

Diversity and Inclusion on Nonprofit Boards is Effective Stewardship

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Many institutions recognize the need for diversity and inclusion on their boards and investment committees. Diverse and inclusive boards can make more effective decisions, design and deliver appropriate services and initiatives for diverse individuals and communities, and are better able to compete in an era of scarce resources when an increasing number of donors care about diversity within organizations seeking their support.

Most recently, a 2018 report from the Indiana University Lilly Family School of Philanthropy, in partnership with BoardSource and Johnson, Grossnickle and Associates, found that nonprofit boards with higher levels of gender, age, and racial/ethnic diversity tend to have

more engaged members. More engaged members have the capacity to improve decision-making, philanthropic engagement, community building, and advocacy.¹

Although there seems to be agreement in principle that boards make better decisions if diverse viewpoints and experiences are part of their deliberations, bringing together and including diverse viewpoints is more difficult than it sounds.

Traditionally, the boards of organizations such as foundations, colleges, hospitals, libraries, and other

¹ "Diversity Can Lead to More Engaged Board Members, Study Finds." Philanthropy News Digest. Accessed 1 October 2019. <https://philanthropynewsdigest.org/news/diversity-can-lead-to-more-engaged-board-members-study-finds>.

cultural institutions have been predominantly white. This is reflective of a similar trend in the corporate sector.² According to *Leading with Intent: 2017 BoardSource Index of Nonprofit Board Practices*, which surveyed over 1,750 executives within the industry, 90% of all nonprofit CEOs are white, as are 84% of board members. That's up from its 2015 findings, which were 89% and 80% respectively.³

Although these statistics are sobering, there may be several factors to explain them.

Defining Diversity Can Be Difficult

Diversity has different definitions depending on the organization. The Merriam-Webster dictionary defines diverse simply as "differing from one another." While there is no formal definition for diversity in the corporate and nonprofit world, most organizations define diversity in terms of gender, race, ethnicity, and sexuality. Diversity can also extend to age, socioeconomic status, ability, veteran status, and more. For example, in the field of finance, although there are other considerations, generally someone is considered diverse if they are female, a person of color, and/or a member of the LGBTQ community.

Boards Don't Have Diverse Networks

New board members are typically recruited from among the friends, acquaintances, and business associates of those already on the board. This system, of course, tends to make boards homogeneous. It often takes great effort for board members to reach beyond their immediate circles and bring people of different backgrounds to the table. Inertia and lack of time for board work combine to discourage organizations from expanding their recruitment horizons. While tradition and lack of effort may be reasons that keep boards from changing their demographic profile, racism, sexism, and negative sentiments toward disabled people and the LGBTQ community may be underlying reasons for the lack of certain types of diversity in some organizations.

Narrow Categories of Diversity

Many institutional nonprofit leaders who are pursuing diverse board membership refer to adding women and

² "Missing Pieces Report: The 2018 Board Diversity Census of Women and Minorities on Fortune 500 Boards." Deloitte. Accessed 1 October 2019. <https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/missing-pieces-fortune-500-board-diversity-study-2018.html>.

³ "Foundation Board Leadership: A Closer Look at Foundation Board Responses to *Leading with Intent 2017*." BoardSource. Accessed 1 October 2019. <https://leadingwithintent.org/wp-content/uploads/2018/03/LWI2017-Foundations-Report.pdf>.

persons of different racial and ethnic backgrounds to predominantly (or entirely) White male boards. They often overlook the many other categories of diversity, such as social class, sexual preference, religion, disability, age, or area of expertise. Expanding the categories of diversity also expands the conversation around inclusion and equity, and the effort required to make sure that diverse members feel safe to self-identify and have the resources, tools, and accessibility needed to fully participate.

Do More Diverse Investment Committees Perform Better?

A study conducted by HEC Paris Business School and MVision Private Equity Advisors found that gender-diverse investment committees of private equity fund managers have experienced comparatively higher returns against their male-only peers. Companies in the top quartile for gender diversity were 21 percent more likely to outperform their peers.⁴ The study concluded that gender-diverse investment committees outperform all-male committees in alpha by 7 percent. Men and women tend to have different investment techniques, which could influence return. A more diverse investment committee has more points of view, encouraging any potential investment decision to be considered more carefully. While this process may be lengthier, it is much more robust.

For Foundations and Endowments, there is limited information regarding the demographic composition of Nonprofit Investment Committees. The Commonfund Institute has begun to include questions in its benchmarking surveys that attempt to capture some of this information. The more we know about the composition of investment committees the more we can help to achieve diversity on them. As more research on this topic is conducted, the industry will be able to establish that for nonprofit institutions managing large pools of capital, a diverse investment committee can lead to opportunities to realize higher returns.

