

HEIDRICK & STRUGGLES

**Testimony of
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***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 Lumbrá, 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.