is actually leading in implementing practices without regulation. Certainly, when you think about the evolution of the diversity and inclusion conversation in corporate America, there are only mandates right now in the U.S. as to engage in strategies that say that they are looking. And so much of the work that has been done has been done because firms have taken the responsibility, certainly with pressure from outsiders, to engage in this work.

Mr. BARR. There obviously is evidence that board diversity can enhance company competitiveness and profitability, and that the market itself is rewarding diverse firms.

My final question to you, Dr. Creary, is, I was very impressed with your testimony about the importance of culture and the fact that you might have tokenism, which is not real, meaningful diversity; it is more about boards actually utilizing the diversity, utilizing those diverse views as opposed to what I would say is superficial diversity.

I am concerned, and I would like your feedback, that government-imposed diversity quotas, as opposed to these market-based incentives, would actually contribute more to tokenism, would contribute more to a superficial diversity, as opposed to that culture that you describe in which people are valued, not based on the color of their skin or their gender or their sexual orientation or immutable characteristics or their age, but actually the content of their character, actually things that matter, like their talent, like in the NFL, where it is really not about your race, it is about your talent. Can you win the Super Bowl? Can you catch the pass? Can you score a touchdown? I could not do that. My friend could.

So, to me, a government-imposed quota on racial diversity within the NFL is really not ultimately what matters. What matters is raising a trophy over your head. What matters is profitability.

And so, what I would worry about is not having the right culture but imposing artificial diversity.

I yield back.

Chairwoman WATERS. The gentleman from Georgia, Mr. Scott, is recognized for 5 minutes.

Mr. SCOTT. Thank you very much, Madam Chairwoman.

First of all, this is a very powerful and much-needed hearing. Second, we have some very informed witnesses. And third, Madam Chairwoman, you are providing great leadership in a very important area.

Now, there are, right now, only 3 black CEOs running Fortune 500 companies, and that is down from 8 just 3 years ago. The number of women serving as CEOs went down 25 percent from 2017 to 2018. I discussed this issue at a hearing a couple of weeks ago on diversity with the need to get financial literacy, and I think it is very important that we continue to raise this point. Those are the facts. That is the picture out there right now.

Some can run, but they surely cannot hide from just 3 African-American CEOs, down from 8 just 3 years ago, and the decline in women over the last year by 25 percent.

Now, Mr. Lumbra, given that there are so few women and African Americans represented at the CEO level, how can board diversity increase more than marginally if boards do not expand their search pools beyond the CEO ranks? In other words, if you are truly apt to doing this, there are so many areas to reach into.

I did a lot of recruiting in my day. I worked for a while for a firm called Recruiting Management Consultants. We went out and we would help major corporations—because it was one thing to tell the corporations to do this, and if you don't develop a mechanism to help them find where these qualified African-American women are, they quickly will come back and tell you, “We tried but we just couldn’t find them.” They didn’t have any plan to do that.

And so I wanted to hear from you, Mr. Lumbra, am I right about that? There were opportunities in other areas. We would go and take advantage of the fine training and executive talent, decision-making, and understanding how to handle pressure by looking at former military officers—a lot of that is still done—who had command over huge numbers of people, risky at the time, having the capacity of sending huge numbers into war. There are a lot of places you can go to find that.

Am I right about that, Mr. Lumbra? I think you mentioned that in your deal.

Mr. LUMBRA. In my experience, you are right. The fact of the matter is, and you said it beautifully, if you focus on sitting Fortune 500 CEOs, by definition, you do not have a diverse pool to look at. The talent that is senior sophisticated coming out of the military, out of academia, people who have been in service firms, who have run big businesses for big corporations, it is much, much more ample.

In our experience, clients who have the courage to go and look and the discipline to look in those pools, much, much more easily and readily find diversity for their boards.

The other point you make is an important one, which is, who makes decisions about CEOs? Boards. So, if we are concerned about diverse CEOs, we should be concerned about diverse boards who are choosing the next CEO and thinking about succession planning. That is another benefit and a plus for having a diverse board to look further down the chain at a succession plan in a company.

Mr. SCOTT. Absolutely. We must expand our territory if we are going to expand the number of African Americans and women as CEOs on our boards. Thank you very much.

Chairwoman WATERS. Thank you.

The gentleman from Wisconsin, Mr. Steil, is recognized for 5 minutes.

Mr. STEIL. Thank you.

I thank you, Madam Chairwoman, for bringing today’s hearing together. I served on—at two large companies, one a publicly traded company, and spent time advising in the boardroom, and I understand the importance of diversity in the boardroom and the value that that can add to our corporations.

Dr. Creary, in an article entitled, “When and Why Diversity Improves Your Board’s Performance”, you wrote about how boards should expand their view of diversity and how they can make the most of diversity’s benefits.

Can you comment on how companies can successfully build more meaningfully diverse boards while avoiding, I think your phrase is, “tokenism?”

Ms. CREARY. Yes. I think it is certainly about, first of all, having criteria for what an effective board member does and who they should be, and then hiring people or recruiting people onto the board according to those criteria. That would require the board actually understanding and interrogating itself to know what makes for an effective board member based on what makes for an effective board.

And I know this sounds pretty rudimentary, but that, in fact, is the issue that we heard coming up with time and time again is people are being picked or recruited for board positions based on arbitrary criteria and like having been a CEO or CFO, but when pressed, there isn't a lot of understanding as to why that is the most effective board member. I think it is about establishing criteria, holding to those criteria, assessing for skills and expertise is really would move us in a good direction.

Mr. STEIL. I appreciate that. And I would like you to contrast that approach with what we have seen from several European countries that have enacted requiring public company boards to have a certain percentage of female or of other diverse groups. You have written about the importance of fostering a board culture that encourages more diversity and collegiality.

Can you comment on how these politics impacted board cultures in the countries in which those types of policies have been enacted?

Ms. CREARY. Unfortunately, I can't comment on that particular issue. What I can say is that outside of the U.S., there are actually more and more boards. I think where our country, I think we are up to 17 now that are actually following the European way of mandating required representation on boards. We really haven't done the research to understand how that is working, other than it is actually getting them diversity. In the end, if we think about what is happening, we are increasing diversity, but we don't know what the diversity is actually doing, is sort of where we are stuck.

Mr. STEIL. Thank you. Maybe I will go back then and note that in your previous article that I referenced, you wrote that to make more diverse boards more effective, you need to have a more egalitarian culture. What are some of the key strategies that companies employ to benefit the most from diversity and foster an egalitarian culture?

Ms. CREARY. It goes back to this CEO who is hired by the board themselves. Having a CEO who understands that the most effective way to run the board—I say CEO, but I also mean chairperson or lead director, the person who is actually leading the meeting—having them understand that the process of eliciting perspectives from different people in the room is really one of the most important strategies that can be put in place to change the culture of what is happening in the boardroom.

Mr. STEIL. Thank you very much.

I thank you, Madam Chairwoman, for holding today's hearing on this important topic. And I yield back the balance of my time.

Chairwoman WATERS. Thank you very much.

The gentlewoman from Pennsylvania, Ms. Dean, is recognized for 5 minutes.

Ms. DEAN. Thank you, Madam Chairwoman. And thank you to all of you who are here today. I apologize for being between two committees here, fortunately on the same floor, but don't mistake my in and out for an indifference towards this issue. I am pleased to be on the Subcommittee for Diversity and Inclusion.

I held a roundtable at my office in my district—I am from suburban Philadelphia, so hello, Dr. Creary, from UPenn—and it was really fascinating. It was people from government, it was people from law, it was people from education, from industry, just all over—nonprofits, all over the board. And it was fascinating to hear the conversation because we prize diversity, we know it is the right thing. We know it is good for businesses and organizations.

Here are quick takeaways that I had, and I would love any one of you to comment on some of them. Education was number one, from pre-K on. We have to have quality education and expose young people to multiple careers from an early age. High school is a great time, but man, oh, man, we ought to actually be showing them in the early years and in the middle schools career exposure. Relationships and mentorships, apprenticeships, those kinds of things are so invaluable.

In my district in Montgomery County, we have pockets of real need and pockets of—for example, our county seat, Norristown, has a very big school system, but they don't have enough resources to see some of these opportunities.

In the hiring piece, one of the things that one of the educators said, a superintendent said to make sure that the people who are sitting there doing the hiring are diverse, because otherwise they kind of just relate to people who look like them or have their similar backgrounds. That's very obvious, but really important.

In seeking resumes, don't just seek from the ordinary pools. Pull from institutions or other partnerships that you have grown. Look for nontraditional backgrounds, and don't call experience the first thing. I heard one of you talk about the idea that people keep rising to the top because they have previous experience. Make sure that we are giving people the opportunity for experience.

One of the most important things—and maybe I will end with this, and there were so many others. One of the most important things was a woman who is lead public defender in Montgomery County, now in Philadelphia County, an African-American woman said, "When I became the head of the department, there was no leadership training. So, there I was. I had reached that level, but how do we retain leaders? We need leadership training."

I say all of that to say, when organizations figure out that they have a gap in diversity, what are some of the most important key takeaways as they set their goals that we should know about, and maybe it has to do with, if you could focus a little bit on the notion of leadership training. Maybe I will start with Mr. Lumbra, and then I will go to Mr. Visconti.

Mr. LUMBRA. The developmental pieces—I loved your analogy with the person in Montgomery County, in the role, who had no training. One of the challenges that we are seeing in leadership development is executives are being trained to be leaders, not being trained to be directors. Giving them exposure to governance before they are ready to go on a board helps create a board-ready pipeline for diverse talent. And that is one of the things we are talking about today is, how do you build that pool, a pool of people who are to become board-ready?

So, effectiveness in terms of training and developing executives to be ready to go on boards is really important and something we are part of.

Ms. DEAN. And is it something that you do in a sustained way that once somebody gets to that kind of a position, that you stay with them, or you have places where they can go for different kinds of training?

Mr. LUMBRA. There are a multitude of ways. Some educational institutions, like Wharton and Stanford and Harvard and others. Other firms, like ours, who are involved in that. Boards—some boards have great onboarding and development programs themselves to help their own executives and their own boards and new directors to become effective.

Ms. DEAN. Okay. Mr. Visconti?

Mr. VISCONTI. To leverage what he said, it is accountability for failure of process that matters in making progress. And to give an example, PricewaterhouseCoopers was the first big four accounting firm to have a non-HR person in charge of diversity. When that person, a senior partner, in the firm rolled off of that job, he became responsible for the committee that took people who are accountants and made them partners. And when he would come to—they would have a board meeting and the peoples' files would be on the screen. When he would come to a person—and he said it was most likely a non-white person or a woman—who didn't have the right experiences to be promoted to partner, he would stop the meeting, call up that person's boss, and say, why didn't Kathleen have the right experience? Her file is in front of this committee and she is not ready. You are her boss, why didn't it happen? That changes the conversation when there is accountability from the top.

Ms. DEAN. That is great.

And, Dr. Creary, in your research, we talk about diversity and sometimes—oh, my goodness, I'm so sorry, my time has expired. Thank you.

Chairwoman WATERS. Thank you.

The gentlewoman from New York, Ms. Ocasio-Cortez, is recognized for 5 minutes.

Ms. OCASIO-CORTEZ. Thank you, Madam Chairwoman.

Before I enter my mainline of questioning, there are just a few things I would like to clarify from some statements made across the aisle. One, there were some odd and bizarre comments made about sex and gender, and I just want to clarify. Would our transgender candidates for corporate boards welcome and celebrate being included as part of diversity on your board? I will just go down the line, yes or no?

Ms. GURKIN. Yes. That would be within the definition of diversity.

Ms. OCASIO-CORTEZ. Mr. Visconti?

Mr. VISCONTI. Yes, it would.

Ms. OCASIO-CORTEZ. Thank you.

Mr. LUMBRA. Yes.

Ms. AKUTAGAWA. Yes.

Ms. MARTINEZ. Yes.

Ms. CREARY. We didn't ask.

Ms. OCASIO-CORTEZ. Okay. Thank you. I just want to make sure that that was clarified.

Second, there was some conversation here about the NFL, and one of my colleagues across the aisle said the NFL is like most of society. And I would actually agree with him because the NFL is where white billionaires govern the majority of power, and women and people of color work for them and give them their margins.

Mr. Visconti, would you say that that is what you were getting at?

Mr. VISCONTI. It goes even further, because the players get to have their brains beaten in and have long-term healthcare problems that are not covered by the billionaires.

Ms. OCASIO-CORTEZ. Right. And also, when we say the NFL is like most of society, we were talking about average wages and average salaries. So, the average is a million dollars, right? Maybe that is because the highest-paid player, Aaron Donald, has signed a 6-year contract for $135 million, and the lowest paid—one of the lowest paid first-year rookies is $480,000. So, we get to claim those salaries and it appears as though salaries are much higher than what is lived and enjoyed by the majority of people. Would you say that is correct?

Mr. VISCONTI. It is a short lifespan as a career, too.

Ms. OCASIO-CORTEZ. Okay. Thank you. And I will move on to my main source of questions.

We are here talking about corporate boards. And to clarify and recenter, corporate boards, would you say, Ms. Martinez, are the main source of governing power over a given corporation, correct?

Ms. MARTINEZ. Yes, I would say that. They are legally the main power, yes.

Ms. OCASIO-CORTEZ. And who sits on a corporate board? Corporate boards have power, predominant power over a company, and we are talking about massive companies as well—Walmart, McDonald's, et cetera. And so would it be fair to say that who sits on the board is who has large-scale power in a company, in a corporation?

