FOREWORD

Diversity and inclusion are central to Deloitte's values and are embedded in the firm's culture as core competencies for leadership. Our experience has shown us that to engage diverse talent, build inclusive leaders, and foster an innovative, courageous, and equitable culture, we must start at the top. Boards have a responsibility to lead the way.

That is why when I became chair of Deloitte's US board a year ago, one of my early actions was to commission a team to assess our own board's ability to effectively govern inclusion. Inspired by the findings of a 2019 Wharton study on board culture commissioned by Deloitte, and in collaboration with Deloitte Consulting's Diversity, Equity, & Inclusion practice, the very first *Board Inclusion Framework* was developed.

Through this framework, we were able to understand and authentically address where we are on our inclusion governance maturity journey, and what our priorities in achieving greater strength to that end should be. Instilling a culture of individual accountability, and reexamining influence on decisions, firm strategy, and behavior both inside and outside of the boardroom enabled our board to more effectively respond to what became the ultimate pressure test—the onset of the COVID-19 pandemic and subsequent demonstrations against social injustice. While we, like many, are still in the early days of learning through these crises and assessing what our 'next normal' will be, if one mission is abundantly clear, it is to emerge stronger on the other side.

Our intention by sharing the *Board Inclusion Framework* as part of Deloitte's collaboration with NACD NXT™ is to provide tangible ideas for leaders who recognize that a diverse and inclusive board leads to better outcomes. And, as we move toward a more equitable future against the backdrop of a post COVID-19 world, it couldn't come at a better time.

–Janet Foutty, US Executive Chair of the Board, Deloitte

Board Inclusion Framework

ENABLING BOARDS TO GOVERN INCLUSIVELY

Deloitte

Inclusion is an issue of importance permeating all aspects of an organization. What can boards do to further promote and solidify an inclusive culture at the organizations they oversee? A great deal, as it turns out. Boards have a meaningful role to play in building an inclusive enterprise, and they can govern in ways that put C-suites and organizations on a positive path.

This framework is designed to help boards explore their role in governing inclusion and initiate conversations on inclusion at the board level.

This Framework Offers

- A structure to set the foundation for understanding board-level inclusion and inclusion governance, and for understanding how boards can think about promoting and embedding an inclusive culture at the organizations they oversee
- Initial questions that board members can ask to assess their own board's level of inclusion governance
- Key insights and actions for boards to help improve their inclusion governance practices

Introduction to the Board Inclusion Framework

What are diversity and inclusion?

While diversity and inclusion may be inextricably linked, they are not one and the same. Boards can benefit by understanding the distinct definitions of both diversity and inclusion: [1]

- **Diversity** refers to the presence of people who, as a group, have a wide range of characteristics, seen and unseen, which they were born with or have acquired. These characteristics may include their gender identity, race or ethnicity, military or veteran status, sexual orientation, ability, experience, background, skill set, perspective, and more.
- **Inclusion** refers to the practice of making all members of an organization (including board members) feel welcomed, giving them equal opportunity to connect, belong, and grow—to contribute to the organization, advance their skill sets and careers, and feel comfortable and confident being their authentic selves.

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[1]   Mike Fucci and Terri Cooper, "The Inclusion Imperative for Boards: Redefining board responsibilities to support organizational inclusion," *Deloitte University Press*, April 2, 2019.

Why should boards care about inclusion governance?

Conversation about the board's role in influencing inclusion across the organization is rare in the boardroom. In 2019, Deloitte reviewed board committee charters at more than 100 of the largest US-based companies and found that while 65 percent of charters mentioned diversity and inclusion, the references most often only pertained to demographic composition (diversity).[2]

It is important for boards to promote inclusion *as well as* diversity. The benefits organizations receive from having an inclusive culture, along with a diverse workforce, are substantial. In an inclusive culture, employees are much more likely to see themselves as part of a high-performing organization in which teams collaborate and client and customer needs are more consistently met. Teams that are both diverse and inclusive also often perform better—promoting less groupthink and more innovation. In fact, the board, as a team, can exemplify this pattern. For example, when comparing low- and high-performing boards, high-performing boards are more likely to exhibit gender balance and inclusive behaviors.[3]

These benefits can translate into financial results. When operating in an inclusive culture and through inclusive talent practices, organizations generate up to 30 percent higher revenue per employee,[4] are more profitable than their competitors, and become eight times more likely to achieve positive business outcomes.[5]

In short, because diversity alone does not guarantee that organizations are able to bring a wide variety of insights, life experiences, and perspectives to bear on their challenges and opportunities, boards should also value and promote inclusion as a separate yet connected priority to diversity. To do this, boards should understand their role in overseeing inclusion both within their boardroom and for their broader organization.

