

Strength in Diversity: The Changing Boardroom

By John Chiang

There is broad agreement that a diverse corporate board is good for business. Boards that include a wide range of skills and experiences provide for a dynamic team to oversee company strategy, risk mitigation and management performance. As a board member of both the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), two of the nation's largest public pension funds, I have seen how we enhance our competitive advantage by drawing on a wide-range of investment talents, market experiences and different perspectives. This is why I have fought for strategies that recognize that the broadest and deepest boardroom talent can be an asset to the companies we invest in.

In February 2008, I asked CalPERS and CalSTRS to consider a new initiative to better address board diversity in their corporate governance program. Despite widespread acknowledgement that diversity underpins the composition of a healthy board; women and minorities continue to be underrepresented in the boardroom. For example, a 2008 report by the Alliance for Board Diversity found only 17 percent of the board seats on Fortune 100 companies were held by women and minorities.

As shareholders, we want the companies that we invest in to be thinking about how to achieve long-term success, and we know that companies need different combinations of talent at different stages of their development. Because business in the 21st Century is a global game that will require boards to draw upon new perspectives and experiences which are relevant in a multicultural world, diversity is more than just the traditional notions of gender, age, nationality and race.

Board diversity is about bringing a broader range of thoughts, perspectives, and competencies that define good leadership to the boardroom. This is why I asked the CalPERS Board to commission a study on board diversity in an effort to find empirical evidence that different combinations of talent can lead to increased shareowner value. The report, *Board Diversification Strategy: Realizing Competitive Advantage and Shareowner Value*, told us companies without ethnic minorities and women on their boards eventually may be at a competitive disadvantage and have under-performing share value. Furthermore, the research suggests that boards with diverse skill sets tend to enhance performance for key financial metrics such as return on equity, return on sales, and return on invested capital.

When I asked CalPERS and CalSTRS to better address diversity in their corporate governance programs, they answered the call by specifically addressing the issue when nominating directors, establishing best practices for corporations to follow in seeking a well-rounded board, and actively engaging companies, which includes filing shareholder proposals that address diversity when appropriate.

CalPERS has integrated corporate governance, diversity, and environment issues across their reform agenda for long-term, responsible share ownership. CalPERS now also includes board diversity as an engagement topic when placing companies on its Focus List for poor corporate governance or performance, encourages proxy voting firms to adopt our board diversity principles, and is developing best practices for corporations to follow when seeking diverse board candidates.

CalSTRS recently announced that firms named in six of eight shareholder resolutions agreed to actively consider diversity as a criterion when recruiting board members. Those firms are

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Digital River, Hansen Natural, Waddell and Reed, Kirby Corporation, Eagle Materials and Helix Energy. I take this as a solid indication that our call to strengthen the boardroom is being heard.

On September 10, 2009, CalPERS and CalSTRS organized a forum on corporate board diversity at the Stanford University Rock Center for Corporate Governance to constructively discuss broadening the director pool of talent. This was followed by a special workshop of institutional investors and market participants at the Council of Institutional Investors meeting in Los Angeles on September 30th, where we discussed strategies for action and formed a well-balanced working group that leads by example in drawing upon our diverse talents. The working group met again on November 18th in Washington, DC, hosted by the International Corporate Governance Network. We are pleased to continue the debate on the role of shareholders in director nominations and are working with company representatives, corporate governance experts and diversity

advocates on developing this new and diverse pool of director candidates.

We are working hard on the issue of corporate diversity, and we are making progress. When institutional investors like CalPERS and CalSTRS argued to the Securities and Exchange Commission (SEC) that boards should disclose how they address diversity in their nominations process, the SEC listened. The SEC adopted amendments to Item 407(c) of Regulation S-K to require disclosure of whether, and if so how, a nominating committee considers diversity in nominating directors. This step alone will not only help us understand if a board or nominating committee has a diversity policy, but will also disclose to us how the policy is implemented and how effective it is assessed. And this step will serve as a catalyst as we engage companies to bring strength to the boardroom.

It is my belief that there is strength in diversity. I am pleased to share news of each step we make to help corporate boardrooms maintain a competitive edge by tapping into a broader range of talents, ideas and viewpoints.