Ms. MARTINEZ. Yes, I would say that is true. And in the past—and I have been privileged to have served on a corporate board starting in 1983, so I have seen some evolution there. And when I first went on a corporate board, it was basically the friends of the CEO, people who knew each other. Over time, the concept of board assessment came into play, and that plays a very important role because it speaks to Dr. Creary's point about, what does this board really need? So, there are changes that have taken place and continue to take place.

Ms. OCASIO-CORTEZ. Thank you. And I find it fascinating that even in your experience, corporate boards were more of a friends and family situation. So if you were a CEO, you could put your friends and family in strong decision-making positions, correct?

Ms. MARTINEZ. Absolutely.

Ms. OCASIO-CORTEZ. Okay. Thank you. So really, this is about power. And if a board is predominantly wealthy people, then it is wealthy people who have power in our private sector governance structure. If it is predominantly men, then it is men who have economic power. If it is predominantly white people, then it is white people who have economic power and decision-making over a company.

And, in fact, in the first 6 weeks of 2019 alone, the Walton family of Walmart made $14 billion in 6 weeks, with a "B", after its corporate board artificially inflated the price of its stock by authorizing buybacks. And the practice is extraordinarily controversial, but a lot of people believe that in making $14 billion, especially while paying its workers poverty wages, this could end if workers actually had power, if workers sat on corporate boards.

Mr. Visconti, if you could guess, what would McDonald's or Walmart's corporate board look like if their boards actually reflected their workers? What percentage do you think would be women and people of color?

Mr. VISCONTI. It would be the appropriate percentage.

Ms. OCASIO-CORTEZ. And if you could just take a stab at it. I know you may not have the number right in front of you, but if you could guess what percentage of women and people of color would make up McDonald's board?

Mr. VISCONTI. The majority of the seats would be women and/or people of color.

Ms. OCASIO-CORTEZ. I have a figure here, 73 percent.

Mr. VISCONTI. That doesn't surprise me.

Ms. OCASIO-CORTEZ. McDonald's board would be 73 percent women and people of color if it actually represented the workforce that makes up its company.

Thank you very much.

Chairwoman WATERS. The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. I have been listening back in my office, and much of what needs to be said here has already been said. If we have boards that are diverse, that will inspire young people to seek the highest positions in the corporate world. It will lead to better corporate governance because we will have boards that can understand the market that they are focused on, understand their workers, understand society. And I think that information about board diversity is going to be relevant to investors because a company that has diversity on its board is probably a better long-term bet.

But we should also keep in mind that while officers of a corporation have power, directors have power, the ultimate power is with the shareholders. And if a corporation doesn't meet shareholder needs, either the board will be replaced or, more likely, the company will be acquired, because if shareholders don't bid high for the stock compared to the value of the company, some other company will be able to buy them inexpensively. Ultimately, the power is with the shareholders.

There are two other elements of diversity that I don't think have been discussed much here; although, I think our colleague from New York brought up the importance of having labor leaders and representatives of workers on the board.

Did any of the witnesses address the desirability of having a leader from one of the unions that represents workers from a particular corporation being on the board? I know that is required in some European countries.

If those witnesses want to address that with supplemental material, they should do that.

And then, the second issue on diversity is people with disabilities. I wonder whether any of the witnesses has, in the materials they have submitted or otherwise as a comment, discussed including people with disabilities on the board?

Yes, the gentleman—the gentleman who raised his hand?

Mr. VISCONTI. I am Vice Chair of the National Organization on Disability. The Chair is Governor Tom Ridge, so there can be Democrats and Republicans agreeing and having conversations on this subject. But absolutely, people with disabilities are the highest percentage of unemployed people in this country with college degrees. It is a travesty that they stay at home and are not productive in our society and don't have the fulfillment of the individual desire to go to work and accomplish something.

So, yes, it would be absolutely a very positive move to count heads of people with disabilities on boards.

Mr. SHERMAN. And it would make sense, as we take these steps with regard to gender diversity and ethnic and racial diversity, to also report on persons with disabilities?

Mr. VISCONTI. Yes, sir.

Mr. SHERMAN. Does anyone else on the panel have a comment on that?

Yes, Dr. Creary?

Ms. CREARY. Yes. I want to comment on both of the questions because I think it is an important one about having workers represented. This is not the same as a union representation, but I will tell you that we are having a challenge just getting the chief human resources officer represented on a board, and those, arguably, are the people in organizations who know a lot about talent. And so I would say the reason why it is not coming up is because the pushback against having anyone other than a CEO or a CFO represented is very strong, so it makes it very hard to even talk about unions being represented, but also human resources being represented.

To the point about people with disabilities, I think for us it is the same question of LGBTQ. What we know is, we are not in a place yet, particularly in America, where we can ask these questions without fear of repercussions for the individuals who are asking to check boxes.

As researchers, one of the things that we are cognizant of is that these are not protected classes in the same way that women and minorities are, so we can do research a lot more confidently on women and underrepresented minorities because we have some semblance of how to handle issues of discrimination in that process.

We do not have the same provisions or the same protections for people who are LGBTQ, so it makes it really hard to want to invite those questions for the sake of the people on the other side who are being asked to answer that question.

Mr. SHERMAN. If I can have 10 more seconds?

Apparently not. Thank you.

I yield back.

Chairwoman WATERS. Thank you.

The gentlewoman from North Carolina, Ms. Adams, is recognized for 5 minutes.

Ms. ADAMS. Thank you, Chairwoman Waters and Ranking Member McHenry, for convening this timely hearing. I have been running back and forth chairing a committee, so I apologize.

I do want to thank Chairwoman Beatty and Ranking Member Wagner for their leadership on the Diversity and Inclusion Subcommittee.

As many of your testimonies have outlined, making an investment in diversity and inclusion is not only the right thing or the moral thing to do; it makes good business sense. Companies and organizations function more effectively, and experience increased productivity, and greater profitability.

When I first came to Congress, I was concerned about the lack of focus on Historically Black Colleges and Universities, so I launched the bipartisan HBCU Caucus. We have been focused on raising national awareness, educating Members of Congress, and increasing Federal investments in these schools. When I meet with companies and financial institutions, I always tell them, if HBCUs are not a part of the industry's diversity and inclusion strategies, then you are not doing it right. So, I look forward to this particular panel.

For each of you, with such overwhelming evidence around the financial benefits of investments and racial and gender equity, why has it still not been achieved across-the-board, and why are companies still struggling with or, in some cases, resisting diversifying and building inclusive workplaces and boards?

I am going to open that up to any of you who want to answer.

Yes, Mr. Visconti?

Mr. VISCONTI. I would say there is, in some cases, a benign neglect of the reality of our demographics and who is graduating from universities and, in some cases, it is over racism and sexism.

Ms. ADAMS. Okay. Would anyone else like to comment?

Yes, sir?

Mr. LUMBRA. We have talked about a few things today: one is the need to look outside of traditional networks; and one is the need to have turnover and think carefully about what is needed on boards and use that turnover to bring on diverse, contemporary talent.

Ms. ADAMS. Okay. Thank you.

Let me ask Mr. Visconti and Mr. Lumbra, in your observations of companies and organizations that are doing D&I effectively, what are they doing to ensure their boards are diverse?

Mr. LUMBRA. A couple of examples jump to mind. Intentionality is really important, to take a close look at the board, to look at what the company needs, what are the challenges, what is the strategy, and to find directors who can address those issues. If you do it with purpose, you will find terrific, diverse talent. I worked for a company in Washington recently, where the last four directors were all women, and two were minorities. I worked for a company in the Midwest, the last three, two African Americans, one woman, all fitting exactly what those companies need. So, this is achievable, but it takes intention and purpose to get there.

Ms. ADAMS. Mr. Visconti?

Mr. VISCONTI. I would tell you that the CEOs we deal with—and we don't deal with boards, we deal with CEOs—are supported by boards that provide a support to the CEO, that emphasizes diversity and inclusion in a measurable, accomplishable way.

The boards that are already supporting their CEOs and making progress on this subject tend to be very diverse boards, and that is borne out in the data that is on our website about the top 10, the top 50, the S&P 500, Fortune 500. It is a purposeful intent of top leadership.

Ms. ADAMS. Great. More specifically, what are the best practices that every organization could implement right now to begin meaningfully building an inclusive workforce?

Yes. Go ahead, Mr. Visconti?

Mr. VISCONTI. Structured mentoring that is measured and accountable so that people who are working their way up the corporate chain of command have the tools and learn the ropes that they need to be successful. Resource groups where people with disabilities, black people, Latinos can get together and share good ideas and business processes and business information. That is very important. And then executive diversity—

Ms. ADAMS. Okay. Ms. Martinez?

Ms. MARTINEZ. Yes. And the Latino Corporate Directors Association endorses the Improving Corporate Governance and Diversity Act, which would require public companies to disclose data based on self-identification of the racial, ethnic, and gender composition of their boards of directors, nominees for their boards, and corporate officers.

Ms. ADAMS. Okay. Great. I have a few more seconds, but what role do boards play in helping to develop the strategy for the organizations?

Mr. VISCONTI. Accountability.

Ms. ADAMS. Anybody else? One word would be good.

Ms. AKUTAGAWA. Yes. I was going to say I think it is really them holding the CEO's feet to the fire on that.

Ms. ADAMS. Okay. Anybody else?

All right. Madam Chairwoman, I yield back. Thank you very much.

Chairwoman WATERS. Thank you very much.

So, I would like to thank all of our distinguished witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

And with that, this hearing is adjourned.

[Whereupon, at 12:53 p.m., the hearing was adjourned.]

A P P E N D I X

June 20, 2019

Testimony of:
Linda Akutagawa
President & CEO, LEAP (Leadership Education for Asian Pacifics)
Chair, Alliance for Board Diversity

"Diversity in the Boardroom: Examining Proposals to Increase the Diversity of America's Boards"

Committee on Financial Services
United States House of Representatives

June 20, 2019 Washington, DC

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee,

Thank you for the opportunity to appear before the Committee today to testify on behalf of Diversity in the Boardroom. My name is Linda Akutagawa, and it is my honor to be here in my dual roles as the Chair of the Alliance for Board Diversity, also known as the ABD, a collaboration of four leadership organizations working together to increase the representation of women and minorities on corporate boards; and as President & CEO of LEAP (Leadership Education for Asian Pacifics).

My organization, LEAP, is committed to growing, developing and uncapping Asian and Pacific Islander talent. Along with Catalyst, a global nonprofit working to build workplaces that work for women; the Executive Leadership Council (ELC), the preeminent member organization for the development of global black leaders; and the Hispanic Association on Corporate Responsibility (HACR), one of the most influential advocacy organizations in the nation representing 12 national Hispanic organizations in the United States and Puerto Rico, we are working in partnership as collaborative members of the ABD. We're also joined by Diversified Search, which serves as an advisor.

Individually, each of our organizations provides programming and services, uniquely tailored for the needs of our constituencies, to address a common goal: increasing the representation and inclusion of African Americans, Asian Americans, Hispanic/Latinos and women at the highest levels of leadership in our nation's businesses, institutions and agencies.

Fifteen years ago, our organizations formed the Alliance for Board Diversity as a means to combine our collective strengths to advocate for greater gender and racial board diversity, building the demand within corporations for women and minorities to strengthen their boards and showcasing the supply of talented women and minorities to fill strategic needs on corporate boards.

We are best known for our ***Missing Pieces Report: The Board Diversity Census of Women and Minorities on Fortune 500 Boards***, which we have been producing since 2004 The report is a multiyear effort by the Alliance for Board Diversity and beginning in 2016, the ABD collaborated with Deloitte for the 2016 and 2018 Board Diversity Censuses.

There is a saying: "What gets measured, gets done." The ***Missing Pieces Report*** shines the spotlight on the fact-based reality of board census numbers, and in the process, spurs greater awareness and action for increased inclusion of diverse directors on corporate boards.

Highlighted by our 2018 report, I'm going to say that I'm cautiously optimistic of the progress for women and minorities on corporate boards. However, before we cheer, I also want to state that advancement continues to be slow, and corporate boards are still not representative of the broad demographic transformations that we have seen in the U.S. in recent years.

1. Between 2016 and 2018, we saw the total number of available corporate board seats grow larger by 230 seats. To give a brief analogy, the pie is slightly larger, and that enabled women and minorities to go from sharing a sliver of the pie to sharing a slice.

2. The growth in diversity on boards is being led by *Fortune* 100 companies which has reached a high of 38.6 percent women and minorities, but again, underrepresentation still remains a key issue.
    a. African American/Blacks grew fastest in the *Fortune* 100 and Asian/Pacific Islanders grew fastest in the *Fortune* 500.
        i. But here's my caveat for context:
            1. On the *Fortune* 100, African American/Black women grew by 44.8 percent or an increase of 13 seats.
            2. For Asian/Pacific Islander women on *Fortune* 500 boards, they grew by 38.6 percent for a gain of 17 seats and their growth on *Fortune* 100 boards was 30.8 percent due to the addition of 4 seats. For Asian/Pacific Islanders, the starting number was small to begin with so any growth will appear to be significant.
    b. Hispanic/Latinos grew in the *Fortune* 500 but lost seats in the *Fortune* 100. Despite being one of the fastest growing populations, Hispanic/Latina women experienced the smallest number of board appointments from 2016-2018.
    c. Caucasian/White women grew most in the *Fortune* 500.

d. Another noteworthy indicator is the "recycle rate" or the rate at which individuals are serving on more than one board. The higher the number, the more boards a person sits on.
   i. *Fortune* 100 boards were better at seeking out "unique" directors versus "recycling" the same director. Out of the seventeen new seats added to *Fortune* 100 boards, fifteen seats were filled by separate board directors.
   ii. Generally, the recycle rates have fallen for minority men and women.
   iii. However, African American/Black men have the highest rate amongst *Fortune* 500 boards, whereas, Hispanic/Latina women have the highest recycle rates on *Fortune* 100 boards. Interestingly, Asian/Pacific Islanders have the lowest recycle rates on both the *Fortune* 500 and *Fortune* 100 but remember, Asian/Pacific Islanders are still less than four percent of Board seats.