What is the Future for Board and Committee Diversity?

Regulation to force board diversity continues to gain some traction in the corporate world. Significant legislative strides have been made in Europe already;

⁴ Owens, Elijah. "Female-Inclusive Investment Committees Are Outperforming Their Peers." Chief Investment Officer. Accessed 1 October 2019. <https://www.ai-cio.com/news/female-inclusive-investment-committees-outperforming-peers>.

Norway, for example, adopted a 40 percent women director standard in 2003. Other European countries, such as Germany, Spain, Belgium, Italy, and France, have instituted a quota on female directors as well. Although no federal United States laws require a certain number of diverse directors, in 2018 California became the first state to institute a diversity mandate, requiring at least one female director for boards with four or fewer directors, two female directors for boards with five directors, and three female directors for boards with six or more directors.

If the momentum to increase board diversity in the corporate world is any indication, we may see additional steps being taken to ensure that nonprofit institutions accelerate efforts in this area.

Recently, a new study commissioned by the administration of New York City Mayor Bill de Blasio, highlighted that while about two-thirds of New Yorkers are people of color, two-thirds of the people who run its cultural institutions are white. After years of analyzing the imbalance, the city is now asking these institutions to put plans in place to diversify their boards and senior staff, or risk their funding being cut.⁵

Additionally, major foundations that fund large nonprofit institutions are emphasizing diversity and inclusion in their grantmaking. In a recent Op-Ed, Darren Walker, President and CEO of the Ford Foundation commented that “boards need to include members from more diverse perspectives and backgrounds. After all, no institution in a democracy that aspires to reflect society, or serve the public, can do so without representing the communities that constitute it.”⁶

Stakeholders who fund, support, and are connected to nonprofit institutions need to continue to advocate and push for diversity and inclusion at the highest levels of leadership. These steps forward, although trending positively at a slow pace, need to continue for other types of diversity and inclusion efforts in the nonprofit sector to be successful.

Below are Processes that Boards Can Put in Place to Make Strides Forward:

INSTITUTE TERM LIMITS

From a governance standpoint, term limits for board members is generally understood as a best practice. Term limits, especially when staggered, allow a board the opportunity to bring new people with different perspectives on to the board while balancing the need for institutional memory and leadership.

BRING IN SEVERAL DIVERSE BOARD CANDIDATES AT A TIME

If your board is homogenous, then bringing on one diverse member may make the new member feel alienated and tokenized. Bringing on new board members in cohorts, especially new members who are diverse, may mitigate some of that perception and potential discomfort.

CONSIDER ADVISORY BOARDS IN TANDEM WITH BOARDS

Screening, recruiting, and onboarding board members can be a long process. An advisory board can be another way to increase the diversity of voices and perspectives and create a pipeline to the board. With that said, for an advisory board to be effective, their participation must be meaningful.

RECONSIDER TYPES OF EXPERTISE

Reconsider the types of “expertise” needed for effective governance. Sometimes diverse candidates are brought on for different reasons. Focus on what you need first, then go get diverse candidates who can supply that need. Having a clear understanding of your organization’s mission and the skills needed on the board to achieve the mission will allow you to focus on recruiting for perspective, passion, and skill.

DON'T KNOW WHERE TO START, SEEK HELP

If your board is having a difficult time getting started, or doesn’t even know where to begin, there are resources and toolkits available to help boards self-assess and formulate a game plan toward a more diverse and inclusive board. Also, there are search firms that specialize in helping boards recruit diverse members as well as board development consultants that train boards on issues concerning implicit/unconscious bias and diversity and inclusion to promote governance best practice.

Endnote:

“Why Diversity, Equity, and Inclusion Matter for Nonprofits.” National Council of Nonprofits. Accessed 1 October 2019. <https://www.councilofnonprofits.org/tools-resources/why-diversity-equity-and-inclusion-matter-nonprofits>.

5 Jacobs, Julia. “New York Knows Its Arts Organizations Have A Diversity Problem. Now What?” New York Times. Accessed 1 October 2019. <https://www.nytimes.com/2019/07/29/arts/design/diversity-new-york-culture.html?searchResultPosition=3>.

6 Walker, Darren. “Museums Need to Step Into the Future.” New York Times. Accessed 1 October 2019. <https://www.nytimes.com/2019/07/26/opinion/warren-kanders-whitney-protests.html>.



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