U.S. SENATOR ROBERT MENENDEZ *for* NEW JERSEY

CORPORATE DIVERSITY REPORT

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EXECUTIVE SUMMARY
RESULTS OF THE 2011 CORPORATE DIVERSITY SURVEY

SENATOR ROBERT MENENDEZ

EXECUTIVE SUMMARY

About the Survey

Following on a successful first survey in 2010, a second voluntary survey was sent to all Fortune 500 companies requesting demographic data on their board of directors, executive management teams and suppliers. In addition, this new survey requested information on professional services suppliers, which includes legal, consulting, financial and accounting services – a cohort that is many times overlooked within traditional supplier plans and data collection. By 2012, a total of 196 Fortune 500 and 66 Fortune 100 companies responded, a participation rate of about 40% and 66%, respectively, a similar response rates to the first survey. Again, no individual company data was revealed, and those companies that chose not to participate are listed at the end of this report.

The purpose of this survey was to hold corporate America's feet to the fire, so to speak, and monitor any progress or set backs on diversity. According to the most recent census figures, of the general population, women represent more than 50%, Hispanics/Latinos comprise 16.3%, African Americans/Blacks represent 12.6%, and Asians comprise 4.8%[i]. Collectively, racial and ethnic minorities represent 36.6% of the total population [ii]. And for the first time in history, minority births represent more than 50% of all children born in the U.S.

Clearly, companies should want their leadership to represent this growing demographic and market force that will be vital to their sustainability and long-term success. In fact, companies are already making record profits marketing to diverse communities. The combined buying power of African Americans, Asians and Native Americans is currently at more than $1.6 trillion and is estimated to increase to $2.1 trillion in 2015, accounting for 15% of our nation's total buying power[iii]. And Hispanics/Latino purchasing power will increase to $1.5 trillion in 2015, representing 11% of the nation's total buying power alone[iv]. Given the importance of these communities to driving corporate profits, it is important that they be represented among the leadership of these companies.

Put simply, there is a business case for diversity to be made.

- A study commissioned by CalPERS found that companies with diverse board exceeded Dow Jones and NASDAQ average returns over five years, and companies that did not have diverse boards were at a competitive disadvantage.[v]

- Advocacy groups like Catalyst have found that Fortune 500 companies with higher percentages of women board directors significantly financially outperform companies with fewer women directors[vi].

- Calvert issued a study in 2010 that found that those companies that demonstrate robust commitment to diversity, in addition to competitive financial performance, are better positioned to generate long-term value for their shareholders[vii].

- And a 2010 report by the National Association for Female Executives found that the stocks of all twelve Fortune 500 companies with female Chief Executive Officers rose an average of 50% in 2009, compared to the 25% average for the Standard and Poor's 500 leading companies[viii].

That is why this report contains an Action Plan for Diversity, or a set of strategies that can be implemented immediately to begin to change corporate culture and make inroads on diversity. Many of these suggestions have come to light through the Working Group on Diversity or directly from participating companies that have been successful with their own diversity efforts. This Action Plan is a useful tool to help companies begin to embrace diversity and make changes for the better.

KEY FINDINGS: What Has Changed Since 2010?

Corporate Board Diversity

- Although the presence of White/Caucasian men decreased across corporate boards and executive teams, minorities and women still remain significantly underrepresented compared to their population figures. In 2011, White/Caucasian men comprised an average of 7.99 board members compared to an average of 8.28 board members in 2010.

- Women are better represented on boards when compared to other minority groups. The average number of women per board increased slightly – 2.24 in 2011, compared to 2.14 in 2010 as did minority representation -- from 1.73 in 2010 to 1.92 in 2011.