3. Overall diversity on individual *Fortune* 500 company boards is improving significantly.
   a. In 2018, 145 *Fortune* 500 companies had greater than 40 percent diversity, nearly triple from 2010.
   b. Nearly half (46) of *Fortune* 100 companies had greater than 40 percent diversity on their board in 2018.
   c. Relatedly, there were 35 *Fortune* 500 companies in 2018 that had at least one director from each of the four major racial/ethnic groups and at least one woman director.
4. Lastly, I believe measuring representation is not enough. Diversity and inclusion in leadership roles on corporate boards are also critical.
   a. On a positive note, the nominating/governance committee chair is the board leadership role in which women and minorities have seen the most traction at 40.2 percent.

There is reason for optimism. Diversity does work and it matters. BUT, supporters, policymakers and advocates like us need to stay aware to ensure that we, and the boards, don't get complacent. With each census, we get a better lay of the land. We know the gaps and where to keep strengthening. Our great nation needs the best that all of our diverse communities can bring to the corporate boardrooms. Together, and individually, as the Alliance for Board Diversity, LEAP, Catalyst, ELC, and HACR are committed to working in partnership to increase the representation and inclusion of African Americans, Asian and Pacific Islanders, Hispanic/Latinos and women on corporate boards.

Thank you for inviting me today. I look forward to answering any of your questions.

Written Testimony to the
United States House of Representatives Committee on Financial Services

Hearing Title:
Diversity in the Boardroom: Examining Proposals to Increase the Diversity of America's Boards

Hearing Date/Time:
Thursday, June 20, 2019, 10:00 a.m.

Witness/Submitter:
Stephanie J. Creary, PhD
Assistant Professor of Management
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ARTICLE
BOARDS

When and Why Diversity Improves Your Board's Performance

by Stephanie J. Creary, Mary-Hunter ("Mae") McDonnell, Sakshi Ghai and Jared Scruggs

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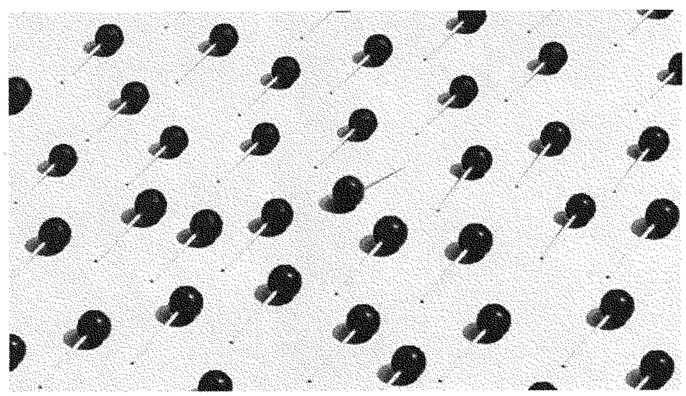

DANIEL GRIZELJ/GETTY IMAGES

On January 1, California law said that all locally headquartered publicly traded companies must have at least one female director by 2020. While new to the U.S., mandates to increase gender diversity on corporate boards are common elsewhere. For example, Norway, Spain, France, and Iceland all have laws requiring that women comprise at least 40% of boards at publicly listed companies.

Evidence that board diversity benefits firms, however, has been mixed. A 2015 meta-analysis of 140 research studies of the relationship between female board representation and performance found a positive relationship with accounting returns, but no significant relationship with market performance. Other research has found no relationship to performance at all.

We interviewed 19 board directors (15 women and four men) to learn whether and how corporate boards were benefiting from diversity. Combined, the board members held seats on 47 corporate boards in the U.S. across a variety of industries. The research found that diversity doesn't guarantee a better performing board and firm; rather, the culture of the board is what can affect how well diverse boards perform their duties and oversee their firms. Based on these findings, we worked with Mike Fucci, Chairman of the Board at Deloitte, to develop recommendations for how board chairs and directors can create more egalitarian board cultures and improve their governance.

Expand the view of diversity

Board diversity matters but concentrating on only one form of diversity isn't enough. Our interviewees suggested that social diversity (e.g., gender, race/ethnicity, and age diversity) and professional diversity are both important for increasing the diversity of perspectives represented on the board.

Many of our interviewees suggested that their boards had made progress on gender diversity but not on other forms of social diversity — such as race, nationality, and age. They also raised concerns with what they referred to as "checking the box" initiatives and "tokenism" for the sake of board diversity. One interviewee revealed how she turned down a board position because she felt that the interviewing board members were not able to comment on her expertise — only their desire to have gender diversity on the board. She shared, "I can understand what it means to be a token person. I don't like that ... I said, 'If you think my only value is the fact that I'm a female, I can't add value to your board.'"

Other interviewees similarly addressed concerns for tokenism: "I think that there's so much conversation right now about adding more females to boards and everyone feels like, 'Okay if we have ten board members, we should recruit three women.' But I think we need to make sure they have the right skills. Idea diversity is also important."

To offset these concerns, some boards are ensuring that skills and expertise, along with demographics, are front and center in their recruiting processes. One board member shared: "We look at diversity in a lot of different ways - experience, age, ethnicity, gender, etc."

Many boards are also broadening the range of professional backgrounds considered for board member positions, allowing them to attract more socially diverse directors who bring, as one interviewee referred to it, "diversity of thought." This is easier to achieve when boards avoid filling open seats with people already in their personal and professionals networks. As one long-time board director described it: "The problem is how boards get formed and how you fill vacancies. It might be unconscious bias. Sometimes, it's laziness. 'Oh, we have an opening, who do we know?" He shared that many times board members only knew people like them.

His current boards are shifting to a different approach: "a process of assessment where you periodically look at the skill sets that you would ideally want on the board, given the business it's in, and then the skill sets you have, and you identify any missing. That gives you an opening to say, 'Oh, okay, we need to look for somebody who understands manufacturing abroad.' So, as long as we are going to go look for somebody, let's use it as an opportunity to build some diversity."

Many boards continue to recruit directors from the pool of current or former CEO/CFOs, and changing demographics within these pools do present opportunities to recruit more diverse members. For example, our interviewees on the boards of hi-tech start-ups and cyber security firms revealed that women, minorities, and younger board members often hold these coveted roles on boards in their firms and industries.

It is also important to consider recruiting from outside of the CEO and CFO pool to increase board diversity. One interviewee commented on how having social diversity wasn't good enough if all board members were former CEOs or CFOs. She said, "Having a diversity on the board does not just mean having a bunch of CEOs or a bunch of capitalists....Having board members with different roles whether it's a CIO or a CTO or you know independent board directors that come from a different background is really good. You know you might have somebody from HR on the board. People coming from that diverse role I think really does help a board to get better results."

Take advantage of diversity

Diversity doesn't matter as much on boards where members' perspectives are not regularly elicited or valued. To make diverse boards more effective, boards need to have a more egalitarian culture – one that elevates different voices, integrates contrasting insights, and welcomes conversations about diversity.

Some boards are more hierarchical in their communication orientation while others are more egalitarian. These dynamics appear to shape whether diversity on the board actually matters to the board's work. On more hierarchical boards, the CEO, Chairman, or lead independent director tends to dominate board meetings. One interviewee discussed how this was a particularly challenging dynamic on a board that was resistant to input either from shareholders or board members: "There was not a lot of open communication. The CEO tended to dominate the conversation. He'd speak like, without taking any breaths for two hours on end."

But even in hierarchical cultures, the CEO, Chairman, or lead director can help to create a more open communication environment. One board member discussed her experience on a board: "I do feel I'm listened to... The CEO makes a big difference in terms of the openness."

Similarly, another shared how a different CEO made it easier for board members to access the management team: "It starts, again, with the CEO not playing the hierarchical role and saying, 'You can't talk to one of my VPs unless you come through me...'So we had access to the next level of management. The CEO would pick up the phone frequently and connect us."

Whoever is leading the board also has the responsibility of ensuring that quieter board members speak up in board meetings. One interviewee said, "The lead director has a role here — to make sure that they invite people in and if somebody is really quiet they should go to that person...and make sure they feel comfortable saying anything that they want."

In contrast to hierarchical boards, more egalitarian boards have a more "collegial" board culture. Interviewees who felt that their boards reflected this quality explained how all board members were able to speak openly and ask questions at meetings and, in doing so, they felt that all opinions were respected. One explained that their collegial board culture resulted from information being shared openly, with little "back channeling" or meeting outside of the formal meeting to raise concerns.

Collegial boards are more likely to accept and integrate differences of opinion. Members of these boards believe that both their expertise and willingness to learn is recognized and incorporated into the board's work. One interviewee talked about the importance of respectful disagreement, acknowledging mishaps in communication, and in valuing different perspectives: "I haven't had anybody shut me down or shut other people down. You know people listen. When they argue, they do it in a pretty much respectful way. Couple times it hasn't been but someone will just say, 'Hey that's not very respectful, you know the way you just said that.'"

Several interviewees told us that boards that value open communication are more likely to engage in conversations about diversity — even those that believe they still have a long way to go. One interviewee commented on how the board as a whole believed in the importance of diversity, but longer-term board members still struggled to understand its value. "It would be wrong to say that we are 100% of where we ought to be. I think we all recognize the value and we all respect the diversity and the importance of diversity. I think it's also clear to say if you've got the longer-term members that came from the old established approach to the way boards were run...they may just not be quite as supportive in some cases."

In boards like these, interviewees said discussing the issues rather that shrinking away from them was of utmost importance. One explained raising issues around diversity in the leadership pipeline and his desire to make this a higher board priority: "One of our board members who is African-American came up to me afterwards and said, 'Thank you for bringing that up because I brought it up years ago, not so delicately, and nothing ever happened.' So, he's like, 'Maybe if we get more of us looking at this, it'll move the needle.'"

Others similarly commented on the need to serve as a champion for diversity and inclusion on their boards if they wanted to keep the topic front and center. One shared: "I have some influence, and I'm trying to exert my influence."

The benefits of having a socially and professionally diverse board cannot be realized without an egalitarian board culture. Boards that want to maximize their effectiveness need to do more to ensure that different perspectives are regularly elicited and integrated into the board's work.

Stephanie J. Creary is an assistant professor of management at the Wharton School of the University of Pennsylvania where she conducts research on the topics of identity and diversity in the workplace. She is also an affiliated faculty member of Wharton People Analytics.

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United States Government Accountability Office

GAO

Testimony

Before the Committee on Financial Services, House of Representatives

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Strategies to Increase Representation of Women and Minorities

Statement of Chelsa Gurkin, Acting Director,
Education, Workforce, and Income Security

GAO-19-637T

GAO Highlights

Highlights of GAO-19-637T, a testimony before the Committee on Financial Services, House of Representatives

June 2019

BOARD DIVERSITY

Strategies to Increase Representation of Women and Minorities

Why GAO Did This Study

Corporate boards take actions and make decisions that not only affect the lives of millions of employees and consumers, but also influence the policies and practices of the global marketplace. Many organizations and businesses have recognized the importance of recruiting and retaining women and minorities for key positions to improve performance and better meet the needs of a diverse customer base. Academic researchers and others have highlighted how diversity among board directors increases the range of perspectives for better decision making, among other benefits. Prior GAO reports have found challenges to increasing diversity on boards and underscored the need to identify strategies that can improve or accelerate efforts to boost representation of women and minorities. These include reports examining the diversity of publicly-traded company boards and the boards of federally chartered banks, such as the FHLBanks.

This statement is based on two GAO reports, issued in December 2015 and February 2019, on the representation of women on corporate boards and the representation of women and minorities on the boards of FHLBanks, respectively. Information about the scope and methodologies used can be found in the original reports. This statement focuses on (1) the extent of diversity on such boards (2) factors that hinder diversity on these boards, and (3) strategies to promote board diversity on corporate and FHLBank boards.

View GAO-19-637T. For more information, contact Chelsa Gurkin at (202) 512-7215 or GurkinC@gao.gov.

What GAO Found

Prior GAO reports found limited diversity on both publicly-traded company boards (corporate boards) of directors and Federal Home Loan Bank (FHLBank) boards. For example, GAO's 2019 report on FHLBank boards found women's board representation was at 23 percent in 2018; in 2015 it had been 18 percent. In a 2015 report on corporate boards, GAO projected the representation of women into the future—assuming that women join boards in equal proportion to men—and estimated it could take more than 40 years for the number of women directors to match the number of men directors. GAO's report on FHLBank boards also showed an increase in FHLBank directors from some minority groups, including African-American, Hispanic, and Asian since 2015, but they still reflected a small portion of these boards. The size of the increases in minority directors on FHLBank boards was less clear than for women directors due to incomplete board member demographic data.