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[2] To assess whether corporate boards are engaged in inclusion governance the authors conducted a review of a nonstatistical sample of board committee charters for 136 companies ranked among the Fortune 500 as of February 2018. The authors researched the various existing board committees within the Fortune 500 firms, and chose to review charters of committees with titles that indicated a potential focus on human resources, people development, or diversity and inclusion (such as "public issues and diversity review committee" or "compensation and human resources committee"). Charters were downloaded directly from their organizations' websites.

[3] Deloitte Access Economics Proprietary Ltd., Toward Gender Parity: Women on Boards Initiative, October 2016, p. 70.

[4] Mike Fucci and Terri Cooper, "The Inclusion Imperative for Boards: Redefining board responsibilities to support organizational inclusion," *Deloitte University Press*, April 2, 2019.

[5] Stacia Sherman Garr, Candace Atamanik, and David Mallon, "High-Impact Talent Management: The New Talent Management Maturity Model," the WhatWorks Brief, Bersin by Deloitte, 2015. Please also see Juliet Bourke and Bernadette Dillon, "The diversity and inclusion revolution: Eight powerful truths," Deloitte Review, Issue 22, January 2018, p. 85.

Where Does Your Board Stand Today?

Five Key Areas For Board Responsibility and Oversight

The ability of boards to practice inclusion governance—and to do it well—does not happen overnight. It requires intentional and genuine effort, alignment, and commitment from all board members, and involves embedding expectations for inclusive behaviors and decision making into standard boardroom procedures.

Boards should consider diversity and inclusion through five key areas of the board's organizational oversight, as defined through Deloitte's Governance Framework.[6]

		How boards can…
	STRATEGY	…help management define a **common vision** for what inclusion means and embed it directly into the **business strategy**.
	GOVERNANCE	…operate with an **inclusion lens** and demonstrate **inclusive governance practices**.
	TALENT	…embody **inclusive leadership traits** among their own members and hold management accountable for developing **talent that demonstrates inclusive behaviors**.
	INTEGRITY	…hold the board and organization accountable for setting the tone and **putting inclusion values into practice** both inside the organization and in the marketplace.
	PERFORMANCE	…hold the entire organization—itself, management, and all employees—accountable for **high performance in inclusion**.

Gauging Boards' Inclusion Governance Maturity

Below are initial questions, spanning across each of the five key areas, that boards can consider as they develop hypotheses about their current level of inclusion governance maturity. These questions should be answered by openly and honestly assessing board member traits and behaviors.

These questions are intended to facilitate initial boardroom discussions on target areas for early improvement, *not* to provide a comprehensive current state analysis. They can also guide boards on how to challenge management teams with actionable asks related to inclusion.

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6   Deloitte, "Framing the future of corporate governance: Deloitte Governance Framework," 2016.

STRATEGY

- How aligned are board members on their definitions of "diversity" and "inclusion"?

- How does the board help to make inclusion strategy an integral part of the organization's business and focus of management strategy?

GOVERNANCE

- How effectively does the board document and communicate the expectation that its members will practice inclusive behaviors in the boardroom and govern through an inclusion lens?

- How does the board challenge management to consider the impacts to the organization's diversity and inclusion when making strategic decisions?

- Does the board have an intentional process for considering diversity and inclusion throughout succession planning for both directors and the CEO?

TALENT

- How effectively do the board's norms and practices within the boardroom organically promote inclusive behaviors and outcomes?

- To what degree does the board hold management accountable for developing and maintaining an equitable talent strategy?

- How seriously does the board consider inclusive leadership traits when governing leadership succession, including in the candidate pipeline, development, and compensation? [7]

- How strongly does the board challenge management to cultivate inclusive leadership capabilities across the workforce?

INTEGRITY

- How effectively do all board members actively demonstrate inclusive traits and behaviors beyond the boardroom (e.g., speaking broadly about inclusion, embodying inclusive traits in daily life, etc.) in accordance with the organization's definitions of "diversity" and "inclusion"?

- How regularly does the board pursue an understanding of its internal (workforce-based) and external (market-based) perception of the organization's reputation for inclusion and current practices?

