

CORPORATE SOCIAL RESPONSIBILITY

Follow the Money: Wall Street Drives the C-Suite and the Board to Embrace Diversity

by Mike Grandinetti



Image Credit | Clay Banks

There's now a higher level of focus on DEI in the C suite and the board room.

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During the Watergate scandal, the whistleblower known as “Deep Throat” provided an invaluable insight that helped Pulitzer Prize winning reporters Bob Woodward & Carl Bernstein break the story wide open. The advice was simple but powerful: “Follow the money”

It’s especially appropriate for what’s happening today in public company board rooms & executive suites. The most influential smart money, including BlackRock, the world’s largest asset manager with \$9 Trillion under management, and CALPERS, the largest hedge fund in the US with \$444B under management, have come to the consistent conclusion that diversity in the board room and the executive ranks drives superior operational performance and financial returns for public companies. As a result, they’re aggressively pushing their portfolio companies to fully embrace this long-overdue shift.

A July 2020 article in CMR excoriated business leaders with the provocative title: **“Private Sector: Don’t just stand there. Do something BIG!”**. 15 months later, it appears that the money managers and US public companies have listened and that something big is underway. There are strong indications that the US business community has begun to move beyond empty promises to take decisive action.

Wall Street demands change

Here are a few significant initiatives which point to a much broader trend in terms of how the “smart money” is driving:

- BlackRock, under Managing Director Larry Fink, is using its unrivaled financial power to aggressively push for greater diversity amongst board members. It voted against the re-election of 1,862 Directors in 975 portfolio companies in 2020 due what is perceived to be a lack of Board diversity.
- CALPERS’ Investment Director of Corporate Governance Simiso Nzima, says that “diverse teams out-innovate and outperform their peers operationally and financially”. As a result, CALPERS demands that companies in which it invests tie executive pay to performance on DEI metrics.

- Board ESG & Compensation committees are taking heed. In 2020, 165 companies in the S&P 500 tied executive compensation directly to achieving DEI targets, up from 5 just 2 years ago. I expect it to be much higher for calendar year 2021.
- NASDAQ recently instituted a policy mandating that at least two board members of its listed companies identify as ‘diverse’.
- Chief Diversity Officers report that Wall Street and institutional investors are paying close attention to their DEI metrics and the rate of change in their improvement. These ESG C-suite executives devote far more of their time to meeting with investors and are expected to share performance metrics far more rigorous than what was expected just a year ago.
- Felicia Mayo, a Black woman, is Chief Diversity, Talent and Culture Officer for Nike. Previously she served as a Diversity Executive at Oracle, Juniper Networks and Tesla beginning in 2001. She tells me that combining both the Diversity and Talent portfolios is critical as she has far more visibility into and influence over the career experiences of Nike employees of color. She further shared that she spends a significant amount time answering meeting with buy - side investors, who delve very deep into Nike’s DEI metrics. She adds that this is unprecedented in her 20+ year career.

Board representation and board dynamics

Money talks. This is finally moving the needle in the corporate world. Some powerful signals include:

- The percentage of Black executives serving on public company boards of directors is growing quickly. 79% of S&P 500 corporations today have at least one Black board member versus 61% in 2019. Over the past year, S&P500 companies quadrupled the share of new directors who are black, and doubled those who are Latino, according to Spencer Stuart. 75% of new directors are from under-represented groups, including women.
- Analysis from the Black Enterprise Registry of Corporate Directors “Boardroom Power Report” from 26 October 2021, reports consistent findings and provides further context. There are now 399 African American directors at S&P 500

companies, including JP Morgan Chase, Citigroup, American Express, Airbnb, Starbucks, Walmart, Salesforce, ExxonMobil and FedEx Corp.

Black Women are making significant progress

The Black Enterprise Registry includes 155 Black women directors out of the total of 399 total Black directors. Prominent directors include former Xerox CEO Ursula Burns, who is on the boards of Uber, Exxon Mobil, Waystar and the Endeavor Group. Valerie Jarrett, the former Obama administration senior advisor, is on the board of Walgreen Boots, USG Corporation and Ralph Lauren. Melody Hobson, co-founder of Ariel Investments, is board chair at Starbucks and a director at JP Morgan Chase. Economist. Author Dambisa Moyo is on the boards of 3M, Chevron & Conde Naste. Rosalind Brewer had the distinction of being the first and only black women director on the board of Amazon, before stepping down to become CEO of Walgreen Boots in February 2020.

Preparing the next generation of diverse board members and corporate leaders

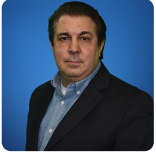
There is still more to be done. 20% of the S&P500 have no Black board representation.

One challenge is to significantly grow the pool of Black board ready directors. Today, the same relatively small group of Black leaders - both male and female- are recruited time and again, leaving many board - ready members of color waiting for their first opportunity to contribute.

Leaders like Shellye Archambault, former CEO of Metric Stream, and a protégé of Ben Horowitz of Andreessen- Horowitz, has taken on board roles at Okta, Nordstrom, Roper Technology and Verizon. She now lets executive recruiters know she has a full plate, has proactively cultivated and mentored a community of board - ready Black female protégés to refer to “head hunters” who come calling.

Conclusion

The implications of the above is that today there a far higher level of focus on DEI in the C suite and the board room. Money talks. CEOs listen. Intently.



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Mike Grandinetti teaches courses on entrepreneurship and innovation at Harvard and Brown and lectures in Berkeley's Engineering Leadership Professional Program. A former Silicon Valley engineer and McKinsey consultant, he's been a CxO for 8 VC-backed tech startups. Two went public on the NASDAQ.