Similar factors may limit corporate and FHLBank boards' efforts to increase diversity, according to stakeholders, board members, and others GAO interviewed. These factors include not prioritizing diversity in board recruitment efforts, limitations of the traditional board candidate pipeline, and low turnover of board seats.

GAO identified a number of strategies for increasing the representation of women and minorities on corporate and FHLBank boards based on a review of relevant literature and discussions with researchers and corporate and government officials (see figure).

Barriers and Corresponding Strategies for Increasing Representation of Women and Minorities on Corporate and Federal Home Loan Bank Boards

Source: GAO analysis of factors and strategies that can affect board diversity based on a review of relevant literature. | GAO-19-637T

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee:

I am pleased to be here today to discuss our prior work on strategies for increasing diversity on corporate boards of directors. Corporate boards take actions and make decisions that not only affect the lives of millions of employees and consumers, but also influence the policies and practices of the global marketplace. Many organizations have recognized the importance of recruiting and retaining women and minorities for key positions to improve business or organizational performance and better meet the needs of a diverse customer base. Academic researchers and others have highlighted the importance of diversity among board directors to increase the range of perspectives for decision making, among other benefits. Our prior work, however, found challenges to increasing diversity on boards and underscored the importance of identifying strategies that can improve or accelerate efforts to increase the representation of women and minorities on boards. Our reports on workforce and board diversity span multiple years and cover different industries, types of boards, and workers. These include reports examining the diversity of publicly-traded company boards (corporate boards) and the boards of federally chartered banks, such as the Federal Home Loan Banks.[1] We have also published reports on workforce diversity in the financial services and technology sectors, including representation of women and minorities in management positions, and practices to address workforce diversity challenges.[2]

My remarks today address (1) the extent of diversity on corporate and Federal Home Loan Bank boards, (2) factors that hinder diversity on these boards, and (3) strategies for increasing board diversity. These objectives are primarily based on two prior reports on board diversity

[1] GAO, *Corporate Boards: Strategies to Address Representation of Women Include Federal Disclosure Requirements*, GAO-16-30 (Washington, D.C.: Dec. 3, 2015) and GAO, *Federal Home Loan Banks: Steps Have Been Taken to Promote Board Diversity, but Challenges Remain*, GAO-19-252 (Washington, D.C.: Feb. 14, 2019).

[2] See, for example, GAO, *Financial Services Industry: Representation of Minorities and Women in Management and Practices to Promote Diversity, 2007-2015*, GAO-19-398T (Washington, D.C.: Feb. 27, 2019), GAO, *Financial Services Industry: Trends in Management Representation of Minorities and Women and Diversity Practices, 2007-2015*, GAO-18-64 (Washington, D.C.: Nov. 8, 2017), and GAO, *Diversity in the Technology Sector: Federal Agencies Could Improve Oversight of Equal Employment Opportunity Requirements*, GAO-18-69 (Washington, D.C.: Nov. 16, 2017). See Enclosure I for additional related reports.

issued in 2015 and 2019.[3] In those reports, we used multiple methodologies to develop the findings, conclusions, and recommendations. For example, for our 2015 report on the representation of women on corporate boards, we analyzed a dataset on board directors at companies in the S&P Composite 1500 from 1997 through 2014 to provide descriptive statistics.[4] To obtain stakeholders' views on various strategies for increasing the number of women on boards, we conducted semi-structured interviews with 19 stakeholders, including chief executive officers (CEO), board directors, and investors. While the views of the individuals we interviewed represent a range of perspectives, they cannot be generalized to the universe of CEOs, board directors, or investors. We also interviewed officials from the Securities and Exchange Commission (SEC), and reviewed the SEC's disclosure requirements on board diversity. For the 2019 report on Federal Home Loan Bank (FHLBank) diversity, we analyzed gender, race, and ethnicity data self-reported by board directors in the banks' annual reports to their regulator, the Federal Housing Finance Agency, as of the end of calendar years 2015, 2016, and 2017. To obtain information on the challenges FHLBanks face and practices they use to recruit and maintain diverse boards, we interviewed Federal Housing Finance Agency and FHLBank staff and a nongeneralizable sample of external stakeholders knowledgeable about diversity. This statement also includes examples of challenges and practices from our 2011 report on board diversity and governance issues at the Federal Reserve Banks.[5] A more detailed discussion of the objectives, scope, and methodologies, including our assessment of data reliability, is available in each report.

The work upon which this statement is based was conducted in accordance with generally accepted government auditing standards.

[3] GAO-16-30 and GAO-19-252.

[4] The S&P Composite 1500 combines three indices—the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600. S&P 500 companies have an unadjusted market capitalization (the total dollar market value of all of a company's outstanding shares) of $5.3 billion or greater; S&P MidCap 400 companies have an unadjusted market capitalization of $1.4 billion to $5.9 billion; and S&P SmallCap 600 companies have an unadjusted market capitalization of $400 million to $1.8 billion. In this report, we refer to these companies as large, medium, and small, respectively. Appendix I of GAO-16-30 contains more information about our analysis of S&P Composite 1500 companies.

[5] The 2011 report reviewed the governance of the twelve Federal Reserve Banks, each of which has a board of directors. See GAO, *Federal Reserve Bank Governance: Opportunities Exist to Broaden Director Recruitment Efforts and Increase Transparency*, GAO-12-18 (Washington, D.C.: Oct. 19, 2011).

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Overview of Board Directors' Roles and Responsibilities

Our previous work on board diversity describes some of the different roles and responsibilities of corporate and FHLBank boards and their directors.

Public Company Corporate Boards

Generally, a public company's[6] board of directors is responsible for managing the business and affairs of the corporation, including representing shareholders and protecting their interests.[7] Corporate boards vary in size. According to a 2018 report that includes board characteristics of large public companies, the average board has about 11 directors.[8] Corporate boards are responsible for overseeing management performance and selecting and overseeing the company's CEO, among other duties. Directors are compensated for their work. The board generally establishes committees to enhance the effectiveness of its oversight and focus on matters of particular concern, such as an audit committee and a nominating committee to recommend potential directors to the full board.

FHLBank Boards

Our previous reports on board diversity include a recent report on the FHLBank System.[9] Each of its 11 federally chartered banks has a board of directors and is cooperatively owned by its member institutions, including commercial and community banks, thrifts, credit unions, and

[6] A public company can be defined in various ways, but the SEC defines the term on its website to include companies that trade securities on public markets and disclose certain business and financial information regularly to the public.

[7] The requirements concerning corporate structure, including the role of boards of directors, are primarily determined by state law. We did not examine specific state law requirements concerning boards of directors.

[8] https://www.spencerstuart.com/-/media/2018/october/ssbi_2018_trends.pdf.

[9] GAO-19-252.

insurance companies. Each bank's board of directors is made up of directors from member institutions and independent directors (who cannot be affiliated with the bank's member institutions or recipients of loans). As of October 2018, each FHLBank board had 14-24 directors, for a total of 194 directors. The Federal Home Loan Bank Act, as amended by the Housing and Economic Recovery Act of 2008, and its regulations set forth a number of requirements for FHLBank directors, including skills, term length, and the percentage who are member and independent directors.

Benefits of Board Diversity

Research we reviewed for our prior work cited several benefits associated with board diversity. For example, academic and business research has shown that the broader range of perspectives represented in diverse groups requires individuals to work harder to come to a consensus, which can lead to better decisions.[10] In addition, research has shown that diverse boards make good business sense because they may better reflect a company's employee and customer base, and can tap into the skills of a broader talent pool. Some research has found that diverse boards that include women may have a positive impact on a company's financial performance, but other research has not. These mixed results depend, in part, on differences in how financial performance was defined and what methodologies were used.[11]

Our Prior Work Found Women and Minorities Were Underrepresented on Boards

Our prior work found the number of women on corporate boards and the number of women and minorities on FHLBank boards had increased, but their representation generally continued to lag behind men and whites, respectively. While the data sources, methodologies, and time frames for our analyses were different for each report, the trends were fairly consistent.

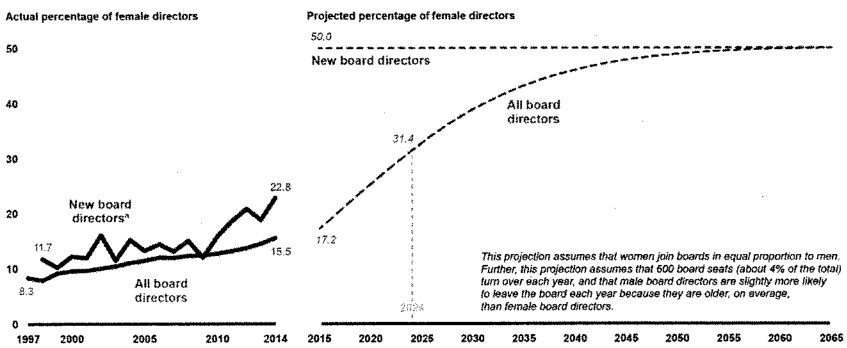
In our 2015 report, we analyzed companies in the S&P 1500 and found that women's representation on corporate boards increased steadily from about 8 percent in 1997 to about 16 percent in 2014. However, despite

[10] For example, see Katherine W. Phillips, *How Diversity Works*, Scientific American, October 2014.

[11] For an overview of research on the impact of women on firm performance, see W. Gary Simpson, David A. Carter, and Frank D'Souza, "What Do We Know About Women on Boards?", Journal of Applied Finance, No. 2 (2010); and Deborah L. Rhode and Amanda K. Packel, *Diversity on Corporate Boards: How Much Difference Does Difference Make*, 39 Del. J. Corp. L., 2 (2014).

the increase in women's representation on boards, we estimated that it could still take decades for women to achieve balance with men. When we projected the representation of women on boards into the future assuming that women join boards in equal proportion to men—a proportion more than twice what we had observed—we estimated it could take about 10 years from 2014 for women to comprise 30 percent of board directors and more than 40 years for the number of women directors to match the number of men directors (see fig. 1).[12]

Figure 1: Projection from 2015 Shows Greater Balance between Men and Women on Corporate Boards May Take Time



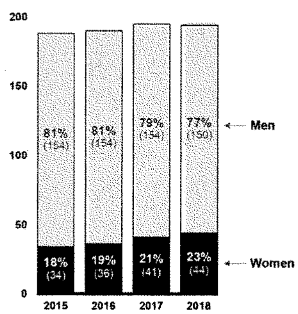
Source: GAO analysis of Institutional Shareholder Services Inc. (ISS) data, adapted from GAO-16-30. | GAO-19-637T

[a]New board directors refer to directors who joined the board each year.

Similarly, in our 2019 report on FHLBank board diversity, we found that the share of women board directors increased from 2015 to October 2018 but that women still comprised less than 25 percent of FHLBank board directors as of 2018 (see fig. 2).

[12] Appendix I of GAO-16-30 contains more information about this projection.

Figure 2: Share and Number of Women and Men on Federal Home Loan Bank Boards, Calendar Years 2015 to October 2018

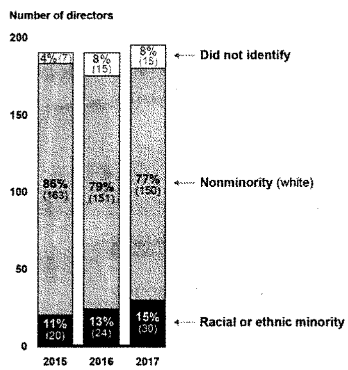


Source: GAO analysis of Federal Home Loan Bank and Securities and Exchange Commission data, adapted from GAO-19-252 | GAO-19-637T

Note: Percentages may not sum to 100 due to rounding.

Our 2019 FHLBank board report also showed an increase in FHLBank directors from 2015 to 2017 for some minority groups, including African-American, Hispanic, and Asian, but they still reflected a small portion of these boards. Further, the size of the increases in minority directors on FHLBank boards was less clear than for women directors due to incomplete data on directors' race and ethnicity (see fig. 3).

Figure 3: Share and Number of Minority and Nonminority Directors on Federal Home Loan Bank Boards, Calendar Years 2015–2017



Source: GAO analysis of Federal Home Loan Bank data, adapted from GAO-19-252. | GAO-19-637T

Note: Board directors voluntarily reported their race/ethnicity. The "did not identify" category might have included directors who chose not to identify their race/ethnicity or those who did not respond to the board demographic data form. Percentages may not sum to 100 due to rounding.

Various Factors May Hinder Board Diversity

In 2015 and 2019, we identified similar factors that contributed to lower numbers of women and minorities on corporate and FHLBank boards. Notably, stakeholders, board members, and others we interviewed said three key factors generally limited greater board diversity: (1) not prioritizing diversity in recruitment efforts, (2) limitations of the traditional board candidate pipeline, and (3) low turnover of board seats.

Not Prioritizing Diversity in Recruitment Efforts

In our reports on corporate and FHLBank board diversity, we found that not prioritizing diversity in recruiting efforts was contributing to a lack of women and minority candidates represented on these boards. For example, stakeholders told us board directors frequently relied on their personal networks to identify potential board candidates. Some stakeholders said that given most current board members are men, and peoples' professional networks often resemble themselves, relying on their own networks is not likely to identify as many women board candidates. In our 2019 report on FHLBank board diversity, stakeholders we interviewed raised similar challenges to prioritizing diversity in recruitment efforts. Some FHLBank representatives said that member institutions—which nominate and/or vote on director candidates—may prioritize other considerations over diversity, such as a candidate's name recognition.