PERFORMANCE

- Is inclusive behavior a formal criterion for evaluating the board's own performance and the performance of its senior leaders and executives?

- How regularly does the board discuss with management the success of current efforts and the pursuit of new efforts to improve the organization's diversity and inclusive culture?

- How strongly does the board hold management accountable for implementing effective systems and metrics to understand the organization's inclusive behaviors, for monitoring progress on diversity and inclusion, and for mitigating non-inclusive behaviors and outcomes?

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[7] Deloitte, Bourke & Dillon, *The six signature traits of inclusive leadership, Deloitte Insights.* 2016

How did you do?

To gauge a board's maturity level of inclusion governance practices, consider the answers to each of the above questions. Which questions were easy to answer and which were hard? What areas might warrant more focused attention from the board?

What does it look like to practice inclusion governance?

Boards should be continuously assessing their level of inclusion governance maturity and discussing ways to improve. Deloitte's Inclusion Governance Maturity Spectrum defines five possible stages of maturity at which boards operate in their inclusion governance journey: Compliant, Emergent, Embracing, Integrated, and Inclusive.

The maturity spectrum offers a standard lexicon for board members to align on the board's current state of inclusion governance practices. It serves as a foundation for directors to develop a common vision for the future and as a way to work to improve their inclusion governance practices together. It is most useful as a lens through which boards measure progress *against themselves*.

BOARD INCLUSION MATURITY SPECTRUM

1 COMPLIANT

2 EMERGENT

3 EMBRACING

4 INTEGRATED

5 INCLUSIVE
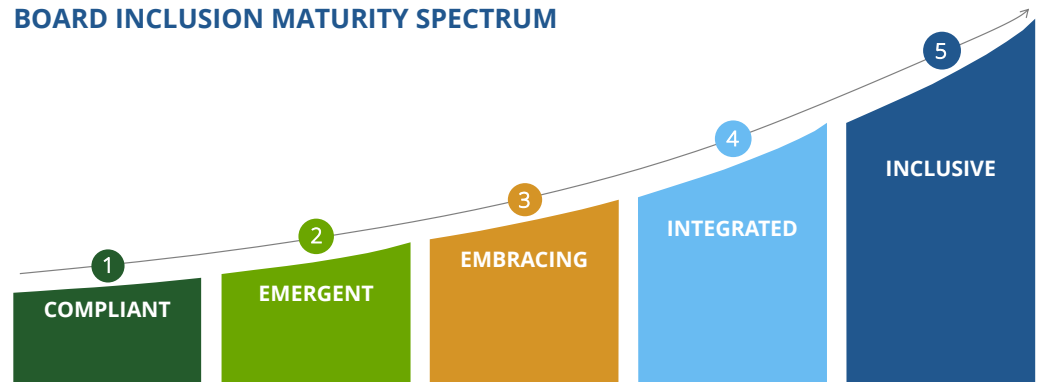
Source: Deloitte

QUICK TIP

You'll note that the upper right-hand corner of the spectrum is an arrow. This is intentional; there is no endpoint to inclusion governance maturity. Expectations for organizations are a moving target as the topic of inclusion continues to evolve.

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	A board at this inclusion governance maturity level...
1 COMPLIANT	...seeks to **avoid legal risks** and does not pursue an inclusion strategy with management or actively promote inclusive boardroom behaviors.
2 EMERGENT	...recognizes the importance of diversity and inclusion but believes they fall entirely under the purview of management. **An inclusion strategy may be in place, but the board has little or no influence** and does not actively oversee it.
3 EMBRACING	...sees the value of inclusion governance but may not currently govern in such a way or actively seek to do so. **The board values the inclusion strategy but sees it as separate from its business strategy**.
4 INTEGRATED	...understands the importance of inclusion governance, demonstrates ability to practice it, but may not have explicitly documented expectations on how to carry it out. **The board governs the inclusion strategy as core to the business strategy**.
5 INCLUSIVE	...formally embeds inclusion expectations in the board's governance policies and charters, **consistently governs through an inclusion lens**, and regularly challenges and supports management in enhancing the organization's diversity and inclusion efforts and progress.

For a board to strengthen its ability to govern inclusively and move upward on the Board Inclusion Maturity Spectrum, the board should understand, assess, and continuously look to improve its practices within each of the five key areas of board oversight.