- Although the percentages of Hispanic/Latino, African American/Black and Asian directors increased slightly, the actual average number of directors from each of these groups remained about the same. For example, although the percentages of African-Americans/Blacks increased from 8.77% in 2010 to 9.33% in 2011, the average number of board members from this group stayed at about one out of every 11 directors. Like in 2010, African Americans/Blacks do better overall on corporate boards than other minority groups, excluding women. Hispanics/Latinos still have one of the worst representations when compared to other groups; in fact, 60% of companies that participated had zero Hispanics on their board.

- Most companies that participated in both 2010 and 2011 did not add any women or minorities to their boards. Among participating companies, the total number of board seats held by women increased by only 6 and those held by minorities increased by 14. As a result, the number of seats that White/Caucasian men held fell to 66 seats. Hispanics/Latinos saw a net gain of 10 board seats and Asians saw a gain of 5 seats. However, African/Americans/Blacks saw a loss of 4 board seats between 2010 and 2011.

Executive Management Teams

- Similar to 2010, women are better represented among executive leadership than they are on corporate boards, with an average of 3.30 women per executive team compared to an average of 2.24 on corporate boards.

- There are still far too many companies that do not have even a single minority on their executive management teams. Out of nearly 200 companies that participated in the survey, 49 have no minorities, 140 companies have no Hispanics/Latinos, 114 companies have no African Americans/Blacks and 134 companies have no Asians in executive leadership.

- Although African Americans/Blacks do better proportionally than other minority groups on executive teams, their representation has decreased since 2010 from 4.23% to 3.99%. Compared to 2010, both Asians and Hispanics/Latinos see an increase in their proportional representation, yet the average number of Asians and Hispanics/Latinos on executive teams remains about the same.

- When comparing companies that participated in the survey both years, the proportion of White/Caucasian men compared to other members of executive teams has decreased, while the total number of leadership slots held by White/Caucasian men increased by 43 total positions. The number of positions held by women increased by 19 and minorities hold 22 additional positions. Hispanics/Latinos saw an increase of 10 total positions, while the number of African American/Black leadership positions declined by 11. The number of executive leadership positions filled by Asians increased considerably from 76 to 95 – a total of 19 slots.

Supplier and Professional Services Diversity

- There was an overall decline in spend with diverse suppliers since 2010, which could be attributed to the significant increase in the number of companies that shared data on supplier diversity. Whatever the explanation, companies still have significant room for improvement on supplier diversity.

- Approximately 60 Fortune 500 companies track spending with diverse suppliers when it comes to professional services. Women-owned firms had higher representation among suppliers and professional services providers than all other groups at 6.74% compared to 0.93% for Hispanic/Latino-owned firms, 1.26% for African American/Black-owned firms and 2.00% among Asian-owned firms. However, nearly 90% of all professional services do not go to women or minority-owned firms.

Written Diversity Plans and Use of Executive Search Firms

- The benefit of written diversity plans was again mixed and suggests companies must go beyond written plans to really effect change. Not having a written plan adversely impacted board representation for all groups at various levels, but the representation of women and African Americans/Blacks on boards was most impacted.

- Among executive teams, not having a written plan significantly decreased the presence of women. In fact, all the Fortune 100 companies that did not have a written diversity plan had zero African Americans/Blacks in senior leadership. Written plans in general either did not impact or negatively impacted Hispanic/Latino or Asian representation on both boards and executive teams.

- Written diversity plans improved supplier diversity for most groups, and conversely, not having a written plan or a plan with targets significantly reduced supplier spend among most groups, especially women-owned and Asian-owned firms. However, Hispanic/Latino-owned firms are generally not well-served by these plans as having a written plan correlated with less spend with Hispanic/Latino-owned firms.

- As in 2010, a discussion of diversity when using executive search firms also produced mixed results for diversity. Across all companies, the failure to discuss diversity leads to far greater representation of White/Caucasian men on executive management teams, and less women and minorities, although Hispanic/Latino representation does not really benefit from such discussions.