Stakeholders we interviewed for our 2015 report suggested other recruitment challenges that may hinder women's representation on corporate boards. For example, stakeholders said that boards need to prioritize diversity during the recruiting process because unconscious biases—attitudes and stereotypes that affect our actions and decisions in an unconscious manner—can limit diversity. One stakeholder observed that board directors may have a tendency to seek out individuals who look or sound like they do, further limiting board diversity. In addition, our 2015 report found some indication that board appointments of women slow down once one or two women are on a board. A few stakeholders expressed some concern over boards that might add a woman to appear as though they are interested in board diversity without really making diversity a priority, sometimes referred to as "tokenism."

Limitations of the Traditional Board Candidate Pipeline

Our reports on corporate and FHLBank board diversity also identified challenges related to relying on traditional career pipelines to identify potential board candidates—pipelines in which women and minorities are also underrepresented. Our 2015 report found that boards often appoint current or former CEOs to board positions,[13] and that women held less than 5 percent of CEO positions in the S&P 1500 in 2014.[14] One CEO we interviewed said that as long as boards limit their searches for directors to women executives in the traditional pipeline, boards will have a difficult time finding women. Expanding board searches beyond the traditional sources, such as CEOs, could increase qualified candidates to include those in other senior level positions such as chief financial officers, or chief human resources officers.

[13] Heidrick and Struggles, *Board Monitor: Four Boardroom Trends to Watch*, New York (2015). This report also found that current and former CEOs and chief financial officers together claimed two-thirds or more of new appointments to boards of Fortune 500 companies in 2014.

[14] This study also reported that 10 percent of chief financial officers in the S&P 1500 were women. EY Center for Board Matters, *Women on US Boards: What are We Seeing?* (2015).

In 2019 we reported that FHLBank board members said they also experienced challenges identifying diverse board candidates within the traditional CEO talent pipeline. Stakeholders we interviewed cited overall low levels of diversity in the financial services sector, for example, as a challenge to improving board diversity. Some bank representatives said the pipeline of eligible women and minority board candidates is small. Several FHLBank directors said the requirements to identify candidates from within corresponding geographic areas may exacerbate challenges to finding diverse, qualified board candidates in certain areas of the country. By statute, candidates for a given FHLBank board must come from member institutions in the geographic area represented by the vacant board seat. Similarly, in 2011 we reported on Federal Reserve Bank directors and found they tended to be senior executives, a subset of management that is also less diverse. Our report also found that diversity varied among Federal Reserve districts, and candidates for specific board vacancies must reside in specific districts.[15]

Recruiting board candidates from within specific professional backgrounds or geographic regions is further compounded by competition for talented women and minority board candidates, according to some stakeholders. In 2019, board directors from several FHLBanks described this kind of competition. For example, a director from one bank said his board encouraged a woman to run for a director seat, but the candidate felt she could not because of her existing responsibilities on the boards of two publicly traded companies. We heard of similar competition among Federal Reserve Bank officials in 2011, where organizations were looking to diversify their boards but were competing with private corporations for the same small pipeline of qualified individuals.

Low Turnover of Board Seats Each Year

The relatively small number of board seats that become available each year also contributes to the slow increase in women's and minorities' representation on boards. Several stakeholders we interviewed for our 2015 report on corporate boards cited low board turnover, in large part

[15] We recommended in GAO-12-18 that Reserve Banks consider ways to broaden their pipeline of potential candidates for directors, such as including officers who are below the senior executive level at their organizations, among other recommendations. We closed the recommendation based on a 2011 memorandum sent by the Vice Chair of the Federal Reserve Board to all Reserve Bank presidents encouraging consideration of potential candidates who hold positions below the senior executive level in their organizations. The Vice Chair's annual letter to Reserve Bank leadership also emphasized the Board's focus on increasing director diversity.

due to the long tenure of most board directors, as a barrier to increasing women's representation. In addition, with respect to FHLBank board diversity, Federal Housing Finance Agency staff acknowledged that low turnover and term lengths were challenges. Several stakeholders we interviewed for our 2019 report on FHLBank boards said balancing the need for board diversity with retaining institutional knowledge creates some challenges to increasing diversity. One director said new board directors face a steep learning curve, so it can take some time for board members to be most effective. As a result, the directors at some banks will recruit new directors only after allowing incumbent directors to reach their maximum terms, which can be several years.[16]

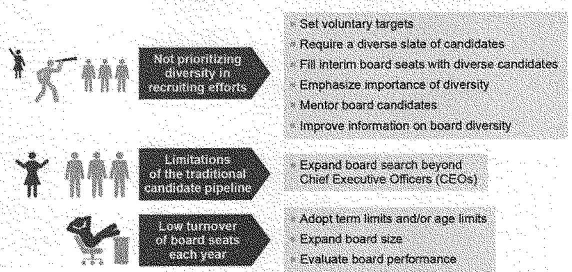
Potential Strategies for Increasing Board Diversity

Just as our 2015 and 2019 reports found similar challenges to increasing the number of women and minorities on corporate and FHLBank boards, they also describe similar strategies to increase board diversity.

While the stakeholders, researchers, and officials from organizations knowledgeable about corporate governance and FHLBank board diversity we interviewed generally agreed on the importance of diverse boards and many of the strategies to achieve diversity, many noted that there is no one-size-fits-all solution to increasing diversity on boards, and in some cases highlighted advantages and disadvantages of various strategies. Based on the themes identified in our prior work, strategies for increasing board diversity generally fall into three main categories—making diversity a priority; enlarging the pipeline of potential candidates; and addressing the low rate of turnover (see fig. 4).

[16] Under FHLBank board statutory requirements, as amended by the Housing and Economic Recovery Act of 2008, directors generally serve 4-year terms. Typically, directors cannot be elected to serve more than three consecutive full terms, totaling 12 years. A director may be reelected to a directorship for a term that commences no earlier than 2 years after the expiration of the third full term.

Figure 4: Barriers and Corresponding Strategies for Increasing Diversity on Boards



Source: GAO analysis of factors and strategies that can affect board diversity based on a review of relevant literature. | GAO-19-637T

Making Diversity a Priority

Setting voluntary targets. Several strategies we identified in our 2015 report encouraged or incentivized boards to prioritize diversity. These strategies include setting voluntary targets for the number or proportion of women or minorities to have on the board. Many stakeholders we interviewed for our prior work supported boards setting voluntary targets for a specific number or percentage of women and minority candidates rather than externally imposed targets or quotas.

Requiring a diverse slate of candidates. Many stakeholders we interviewed supported a requirement by corporate boards that a slate of candidates be diverse. A couple stakeholders specifically suggested that boards should aim for slates that are half women and half men; two other stakeholders said boards should include more than one woman on a slate of candidates so as to avoid tokenism. Tokenism was also a concern for a few of the stakeholders who were not supportive of defining the composition of slates.

Filling interim board seats with women or minority candidates. Our 2019 report included strategies for making diversity a priority for FHLBank boards. For example, some FHLBank directors and Federal Housing Finance Agency staff said filling interim board seats with women and minority candidates could increase diversity. By regulation, when a FHLBank director leaves the board mid-term, the directors may elect a replacement for the remainder of his or her term. One director we interviewed said that when a woman or minority director fills an interim term, the likelihood increases that he or she will be elected by the member institutions for a subsequent full term.

Emphasizing the importance of diversity and diverse candidates. Our 2015 report found that emphasizing the importance of diversity and diverse candidates was important for promoting board diversity. Almost all of the stakeholders we interviewed indicated that CEOs or investors and shareholders play an important role in promoting diversity on corporate boards. For example, one stakeholder said CEOs can "set the tone at the top" by encouraging boards to prioritize diversity efforts and acknowledging the benefits of diversity. As we reported in 2019, FHLBanks have taken several steps to emphasize the importance of board diversity. For example, all 11 FHLBanks included statements in their 2017 election announcements that encouraged voting member institutions to consider diversity during the board election process. Six of the 11 banks expressly addressed gender, racial, and ethnic diversity in their announcements. In addition, we found that FHLBanks had developed and implemented strategies that target board diversity in general and member directors specifically. For example, the banks created a task force to develop recommendations for advancing board diversity and to enhance collaboration and information sharing across FHLBank boards. Each bank is represented on the task force. Directors we interviewed from all 11 FHLBanks said their banks conducted or planned to conduct diversity training for board directors, which included topics such as unconscious bias.

Mentoring women and minority board candidates. In addition, several stakeholders we interviewed about corporate and FHLBank boards noted the importance of CEOs serving as mentors for women and minority candidates and sponsoring them for board seats. For example, conducting mentoring and outreach was included as a strategy in our 2019 report for increasing diversity on FHLBank boards, including current directors pledging to identify and encourage potential women and minority candidates to run for the board. One director we interviewed said he personally contacted qualified diverse candidates and asked them to run. Another director emphasized the importance of outreach by member directors to member institutions to increase diversity on FHLBank boards. Member directors have the most interaction with the leadership of member institutions and can engage and educate them on the importance of nominating and electing diverse directors to FHLBank boards.

Improving information on board diversity. As we reported in 2015, several large investors and many stakeholders we interviewed supported improving federal disclosure requirements on board diversity. In addition to increasing transparency, some organization officials and researchers we interviewed said disclosing information on board diversity could cause companies to think about diversity more. While the SEC aims to ensure that companies provide material information to investors that they need to make informed investment and voting decisions, we found information companies disclose on board diversity is not always useful to investors who value this information.[17] SEC leaves it up to companies to define diversity. As a result, there is variation in how much and the type of information companies provide publicly. Some companies choose to define diversity as including characteristics such as relevant knowledge, skills, and experience. Others define diversity as including demographic characteristics such as gender, race, or ethnicity.[18] (See fig. 5) In February 2019, SEC issued new guidance on its diversity disclosure requirements, which aims to clarify the agency's expectations for what information companies include in their disclosures.[19]

Nearly all of the stakeholders we interviewed for our 2015 report said investors also play an important role in promoting diversity on corporate boards. For example, almost all of the board directors and CEOs we interviewed said investors or shareholders can influence board diversity by exerting pressure on the companies they invest in to prioritize diversity when recruiting new directors. One board director we interviewed said boards listen to investors more than anyone else. For example, there have been recent news reports of investor groups voting against all candidates for board positions when the slate of candidates is not diverse.

[17] According to SEC, information is considered material if there is a substantial likelihood that a reasonable investor would consider it important in making an investment or voting decision. The standard for materiality has been established by case law, including *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438 (1976).

[18] Aaron Dhir, *Challenging Boardroom Homogeneity: Corporate Law, Governance, and Diversity* (Cambridge University Press, April 2015).

[19] For the guidance, see https://www.sec.gov/divisions/corpfin/guidance/regs-kinterp.htm#116-11 and https://www.sec.gov/divisions/corpfin/guidance/regs-kinterp.htm#133-13.

Figure 5: Examples of Variation in Proxy Statement Information on Board Diversity Provided by Companies

Company A ▸

BOARD DIVERSITY

While the Company does not have a formal policy on Board diversity, diversity is an integral part of our Corporate Governance Principles, and the Committee actively considers diversity in recruitment and nominations of directors. The current composition of our Board reflects those efforts and the importance of diversity to the Board:

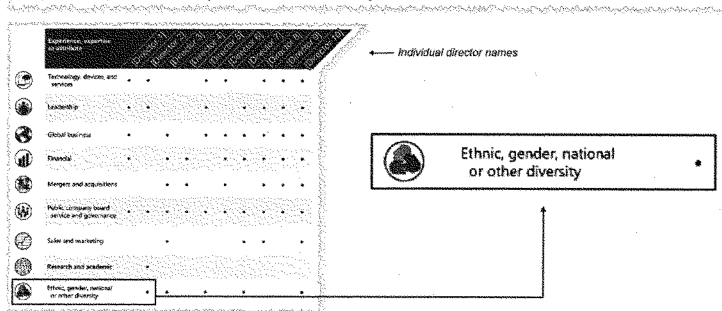
Total number of director nominees: 11

2	director nominees have worked outside the United States
1	director nominee is African-American
1	director nominee is Asian-American
1	director nominee is Hispanic
3	director nominees are women

Company B ▸

All Director candidates, including those recommended by stockholders, are evaluated on the same basis. Candidates are selected for their character, judgment, business experience and specific areas of expertise, among other relevant considerations, such as the requirements of applicable law and listing standards (including independence standards) and diversity of membership. While the Company's Corporate Governance Guidelines do not prescribe diversity standards, as a matter of practice, the Nominating and Corporate Governance Committee considers diversity in the context of the Board as a whole, taking into account personal characteristics and experience of current and prospective Directors in order to facilitate Board deliberations that reflect an appropriate range of perspective. The Board of Directors recognizes the importance of soliciting new candidates for membership on the Board of Directors and that the needs of the Board of Directors,

Company C ▸



Company D ▸

Although the Board does not establish specific goals with respect to diversity, the Board's overall diversity is a consideration in the director nomination process. For this year's election, the Board has nominated ten individuals; all are incumbent nominees who currently bring tremendous diversity to the Board. Each nominee is a strategic thinker and has varying, specialized experience in the areas that are relevant to the Company and its businesses. Moreover, their collective experience covers a wide range of countries, geographies and industries, including health care, insurance, consumer products, technology and financial services, including roles in academia and government. The ten director nominees range in age from 59 to 80 and two of the ten director nominees are women; one is African-American; and three are citizens of other countries including Brazil, New Zealand and the United Kingdom. The Board views this diversity as a clear strength.