Where Do You Go From Here?

Common Inclusion Governance Pitfalls

For boards at any maturity level, practicing inclusion governance means recognizing collectively which actions and mindsets to adopt and which to avoid. Below are a few common inclusion governance pitfalls:

1. **Misconstruing diversity and inclusion to be one and the same:** When speaking about diversity and inclusion together, especially when using the term D&I, the two separate yet connected concepts are often misconstrued as one. In this case, it is more common to focus on the diversity aspect, erroneously omitting the importance of inclusion.

   Board actions: Boards should set clear direction on both the diversity and inclusion visions for the organization, and collaborate with management to develop and share distinct yet connected definitions of *diversity* and *inclusion*.

2. **Governing inclusion in a silo:** Some boards can fall into the trap of believing that diversity and inclusion apply only to talent—or human resources—related decisions or topics. By viewing inclusion in a talent silo, boards and management teams miss critical strategic opportunities to strengthen diversity in all areas of the business, including finance, customer service, marketing, brand, and community involvement.

   Board actions: Boards should strive to govern the inclusion strategy in a way that demonstrates that it is *core to the business strategy*, and consider both diversity and inclusion implications when making decisions and advising management on strategic priorities, even those in areas that are not traditionally associated with diversity and inclusion (e.g., risk management, mergers and acquisitions). Boards should also collaborate with management to clearly delineate their respective roles, responsibilities, and accountabilities related to diversity and inclusion.

3. **Overemphasis on benchmarking:** Organizational leaders often look to diversity and inclusion benchmarking to evaluate the board or organization against peers as a means to determine what "good" looks like. Although there is value in understanding industry and competitor progress on diversity and inclusion, reliance on comparisons can lead to merely incremental rather than the significant change that is needed to achieve real progress toward diversity and inclusion goals across all areas of the business.

   Board actions: Boards should conduct comprehensive diversity and inclusion maturity assessments to understand their current state objectively and holistically, and then develop plans to close gaps and advance maturity. Boards should also encourage management to conduct a similar maturity assessment for their broader organizations to pursue organization-wide diversity and inclusion progress.

4. **Weak diversity and inclusion ties to leadership succession and performance:** Without tying diversity and inclusion to succession and performance measures, an organization is often unable to achieve either strong diversity in its leadership ranks or a truly inclusive culture. This stagnation is perpetuated by less-mature boards that do not hold management accountable for taking action to create these ties.

    Board actions: Boards should hold management accountable for taking proactive measures and establishing strong ties to diversity and inclusion within succession and performance management processes. These measures and ties should also be applied to board member recruitment and selection, in addition to evaluation processes.

5. **Limited investment in diversity and inclusion strategies:** To be effective in creating an inclusive culture, an organization should not only conceptually integrate diversity and inclusion into all business practices, but it should also have requisite investment in diversity and inclusion. Doing so goes beyond hiring a team of diversity and inclusion professionals or delivering a diversity program—it also requires investing in the right tools, technology, and resources. Less-mature boards and organizations typically grant minimal annual budget toward advancements in diversity and inclusion.

    Board actions: Boards should collaborate with management teams to understand their organizations' diversity and inclusion needs, gaps, and goals; realize opportunities for remedy or progress; and invest sufficient funds to create true impact toward progressing their organizations' inclusive cultures.

Starting the Conversation

This framework is not intended to provide a one-size-fits-all solution. Each organization should adapt its inclusion governance approach to reflect its own needs and characteristics. Tone from the top matters, and boards are in an ideal position to advance the inclusion agenda for their organizations. To evolve inclusion governance maturity, board members must first collectively lean in and acknowledge their role in the conversation.

Consider the following steps to initiate the conversation on inclusion governance in the boardroom:

1. Articulate the current state of the board's approach to inclusion governance.
2. Define a vision for governing inclusion across all five key areas, and assess the board's current state against that vision.
3. Identify what can be done to achieve inclusive governance goals.
4. Implement the changes necessary to accomplish those goals and measure progress.

This NACD NXT™ Board Inclusion Framework was developed with contributions from the following Deloitte professionals:

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NACD, in collaboration with NACD NXT™ founding, lead program, and content contributor Deloitte, has created a multiyear initiative focused on helping directors and boards understand how to leverage the power of diversity and inclusion to create long-term value. CACI, Heidrick & Struggles, and Semler Brossy serve as program and content contributors to the initiative.