ACTION PLAN FOR DIVERSITY

The results of this survey are clear: women and minorities continue to be underrepresented at the highest levels of management and among supplier chains. In fact, among companies that participated in both 2010 and 2011, most did not add a woman or minority to their leadership, and much of the gains made by some companies were undone by the loss of diverse leadership in other companies. Clearly, more needs to be done.

Since the first diversity report, many innovative and voluntary strategies for improving diversity have come to light, both through Senator Menendez' informal Working Group on Diversity, as well as directly from companies that have completed the survey and have made successful inroads on diversity. Below are some of the best ideas that can help take diversity to the next level. Some of them repeat the 2010 list of recommendations because they are indeed effective, and other ideas are new to the list.

1. **Ensure that Diversity is a Priority at the Top.** A company is only as successful as its leadership, and diversity will only improve when leadership makes diversity a priority. CEOs must take diversity seriously and be actively engaged in diversity efforts by meeting regularly with company leaders in charge of diversity and overseeing diversity plans. Otherwise, there can never be meaningful change. This is especially true if efforts are simply coming from the middle management up, only to be nullified at the top, because in the midst of everything else diversity is not really a top priority. Given the many other immediate demands on a CEO, it is easy to see how diversity can get pushed to the bottom of the list; however, CEO involvement is a key indicator of success.

2. **Understand the Business Case for Diversity.** It is well documented that companies reap record profits in part by tapping into the powerful buying power of diverse communities; for example, Hispanic purchasing power currently exceeds $1 trillion and will reach $1.5 trillion by 2015[ix]. However, the business case for diversity is not always well-understood or even truly believed among corporate leaders. Diversity just for diversity's sake is not always a motivating factor. Realizing that diversity is good for business, and driving diversity for this reason is game changing, and can help a company remain competitive in an increasingly diverse and changing global society. Numerous studies have documented the positive benefits of diversity on company success.

3. **Measure Success with Annual Reviews and "Scorecards" Across Company Operations**. It is critical that diversity not just be a priority on paper, but that managers and senior leadership track progress on diversity within all departments. This includes workforce hiring, but also supplier spend and professional services spend. All Departments should have quarterly and annual goals. And when it comes to supplier spend, goals should not simply be to increase total spend with diverse suppliers, but to increase the number of diverse vendors. Scorecards should be issued regularly and show whether diversity goals have been met or not. Departmental Managers should meet with company leadership annually and review scorecards.

4. **Ensure Benchmarks/Targets are Ambitious Enough**. Unfortunately, too often the goals that can be easily met are outlined in written diversity plans, but more ambitious benchmarks are left out in order to avoid failure. Such mediocre or minimal goals really are a disservice to

ensuring diversity becomes a priority, not just to say a goal has been met, but to really effect long lasting change and progress.

5. **Link Success (or Failure) in Meeting Goals to Manager Bonuses.** Along with making sure goals are ambitious enough, a key component to ensuring scorecards or other tracking measures work is to tie the results of these benchmarks to manager bonuses. Meeting (or not meeting) goals should be tied to at least 10-15% of bonuses as incentives to meet quarterly and annual goals. Moreover, if a department consistently fails at meeting goals, other departments should be brought in to help where they can since diversity should be a company-wide priority.

6. **Outline Specific Consequences for Failure to Meet Diversity Goals.** Equally important to incentivizing diversity through bonus pay is ensuring that there are consequences in terms of reductions in compensation or other actions for not meeting diversity goals. Leadership should be clear that diversity is not just a goal to be met, but an important aspect of company performance, and should be measured as such.

7. **Account for U.S. Diversity vs. Foreign Nationals When Tracking Employee and Board Diversity.** As this survey differentiated between foreign nationals and U.S. based employees, foreign nationals should be considered separately when it comes to assessing diversity. Having a foreign national based in another country as part of senior management is quite different than having a U.S. based senior manager of diverse background who understands his/her community here in this country.