Source: Company proxy statements, adapted from GAO-16-30. | GAO-19-637T

In addition, in 2019 we recommended that the Federal Housing Finance Agency, which has regulatory authority over FHLBanks, review FHLBanks' data collection processes for demographic information on their boards.[20] By obtaining a better understanding of the different processes FHLBanks use to collect board demographic data, the Federal Housing Finance Agency and the banks could better determine which processes or practices contribute to more complete data. More complete data could ultimately help increase transparency on board diversity and would allow them to effectively analyze data trends over time and demonstrate the banks' efforts to maintain or increase board diversity. The Federal Housing Finance Agency agreed with this recommendation and said it intends to engage with FHLBanks' leadership to discuss board data collection issues. The agency also stated that it plans to request that the FHLBank Board Diversity Task Force explore the feasibility and practicability for FHLBanks to adopt processes that can lead to more complete data on board director demographics.

Enlarging the Pipeline of Potential Board Candidates

Expanding board searches beyond CEOs. Expanding searches for potential board members is yet another strategy for increasing board diversity, as we reported in 2015 and 2019. Almost all the stakeholders we interviewed supported expanding board searches beyond the traditional pipeline of CEO candidates to increase representation of women. Several stakeholders suggested that boards recruit high performing women in other senior-level positions or look to candidates in academia or the nonprofit and government sectors. Our 2015 analysis found that if boards expanded their director searches beyond CEOs to include senior-level managers, more women might be included in the candidate pool. Our 2019 report on FHLBank board diversity also included looking beyond CEOs as a strategy for increasing diversity. For example, we reported that FHLBanks can search for women and minority candidates by looking beyond member bank CEOs. By regulation, member directors can be any officer or director of a member institution, but there is a tendency to favor CEOs for board positions, according to board directors, representatives of corporate governance organizations, and academic researchers we interviewed for the report. Similar to the

[20] As of June 2019, this recommendation was open. The Federal Housing Finance Agency's 2015 regulation amendments require FHLBanks to compare board demographic data with prior year's data and provide a narrative of the analysis. The Federal Housing Finance Agency also stated in the amendments that it intended to use the director data to establish a baseline to analyze future trends of board diversity.

findings from our 2015 report, the 2019 report found that the likelihood of identifying a woman or minority candidate increases when member institutions look beyond CEOs to other officers, such as chief human resources officers. Several directors of FHLBanks also reported hiring a search firm or consultant to help them identify women and minority candidates, which is a strategy that can be used to enlarge the typical pool of applicants.

Addressing the Low Rate of Turnover

Adopting term limits or age limits. Several stakeholders discussed adopting term or age limits to address low turnover of board members. Most stakeholders we interviewed for our 2015 report were not in favor of adopting term limits or age limits, and several pointed out trade-offs. For example, one CEO we interviewed said directors with longer tenure often possess invaluable knowledge about a company that newer board directors do not have. Many of the stakeholders who opposed these strategies noted that term and age limits seem arbitrary and could result in the loss of high-performing directors.

Expanding board size. Several stakeholders we interviewed supported expanding board size either permanently or temporarily so as to include more women. Some stakeholders noted that expanding board size might make sense when a board is smaller, but expressed concern about challenges associated with managing large boards.

Evaluating board performance. Another strategy we identified in our 2015 report to potentially help address low board turnover and in turn increase board diversity was conducting board evaluations. Many stakeholders we interviewed generally agreed it is good practice to conduct evaluations of the full board or of individual directors, or to use a skills matrix to identify skills gaps. However, a few thought evaluation processes could be more robust. Others said that board dynamics and culture can make it difficult to use evaluations as a tool to increase turnover by removing under-performing directors from boards. Several stakeholders we interviewed discussed how it is important for boards to identify skills gaps and strategically address them when a board vacancy occurs, and one stakeholder said identifying such gaps could help boards think more proactively about finding diverse candidates. The National Association of Corporate Directors has encouraged boards to use evaluations not only as a tool for assessing board director performance, but also as a means to assess board composition and gaps in skill sets.

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Chelsa Gurkin, Acting Director of Education, Workforce, and Income Security, at (202) 512-7215 or GurkinC@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony include Betty Ward-Zukerman (Assistant Director), Meredith Moore (Analyst-in-Charge), Ellie Klein, and Chris Woika. In addition, key support was provided by Susan Aschoff, James Bennett, Ben Bolitzer, Ted Burik, Michael Erb, Daniel Garcia-Diaz, Monika Gomez, Kay Kuhlman, Sheila McCoy, Anna Maria Ortiz, James Rebbe, Karen Tremba, and Walter Vance.

Enclosure I: Related GAO Products

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HEIDRICK & STRUGGLES

Testimony of
Ron Lumbra, Managing Partner, Centers of Excellence, and Partner, CEO & Board Practice
Heidrick & Struggles

Before the
U.S. House Committee on Financial Services
June 20, 2019, Washington, D.C.

Diversity in the Boardroom:
Examining Proposals to Increase the Diversity of America's Boards

Introduction

Good morning, Chairwoman Waters, Ranking Member McHenry, and Members of the Committee. Thank you for the invitation to provide remarks on this important topic today.

My name is Ron Lumbra, and I am a Managing Partner of Centers of Excellence, and a Partner in the CEO & Board Practice, at Heidrick & Struggles. We are a global executive search and leadership advisory firm that provides executive search and leadership consulting services to boards, senior executives, and C-suite teams around the world.

I have been in the executive search industry for more than 21 years, and I have had the privilege of advising corporate boards, chairs, and directors from numerous companies and across a range of industries on board recruitment and succession planning. Over this period, I have seen a number of trends emerge. One of the most pronounced has been the growing emphasis on diversity in the boardroom.

Current Overview

Over the past 10 years, we have seen a long-term progression of gender, racial, and ethnic diversity at the board director level. In our 2019 U.S. Board Monitor, which is an annual study of the trends in non-executive director appointments on Fortune 500 Boards, we saw that women filled 40% of new board seats in 2018, a new high-water mark and more than double the percentage (18%) from 2009. In 2018, we also saw that 23% of new board seats were filled by ethnic minorities (African-Americans, Asians/Asian-Americans, and Hispanics), up from 14% in 2009.

Despite the recent progress and gains, the total share of diverse directors we see on boards today is still low. According to a 2018 report from Deloitte and the Alliance for Board Diversity, from 2010 to 2018, the percentage of women on boards only moved from 16% to 22.5%, and the percentage change for ethnic minorities was even smaller, from 13% to 16%, during that same timeframe.

We have observed a few key obstacles that are inhibiting more rapid progress on the diversity front at the corporate board level.

Challenges Today

Low Board Turnover: First, there is a general lack of new board seats that open up annually due to relatively low turnover on corporate boards. On average, board directors stay in their seats for more than a decade. In addition, boards generally only turn over less than one seat annually. Over the past decade, approximately only two-thirds of Fortune 500 companies have added a new director in any particular year.

Demand for CEO Experience: Another inhibitor to greater diversity on boards is a noteworthy preference for CEO experience for new board directors. Our 2019 Board Monitor shows that over the past 10 years, the percentage of appointees to new board seats with CEO experience generally followed an upward trend, hitting an all-time high of 60% in 2018. Unfortunately, we know the category itself – public company CEOs – is not particularly diverse. Consequently, focusing on CEO experience by definition results in a more limited pool of diverse executives for consideration.

Board Culture: Finally, a cultural factor affecting broader change and progress for board diversity is the natural desire for boards to seek familiar relationships and bring on new directors from existing networks. Often, board nominating committees prefer to meet potential directors who are easily referenced through common relationships, both professional and personal. Those same networks can be limiting if they are lacking in diversity.

Solutions to Consider

As I mentioned, despite these challenges, we are seeing progress and improvement, and there are a number of options and solutions to consider when thinking about how companies can accelerate board diversity.

Board Effectiveness and Flexibility: To address the low rate of board turnover, some boards choose to conduct regular assessments to determine if the current board composition optimally serves the company. Then, they change out directors whose experience and expertise may no longer align with the company's primary challenges or current strategy. By doing this, boards can bring on new directors who have more contemporary, relevant experience. In addition, boards can think about expanding opportunistically to add diverse leaders earlier, whenever they are available, rather than waiting for an existing board director's retirement or term to expire.

Expanded Leadership Categories: Casting a wider net to find executives outside of existing networks can make a huge difference. Boards can achieve greater diversity by looking beyond CEOs and considering senior operational and functional leaders. While CEOs certainly bring valuable skills to the table, there are far greater numbers of diverse leaders at the general manager, divisional head, or business unit levels, who possess both P&L experience and operational leadership ability. In addition, casting a wider net can also mean looking at leaders from academia, former government officials, or retired career military officers.

A Comprehensive, Process-Oriented Approach: Boards also have to be intentional and purposeful when it comes to insisting on diverse candidate slates and seeking diverse leaders to fill their new board seats. Intentionality is a key part of change, and there has to be a commitment to open-mindedness and creating a purposeful plan for finding and considering candidates from diverse backgrounds. This often requires patience, discipline, and a commitment from the top to stay the course in searching for diverse executives, as the pool of diverse candidates often exists in networks that are less familiar to companies, thus making it more difficult to find and gain comfort. But it can work. Last year, 57% of Heidrick & Struggles' board placements in North America were diverse – this underscores the fact that there is no shortage of diverse and qualified candidates.

Boards can also benefit from long-term succession planning, which includes thinking creatively about their strategic business needs, building relationships with larger numbers of diverse candidates over time, and even increasing the size of the board temporarily to be able to add diverse candidates more quickly and when they are available.

It is our belief at Heidrick & Struggles that strategic intent, coupled with purposefully expanding the views and definitions of the requirements for successful board directors, can go a long way to achieving more diversity at the board level.

This is a passion for me, and I am honored to be sitting here before you to participate and help inform the larger national conversation on diversity on corporate boards. Thank you, and I welcome any questions you may have.

TESTIMONY SUBMITTED TO THE COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

Diversity in the Boardroom: Examining Proposals to Increase the Diversity of America's Boards

June 20, 2019

The Honorable Maxine Waters, Chairwoman
The Honorable Patrick McHenry, Ranking Member
U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Representatives:

Thank you for this invitation and the opportunity to provide the views of the Latino Corporate Directors Association (LCDA) on today's hearing "Diversity in the Boardroom: Examining Proposals to Increase Diversity of America's Boards." We want to thank you and the Committee for providing a forum for us to have this important conversation.

LCDA is a newer organization and the only association made up of U.S. Latinos that serve on publicly traded and large private company boards. Our mission is to support and develop Latino corporate directors and increase their numbers serving on corporate boards. Our three-part strategy to accelerate the pace of Latino placements on corporate boards includes:

- Growing Demand: LCDA serves as an advocate and a resource for corporate boards, search firms, private equity, institutional investors, and pension funds, as well as others who influence board placement.
- Growing Supply: We are committed to paving the way for the next wave of Latino directors. Our board readiness programming brings together C-suite and other board-qualified executives to prepare and position them for board service.
- Provide Quality Programming and Raise Awareness: With a body of original research and consumer purchasing trends, we seek to make the business case for Latino inclusion on corporate boards. Plus, LCDA's annual convening brings together directors, CEOs, and leading authorities on timely corporate governance and risk topics, as well as thought leaders, to promote board diversity.

In our role as corporate directors, as you know, our duty is to add shareholder value and promote good governance as we strive for healthy, sustainable, long-term corporate growth. An inclusive definition of board diversity is an integral component of board effectiveness and a competitive business advantage.

Based on market research, Latino consumers are driving consumption growth for all mass consumer categories. Nationwide, Latinos total nearly 59 million, or 18 percent of the U.S. population, and are projected to add, on average, 1.2 million people a year between 2017 and 2060 (U.S. Census link). The U.S. Latino gross domestic product (GDP) represents $2.13 trillion. *Fortune* Executive Clifton Leaf noted in his 2016 *Daily* report, "How can the U.S. compete and win in the world over the next decade? U.S. Latinos are keeping America growing and competing... Their buying power is on pace to grow $80-$90 billion a year."

Latinos account for the vast majority of the growth in the U.S. workforce; approximately 74 percent of the 10.5 million workers projected to be added to the U.S. labor force from 2010 to 2020 will be Latino. Latino entrepreneurs are driving job creation and economic growth. There are 4 million Latino-owned businesses that together contribute in excess of $660 billion to the American economy (U.S. Hispanic Chamber of Commerce). The number of U.S. businesses owned by Latinos grew 46.3 percent between 2007 to 2012, compared to 2.0 percent for all U.S. firms. Sales receipts of Latino-owned firms grew by 35.1 percent in that same period, compared to an 11.7 percent increase in receipts of non-Latino firms (U.S. Census Bureau *Survey of Business Owners 2007-2012*). Latinas are leading the way in business formation. The number of companies owned by Latinas increased 87 percent between 2007 and 2012, the largest increase of any major demographic group (U.S. Department of Commerce 2016 report, *Deep Dive into Hispanic Business Ownership*).

U.S. Latinos are an economic powerhouse for America's businesses, yet, they remain an untapped asset in the corporate boardroom. The size and economic strength of the U.S. Latino population are in stark contrast to their low level of inclusion on corporate boards. Based on data compiled by LCDA of *Fortune* 1000 company boards, 75 percent of these companies did not have a single Latino director. Based on this source, Latinos and Latinas combined occupy 3.1 percent of these seats, and only 0.9 percent are filled by Latinas. What's more troubling is that the appointment of Latinos among new directors named in 2018 was 4 percent, down from 6 percent in 2017, according to Heidrick and Struggles' *Board Monitor US 2019* report released last month.