8. **Account for Professional Services When Devising Supplier Diversity Plans.** Traditional supplier diversity plans devised by supplier departments are not sufficient to capture other professional services corporations contract out. Companies should account for these types of professional services and track them annually. These services can include accounting, investment management, legal and other types of services that companies may contract outside firms to complete due to efficiency and cost-effectiveness. Professional services diversity is many times overlooked, but it is indeed an area that needs improvement.

9. **Implement Mentoring Programs for Promising Managers.** Many companies that have had success with diversity have implemented structured and meaningful mentoring programs in which mid-level managers with promise are mentored in a meaningful way by the CEO and senior leadership. These programs require significant time investment by the mentor and should be structured in a way that they become a key component of a company's diversity plan. Mentors can be positive advocates for their mentees, especially when it comes to intervening on a mentees' behalf for promotions.

10. **Create both External and Internal Advisory Councils to Help with Recruitment.** Forming advisory councils to focus on diversity is critical to developing relationships within specific communities as well as identifying potential candidates for positions when they are available. The Councils should not only be formed when there is a crisis. There should be separate Councils for each diverse group, and each Council should report to the CEO and senior company leadership. The External Councils should be comprised of community leaders that have extensive networks in their respective communities, and Internal Councils should be comprised of a mix of senior management and mid- to lower-level management.

11. **Expand Relationships with Organizations Tied to Diverse Communities.** Although philanthropy on its own is not enough, philanthropy can have some positive benefits on workforce and supplier diversity simply through the networks formed by developing relationships with such non-profit organizations. By forming ties with philanthropic organizations that do work in certain underserved communities and by serving on their Boards, a network essentially is created where potential candidates for Boards and management can be found. These organizations also can help connect companies with promising students who can be offered the opportunity of an internship and be groomed to become future leaders within a company.

12. **Provide Employees Flexibility at the Workplace.** Providing employees the flexibility to manage their careers and also spend time with their family is important to ensuring a pipeline of stellar employees that are loyal and can be groomed for senior management in the future and can aid in workforce retention. Creating a culture of flexibility within the workplace can ensure that employees who do have young children or ill relatives to take care of are not unfairly penalized when it comes to career advancement.

13. **Utilize Opportunities for Board Diversity When Companies Go Public.** It is a fact that there will be times when underperforming companies are bought out by private equity firms that will take them public, or when formerly private companies go public for the first time. In this process, companies will have to either reform or create a new board of directors. This provides a good opportunity for companies to seek the most diverse, qualified candidates for director positions and can have the quickest and most profound impact on board diversity.

[i] U.S. Census, 2010 decennial figures www.census.gov/quickfacts

[ii] In a first, census figures show that minorities make up more than half babies born in U.S." AP, 5/17/12

[iii] Selig Center for Economic Growth, January 2012 http://www.terry.uga.edu/news/releases/2010/minority-buying-power-report.html

[iv] Selig Center for Economic Growth, January 2012 http://www.terry.uga.edu/news/releases/2010/minority-buying-power-report.html

[v] http://www.calpers.ca.gov/eip-docs/about/press/news/invest-corp/diversification-strategy.pdf

[vi] "Advancing Women Leaders: The connection between Women Board Directors and Women Corporate Officers" Catalyst, 2008 http://www.catalyst.org/publication/273/advancing-women-leaders-the-connection-between-women-board-directors-and-women-corporate-officers

[vii] Calvert Study: Corporate Diversity Still Coming Up Short for Women, 10/28/2010 http://www.prnewswire.com/news-releases/calvert-study-corporate-diversity-still-coming-up-short-for-women-106078313.html

[viii] National Associate for Female Executives Top 50 Companies, 2010 http://eblasts.workingmothermediainc.com/NAFE2010_ExecSummary.pdf and http://www.workingmother.com/nafe-top-companies-female-executives/2010-nafe-top-50-companies

[ix] HACR 2011 Corporate Inclusion Index and Accountability Strategy