Based on our analysis of new data released today on boardroom demographics, women, racial and ethnic groups continue to lag, with Latinos falling far behind. Today, we are pleased to release a comprehensive table based on data compiled by ISS Analytics on the board composition of S&P 1500 companies for June 18, 2019 and December 31, 2008, based on gender, race and ethnicity. The table is attached below [exhibit A]. Based on this compilation, the percentage of seats held by men decreased by 10.7 percentage points between 2008 and 2019. The percentage of S&P 1500 board seats held by all women reached a new high, with 23.4 percent in 2019, compared with 12.7 percent in 2008, an increase of 10.7 percentage points. Among board members whose ethnicity was identified, men and women of color combined occupied 11.88 percent of these board seats in 2019, compared with 8.76 percent ten years ago, an increase of only 3.12 percentage points (today, these groups comprise 40 percent of the U.S. population). In the same period, Latinos overall held 2.28 percent of S&P 1500 company board seats, the least representation of any major group and far below their proportion of the general population, with an increase of just 0.56 percent in the last 10 years.

Furthermore, an analysis of women corporate directors demonstrates that Latinas are not part of the drive to increase the number of women on boards. Based on the ISS Analytics data table, in 2019, Caucasian women held 19.58 percent of S&P 1500 company board seats, 2.05 percent of seats were held by African American women, 1.05 percent by Pan-Asian American women, and only 0.49 percent by Latinas. The pace of Latina representation on boards is dismal and only increased 0.17 percentage points between 2009 and 2019, the lowest rate of any gender or ethnic group. Latinas are a growing force in business, leading the way in business formation, yet remain largely untapped for corporate board service.

These low numbers persist, despite the growing body of research demonstrating the correlation between board diversity that is inclusive of gender, race, and ethnicity, and corporate financial performance. According to the 2018 McKinsey study, *Delivering Through Diversity*, companies in the top quartile for racial and ethnic diversity are 33 percent more likely to have financial returns above their respective national industry medians. Likewise, companies ranking in the top quartile for gender diversity were 21 percent more likely to see above-average profitability than those in the bottom quartile.

As Larry Fink, Chairman and CEO of BlackRock, stated in his 2017 letter to CEOs "Boards with a diverse mix of genders, ethnicity, career experience, and way of thinking have, as a result, a more diverse and aware mindset. They are less likely to miss new threats to a company's business model and are better able to identify opportunities that promote long-term growth." Also noted by Mary Jo White, Former SEC Chair, at LCDA's 2017 Annual Convening, "We need to govern for growth with the future in mind. Board diversity is good for business, makes boards stronger, and reduces group-think."

Disclosure and transparency on the board diversity composition of boards is an important step to advance board diversity that is inclusive of race and ethnicity. Currently, no mechanism exists to accurately and regularly collect and disclose data in terms of race, ethnicity, and gender. Over the last five years or so, institutional investors and pension funds have actively written letters to companies, filed shareholder resolutions, and leveraged the proxy season as part of their call for board diversity. Several institutional investors and pension funds have informed us that their efforts to achieve greater diversity have been hindered by a lack of reliable, comprehensive information on the race and ethnic composition of boardrooms. Overall, the disclosure of board demographics helps investors and shareholders make informed investment decisions, since board composition is an important component of good corporate governance.

LCDA supports a sensible, balanced approach to collecting critical data on board demographics. LCDA's Board issued a resolution in support of S.360 and H.R. 1018 the "Improving Corporate Governance Through Diversity Act," that promotes disclosure and transparency. This bill would require public companies to disclose data, based on self-identification, of the racial, ethnic, and gender composition of their boards of directors, nominees for their boards, and corporate officers. Disclosure of board demographics will contribute greatly to increased transparency in corporate governance. Plus, there is a growing list of broad-based supporters, including the U.S. Chamber of Commerce, the Council on Institutional Investors (CII), and civic organizations, in support of this bill. The LCDA Board looks forward to learning more about other legislative measures that address board diversity.

In summary, LCDA was established to be part of the solution. LCDA plays a pivotal leadership role as a resource to bridge the underrepresentation gap of U.S. Latinos in the boardroom with entities seeking experienced and board-qualified Latino talent. Latino talent in the boardroom is an integral component to accelerating the growth potential of U.S. companies, however:

- Latino consumers are driving consumption growth and fueling America's economy; yet, they are underrepresented on corporate boards. Latinos, and especially Latinas, remain an untapped resource in America's corporate boardrooms. The business case is clear. Based on market research, U.S. Latino consumers are driving consumption growth for all mass consumer categories. With Latinos as the youngest ethnic group in the country—on average nine years younger than the population at large—Latinos are positioned as the fastest-growing segment of current and future customers and employees. U.S. Latino directors bring business acumen and deep industry experience to the boardroom, plus a lens onto the increasingly diverse marketplace.

- While the benefits of board diversity—that is inclusive of gender, race, and ethnicity—are well established among the business and investment community, a mechanism does not exist to reliably collect this data. We support a sensible and balanced approach for needed transparency of board composition based on gender, race, and ethnicity.

In the U.S. and around the world, investors and shareholders have pushed for greater diversity on corporate boards both as a competitive business advantage and sound corporate governance. Ultimately, greater boardroom diversity that includes Latinos will lead to greater results for shareholders, for business, and for our nation. We appreciate your consideration of these views.

Sincerely,

Roel C. Campos
Chairman of the Board

Patricia Salas Pineda
Board Member and Founding Board Chair

Esther Aguilera
President & CEO

Contact: Esther Aguilera eaguilera@latinocorporatedirectors.org or Monique Navarro mnavarro@latinocorporatedirectors.org

Latino Corporate Directors Association

[EXHIBIT 1] S&P 1500 Board Seats - total number and percentage	2008**		2019**		U.S. Population 2017***	Purchasing Power §
Gender and Minority	Total	Minority	Total	Minority		
Men	11318 (87.30%)	887 (6.85%)	10907 (76.64%)	1173 (8.29%)	49.00%	
Women	1646 (12.70%)	208 (1.91%)	9632 (23.4%)	509 (3.59%)	51.00%	
Gender and Ethnicity	Total	Women	Total	Women		
Caucasian	11825 (91.21%)	1397 (10.78%)	12402 (87.66%)	2770 (19.58%)	60.70%	$12.1T
Hispanic/Latino	222 (1.72%)	41 (0.32%)	323 (2.28%)	70 (0.49%)	18.10%	$2.1T
Black/African-American	611 (4.71%)	160 (1.23%)	781 (5.75%)	290 (2.05%)	13.40%	$986B
Pan Asian-American*	302 (2.33%)	47 (0.36%)	578 (4.08%)	149 (1.05%)	5.80%	$1.2T

Source: ISS Analytics data compiled for LCDA, with 2019 data as of 6/18/19 and 2008 data dated 12/31/08

* Pan-Asian Americans includes both Asian and Indian American directors

** Directors totaled 14,231 as of June 18, 2019. Directors totaled 11,318 as of Dec. 31, 2008, excludes 972 (7.5%) of records where the gender or ethnicity is unknown

§ The Multicultural Economy 2018 (Selig Center for Economic Growth); Pew Research Center, Sept 2017 Report; 2017 report by LDC and Latino Futures; Fortune, Feb. 2018, A New Nielsen Report Puts Black Buying Power at $1.2 Trillion; and American Consumers Nielsen report for Asian Americans, May 2018

The Committee on Financial Services, hearing entitled: "Diversity in the Boardroom: Examining Proposals to Increase the Diversity of America's Boards", Thursday, June 20, 2019, at 10:00 A.M. Presented by Mr. Luke Visconti, Founder and Chairman of DiversityInc

Good morning, Chairwoman Waters, Ranking Member McHenry and distinguished Members of the Committee. Thank you for inviting me to testify.

I am Luke Visconti, founder and chairman of DiversityInc. I stepped aside as CEO on May 7 of this year. Carolynn Johnson, our CEO, asked me to provide today's testimony, she is with us today.

DiversityInc is a business publication dedicated to the business benefits of diversity. The cornerstone of our publication is the annual Top 50 Companies for Diversity competition. https://www.diversityinc.com/the-2019-top-50-diversityinc/

Diversity is commonly seen as an issue concerning everyone but white men. This is erroneous; Diversity is of concern to every American because our destiny is shared by all. Professor Steve Phillips, author of "Brown is the New White"recently wrote "there are 7,000 more people of color added to the US population every single day—as compared to just 1,000 whites—through a combination of births, deaths, and legal immigration." https://www.thenation.com/article/donald-trump-not-the-frontrunner-president-2020/

From a business perspective, diversity is an issue of profitability, ethical corporate governance and, for publicly traded companies, return on equity. It is not an issue for the future, it is an urgent issue of today.

A lack of diversity on corporate Boards of Directors is an ongoing and persistent problem across all industries, but in the banking industry, has an especially deleterious effect on our country, holding back our national GDP by denying equal access to finance, and as a result of poor workforce diversity, thwarting the innovation and talent needed to compete.

We have been conducting our Top 50 competition for 18 years, it voluntary and open to any company with more than 1,000 employees. There is no cost to compete and results have no association with business conducted with our company. Thousands of companies look at the survey, hundreds complete it. The survey takes a deep look at human capital performance and governance including supplier diversity. The survey has 1,200 fields of data, including board of directors, top four levels of management, total management, total workforce and management practices statistically associated with superior human capital results.

There are five banks on our 2019 Top 50 list, Wells Fargo at 13, TD Bank at 19, Key Bank at 36, HSBC at 40 and U.S. Bank (part of U.S. Bancorp) at 46. We do not disclose the companies who compete but do not rank, however we do not provide anonymity to companies who choose not to compete. Wells Fargo and TD are the only top 10 largest banks (as ranked in Wikipedia) in the US that compete for a spot on our Top 50. JP Morgan Chase, Bank of America, Citigroup, Goldman Sachs, Morgan Stanley, PNC and Capital One do not. Of note, AT&T, EY, PwC, Comcast, Abbott, Eli Lilly, MasterCard and TIAA – are all in top 15 of our list.

Of the boards of the 10 largest US banks, 30% of directors are women and 22% are non-white. This is better than the average for the Fortune 500 (16% women, 23% non-white), but far worse than the DiversityInc Top 10, 30% of women, 34% non-white. https://www.diversityinc.com/facts-figures/
It is important to note that for people in the age range of directors, more than half of 4-year degrees were earned by women.

There are several diversity management best practices that we have measured to be statistically associated with superior results. Only one is appropriate to a Board of Directors purview: An executive diversity committee (EDC), chaired by the CEO and meeting monthly is a practice common to 86.7% of Top 10 companies ("Top 10" includes six companies which have previously achieved number one on our list and are now in our "Hall of Fame": J&J, EY, Kaiser Permanente, PwC, Novartis and Sodexo). I have attended and presented to dozens of EDC meetings as a guest. Typically, meetings focus on metrics-driven results and accountability of diversity management efforts, particularly regarding advancement and retention of non-majority groups, especially "high potential"people in management. This would be an easy report-out to a board and, standardized, could be included in the EEO-1 report.

However, the board must be competent to understand a diversity report. Unfortunately boards of financial institutions are not competent in managing their own diversity. The progress of everyone not white and male in banking executive leadership and board seats is too slow to leave to non-accountable techniques, in my opinion. For example, the "Rooney Rule" was established in 2003, but it did not work for the NFL, which remains a de facto plantation as 88% of head coaches, 97% of owners snd only 30% of players are white.

Fair access to capital is an essential competitive advantage for our country (and one of three conditions that Dr. King said were necessary for a person to become a citizen), but will remain an aspiration until boards of directors develop the discipline to have fair representation themselves. Continued non-disclosure, lack of transparency and a complete lack of accountability will only result in stasis – unrepresentative boards unable and incompetent to provide strategic leadership required for banking services to a country that has grown and continues dramatically growing in its diversity. In my opinion, regulation to ensure fair and equitable representation on bank boards would greatly benefit our nation.

CATALYST
WORKPLACES THAT WORK FOR WOMEN

Catalyst, a global nonprofit working with some of the world's most powerful CEOs and leading companies to help build workplaces that work for women, appreciates the opportunity to provide a written statement on the topic of Diversity in the Boardroom: Examining Proposals to Increase the Diversity of America's Boards. We, along with our Alliance for Board Diversity (ABD) partners The Executive Leadership Council, the Hispanic Association on Corporate Responsibility, LEAP (Leadership Education for Asian Pacifics) and Diversified Search, know the importance of achieving greater gender, racial, and ethnic parity in corporate leadership, and continue to provide research, knowledge and solutions towards this goal.

There is a strong business case for gender parity on boards and in leadership. It is desirable not only for the sake of fairness and equity. It would also enhance the United States' ability to compete and flourish in a global economy. How effectively businesses can leverage diverse talent is critical to this country's long-term competitiveness. Catalyst research shows that companies with more women on their boards are linked with better corporate social performance and philanthropic initiatives. Companies with greater gender diversity increase their ability to draw from top talent, better serve their customer base by reflecting diverse perspectives, and enjoy higher levels of innovation, creativity, and effectiveness. Governments and business leaders around the world now recognize that they must draw from all talent in order to succeed. In other words, diversity is undeniably seen as a competitive advantage.

Transparency and disclosure are two actions that allow progress toward gender parity on boards of directors. Research shows that transparency and disclosure, in combination with other policies, such as imposing director term limits and insisting on diverse candidate slates when hiring and promoting staff, have increased gender diversity. Clearly, these actions can boost women's representation in corporate leadership.

At the end of the day, while there are many ways to increase women's representation in corporate leadership, what's essential is that we do so—and quickly.

DIVERSEFORCE

Our experience in building one of the nation's largest citywide professional networks of color (www.uppn.com) helped our team to arrive at a profound conclusion. For all of our work in organizing and building a network of nearly 20,000 Black professionals in the Greater Philadelphia region, engaging and connecting these extraordinarily talented professionals was simply not enough. We knew we could do more. And we realized that communities of color, first generation higher ed grads, and women all needed more than just skills. They needed the ability to access mentors, sponsors, and social networks to support their professional advancement throughout the duration of their careers. UPPN proved that the talent was available, but there did not exist a systematic cultivation process to usher that talent into the most elite spaces in the professional world – the board room.

DiverseForce™ was born out of these experiences and insights. In the worlds of Diversity, Equity and Inclusion, many stakeholders in the Human Resources and/or professional recruitment space will mention the lack of a talent pipeline. For these hiring and recruiting professionals, the primary barrier to diversifying the boardroom (and by extension the workplace) is prohibitive, if not impossible, because of their inability to identify, attract, retain, and/or promote leaders of color. We have witnessed these conversations in CEO searches, Board nomination discussions, and on university presidential search committees. Unfortunately for too many organizations and for far too many corporations, the discussion (and the effort) ends there. If there is no pipeline – there is no way for women and people of color to fill leadership positions. Furthermore, without the capacity to access certain leadership development opportunities and experiences, how will women and people of color ultimately earn seats at the board room table?

DiverseForce™ is making a powerful intervention into closing the aspiration, leadership, and wealth gaps that continue to persist in the 21st Century. The data is overwhelmingly clear on the business case for diversity. According to McKinsey & Company's 2015 "Diversity Matters" study: "companies in the top quartile of ethnic diversity are 35% more likely to financially outperform those companies in the bottom quartile of diversity." DiverseForce™ provides high tech and high touch human capital solutions in response to an increasingly digital, diverse, and transient talent culture.

In order to be as deliberate and effective as possible, our team at DiverseForce™ has fully implemented a program designed to create organic pipelines for leadership through meaningful civic engagement and nonprofit board service. We understand the deficit of leaders (and leadership) that plagues much of corporate America. We also understand how that mainstream deficit has an exponentially more challenging impact on women and people of color who aspire to ascend to the C-suites and Board of Directors of public, private, and institutional non-profit organizations.

DIVERSEFORCE

The opportunity for DiverseForce™ has been clear. Through our growing network, we recruit some of the most talented people for our non-profit and for-profit clientele. But we also provide direct services to those in our network/talent community that will prepare and propel them into the leadership positions and board rooms for which they are destined. Non-profit board service might be the best kept secret in terms of providing leaders of color with the training grounds for organizational leadership and governance, while gaining exposure and access to diverse social networks at the highest echelons of the public and private sectors. These are the social networks that make recommendations and nominations for public and private boards.

Non-profit board leadership is a tool for talented professionals who want to grow as leaders. The DiverseForce™ program trains and matches professionals of color to serve on boards. Through our six-module training process and ongoing continuing education classes with our alumni, we train each of our cohorts on the fundamentals of board governance. In our program potential leaders learn how to make their presence felt on boards by helping organizations to institutionalize diversity, equity, and inclusion throughout the entire organization and therefore serving our communities more effectively. We also educate our cohort members on how board service can be a stepping stone to help them develop their leadership skills, build their professional networks, and learn how to use these skills and networks to advance their corporate careers or entrepreneurial ventures.

The goals of our program are simple, effective and proven to create the desired impact of diversifying non-profit board service and preparing diverse leaders for some of the most exclusive professional opportunities in the corporate world. Our program participants have immersive experiences that allow each of them to develop:

- Leadership Qualities of Effective Board Members
- Understanding Leadership Styles and How They Impact Participation On a Board
- Understanding and Navigating Organizational Cultures
- How to Gain Influence without Authority
- Decision Making and Problem Solving
- Strategic Thinking and Planning Skills
- Effective Communication Skills
- Cultivating Relationships for Power and Influence

As our team at DiverseForce™ prepares for the next two cohorts to enter into the aforementioned leadership pipeline, we have already set our sights on the future of Diversity, Equity and Inclusion in corporate leadership and human resources. The next stage in our organization's advancement will be the realization of **The P4 Hub** in a Philadelphia, PA Opportunity Zone. The P4 Hub is the public, private, and philanthropic partnership hub for advancing racial equity and excellence. Inspired by the rise of the purpose economy, The P4 Hub is fueled by a new generation of diverse and socially responsible professionals. We are in an era

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where more and more professionals, especially millennials, are driven to grow personally, build meaningful relationships, and make a positive impact. The P4 Hub will be an 11,000+ square foot, state-of-the art facility for co-working, co-learning, and creating collective impact with strategic programming to develop racially diverse leadership pipelines and inclusive ecosystems across all sectors.

Collaborative and collective impact will be hallmarks of The P4 Hub. In this physical space we will develop some of the most comprehensive pipelines that organizations will require for building the diverse workforce of the future. For more details and information on The P4 Hub and its development please contact us at the contact information below.

We are overwhelmingly grateful for this opportunity to share our passion for the important work of diversifying the upper echelons of leadership across all sectors. We hope that our work at DiverseForce™ can enhance and inform your efforts going forward.

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THE EXECUTIVE LEADERSHIP COUNCIL
The Power of Inclusive Leadership

Submitted to the U.S. House Financial Services Committee
"Diversity in the Boardroom: Examining Proposals to Increase the Diversity of America's Boards"
June 20, 2019

The Executive Leadership Council
Corporate Board Initiative

Background
Since 2004, The Executive Leadership Council (ELC) has collaborated with its partners in the Alliance for Board Diversity (ABD) – Catalyst, HACR (Hispanic Association on Corporate Responsibility), LEAP (Leadership Education for Asian Pacifics) with assistance from the Prout Group – to conduct a bi-annual census of women and minorities on corporate boards. Historically, corporate boards were nearly exclusively the domain of white males. Over time, a few women and several black board directors were nominated and appointed to board seats. Clifton Wharton became chair of pension fund TIAA-CREF after assuming his role as CEO, and Reverend Leon Sullivan became the first black corporate board director with General Motors.

Subsequently, more black leaders were nominated for board seats including the late Congressman William H. Gray III (PA), Vernon E. Jordan, Jr., Ernesta G. Procope and Dr. Reatha Clark King. Over nearly 10 years of tracking the appointments of women and minorities to corporate boards, it was evident that little progress was made and that the recycle rate, the same people appointed to multiple boards, was high.

In 2011, The ELC set an aspirational goal to increase the number of African Americans serving in CEO positions and those one to two levels below in each Fortune 500 company by a net addition of at least one per company and to increase the number of seats held by African Americans on the corporate boards of publicly traded companies by at least 200 within five years. As a result, the organization partnered with two key sponsors – *Heidrick & Struggles* and *Kraft* – to identify and prepare a cohort of ELC members for corporate board training and networking opportunities to position them as candidates for boards of directors. Over the years, The ELC worked with other partners including EY and AT&T to identify and develop black executives prepared for the rigors of board service. Today, there are four cohorts actively engaged in The ELC's Corporate Board Initiative.

Increasing Representation of African Americans on Corporate Boards of Directors
Few would dispute that the most powerful influence in corporate America resides in the collective body that are the boards of directors. A board not only stewards the shareholder assets and holds the ultimate power to select the leadership of the corporation but is itself comprised of business and community leaders with power and influence within their own independent enterprises and regions. Having a seat at that table is critical for the inclusion of African American thought and issues. It is also critical for the effective development of African

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American business leadership. Equally, it is important to include the diversity of thinking represented by African Americans (as well as other groups) on boards of directors to maximize shareholder value. Having more African Americans serve as directors will not only show a company's commitment to inclusion, but more importantly will improve the company's performance through the creativity that results from diverse thinking and approaches to problems/opportunities.

The ELC inarguably represents the single largest concentration of the most senior African American executives in corporate America. Collectively, they are the best trained and most accomplished group of African Americans in business today. They represent a pool of executives that are in some cases "ready now" and in nearly every case can be made "board ready." Whether primarily to better prepare themselves for career advancement to the highest level within their own organization or to contribute their accumulated business acumen post career, many are motivated to include board service on their already impressive résumés.

Awareness. Readiness. Visibility.
There remains an opportunity for companies to fast forward their efforts to increase the number of successful, highly qualified African American executives on their boards of directors. Currently, of the approximately 5,670 *(2018 ABD Report)* board of director seats in the Fortune 500, 8.6 percent or roughly 486 of those seats are held by African American directors. Additionally, of those 486 black directors, about 154 or 2.7 percent are African American women directors. Since 2011, the number of seats held by African Americans (ELC and non-ELC members) has increased by a net addition of 359. However, given the number of board seats available, this increase is relatively modest given the offset of people cycling off, resignations, retirement and death.

A net addition of nearly 200 corporate board seats held by ELC members is a dramatic improvement in board inclusion and clearly requires a continuous, intentional effort to maintain forward progress. To achieve the goal set in 2011, The ELC implemented several actions to assist corporate America with improving board diversity, including the following:

- Continued to conduct research to document the facts concerning African American participation on corporate boards of directors
- Raised public awareness of the lack of and the need for African American inclusion on corporate boards
- Proactively promoted board ready ELC members and other African Americans to executive search firms and to companies with pending open board seats

These actions, as well as others, have helped accelerate achieving the objective of having more African Americans serving on corporate boards, and adding dramatically to corporate America board-level inclusion. The most critical piece to our success is the assistance ELC members and

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other potential candidates are obtaining to become "board ready." Through programs such as The ELC's Corporate Board Initiative, we are providing targeted coaching, governance training, and modeling which helps ELC members and a broader section of African American executives in corporate America enhance their skills and abilities to be strong, effective corporate board members.

At the recent ELC Membership Meeting in Chicago, ELC worked with the National Association of Corporate Directors and EY to emphasize the skills necessary to create real shareholder value for a company. ELC also conducted a CBI Boot Camp, an intense half-day orientation to the roles and responsibilities of corporate board directors. The boot camp was designed to educate ELC members interested in exploring corporate board service as a professional option, and to allow ELC members to benefit from expert guidance on how and where to begin. We introduced corporate board service and the importance of sound governance practices and fiduciary responsibilities, addressed current issues facing board directors today, and provided networking, resume tips and interview preparation guidance.

The Corporate Board Initiative is just one of several ELC efforts from the classroom to the boardroom that contributes to achieving meaningful inclusion in and the sustained success of America's corporations.

NBA
National Bankers Association

June 27, 2019

TRANSMITTED VIA ELECTRONIC MAIL

The Honorable Maxine Waters
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Patrick McHenry
House Committee on Financial Services
4340 O'Neill House Office Building
Washington, D.C. 20024

Dear Chairwoman Waters and Ranking Member McHenry:

The National Bankers Association ("NBA") is the leading trade association for the country's minority depository institutions ("MDIs"). This year, we celebrate 92 years of leadership working to ensure a more inclusive and mission-oriented banking industry.

As noted during last week's Committee on corporate board diversity, the business case for diverse leadership in the boardroom is clear, and there is a role for everyone to play in supporting the pipeline of diverse candidates for corporate boards. To that end, we would like to offer our member bank CEOs as a potential candidate pool for corporations seeking diverse board leadership. We believe that our chief executives bring both substantial executive experience and an awareness of low and moderate-income communities and communities of color that would be of immediate value to corporate boards.

The banking industry is one of the most regulated industries in our economy. Our member CEOs manage our member institutions and navigate an increasingly complex regulatory landscape as well as their own board-management dynamics, so they bring unique, diverse perspectives that we believe are often missing in corporate boardrooms. The banking environment is one where our leaders take on the responsibility to ensure that trust, compliance, risk management, and governance are adhered to and balanced in a manner that supports the organization's mission daily.

We believe that including our member CEOs within the universe of potential corporate board members is a win-win-win for our CEOs, corporate boards, and our member institutions. Corporate boards receive seasoned executives with experience balancing complex issues and understanding industries that our banks serve. Having our member CEOs serve on corporate boards lends our institutions increased credibility and exposure and increases our stakeholder base as more people are introduced to work of our member institutions and our CEOs. And finally, this expands the network and skill set of our CEOs by serving larger, more complex organizations that are confronted with local, national, and global challenges that they can then bring back to our member institutions.

As demonstrated throughout the hearing, the need for inclusion and diversity across the private sector is evident. The NBA supports both H.R. 281, the "Ensuring Diverse Leadership Act of 2019", and H.R. 1018, the "Improving Corporate Governance Through Diversity Act of 2019" as well as the Committee's broader efforts to diversify the financial services sector.

The NBA stands ready to become a part of the solution by offering our member CEOs as a part of the pool of diverse, board-ready talent that could be tapped in support of the Committee's efforts to diversify corporate boardrooms. We commit to submitting the resumes and biographies of our member CEOs and we look forward to being a resource to the Committee moving forward on this important issue.

Respectfully,

Kenneth Kelly

Kenneth Kelly
Chairman, National Bankers Association
Chairman & Chief Executive Officer, First Independence Bank