



## Best Practice Guide

# Using Corporate Governance for Accountability and Inclusion

Good corporate governance, particularly in the form of a Board of Directors, is an essential component of running a financially viable and successful business and maintaining the ethical integrity, social and environmental impact, and inclusion of an organization.

This guide will provide direction on how and when to create a Board of Directors that will deliver the best results for your business and its stakeholders. Specifically, this guide will:

1. Provide an introduction to corporate governance, boards of directors, and advisory boards
2. Help you determine when a formal Board of Directors is appropriate for your company
3. Share the essentials of setting up your board and its structure
4. Outline different strategies to recruit board members, particularly focusing on how (and why) to prioritize diversity among your board members
5. Show how to maximize the value of your Board by using them effectively

## An Introduction to Corporate Governance

Many different factors go into starting (much less running) a successful business, including strategy, mission, vision, and culture. On top of all of that, key business decisions require systems of accountability that make sure even managers and executives are making sound judgments. These mechanisms and systems of accountability are collected under the term *corporate governance*.

### Corporate Governance (noun)

The system of rules, practices and processes by which a company is directed and controlled.<sup>1</sup>

Clear and formalized corporate governance provides a variety of advantages to a company, including:

- Clarity to investors and other stakeholders about how decisions in the company are made
- Incentivization and accountability to high company performance, both financial and non-financial
- Objectivity in decision-making by incorporating different types of expertise and perspectives
- Ethical oversight, both to avoid unnecessary social or environmental impacts and damages to the company's reputation

Corporate governance systems can have varying levels of formality depending on the company. In some circumstances, particularly in smaller companies, owners and managers might govern business decisions informally, and complex governance structures might serve as an unnecessary constraint or burden to the business.



“ We chose to create a Board of Directors even though we weren't required to by law so we could be guided by people we respected not only professionally but personally. We wanted a team who could contribute their wisdom and knowledge, each bringing their own strong suits to the table that would overall strengthen us as a whole. Without our Board, we would not be where we are today. Their guidance, resources and contributions have helped us in areas where we don't have expertise. Having them readily available makes solution-seeking quick and gives us confidence.”

- Jodi Scott, Co-Founder at [Sierra Sage Herbs](#)  
(Certified B Corp since 2016)

In other cases, particularly as the company takes on broader ownership or grows larger or more complex, a company might establish more formal governance bodies either voluntarily or in order to fulfill a legal requirement based on its corporate form and the jurisdiction where the company is incorporated.

While the concept of corporate governance may encompass many different topics within a company, including the methods in which shares of the company are structured or how decisions are made by internal managers, this guide will focus on one primary aspect of corporate governance: how governing bodies can guide company decision making.

**Generally speaking, there are two categories of governing bodies that a company might consider:**

### **Board of Directors**

*(noun)*

**A group of individuals that are elected as, or elected to act as, representatives of the shareholders to establish corporate management related policies and to make strategic decision on major company issues.<sup>2</sup>**

### **Advisory Board**

*(noun)*

**A group of individuals who've been selected to help advise a business regarding any number of business issues, but does not have authority to vote on corporate matters.<sup>3</sup>**

*Reflection Questions:*

- *How are the highest-level decisions made in your company currently?*
- *What accountability mechanisms might already be in place regarding those decisions?*
- *What is your company's corporate structure and jurisdiction, and how might that limit your decisions regarding corporate governance and governing bodies?*

# Choosing Between a Board of Directors and an Advisory Board

While having a formal governing body is frequently seen as a matter of legal compliance, some argue that all companies, regardless of whether mandated by law, should have one to improve decision-making and build the credibility and legitimacy of the business.<sup>4</sup>

## Legal Compliance and Boards of Directors

Some companies are required to have formal boards of directors or independent Board members depending upon local corporate law, how the company is registered, and its ownership structure. Other companies, such as Partnerships, may not be able to have boards with independent members, and others are not required but can do so by including it in the company’s bylaws.<sup>5</sup>

In circumstances where a board is required, if a company does not have evidence of a functioning Board of Directors there is the risk of liability “piercing the corporate veil,” meaning the limited liability offered by the corporate entity could be void, and owners of the company could be held liable for the company’s obligations.<sup>6</sup>

To navigate the potential implications of formal Boards of Directors, it is recommended to consult a legal expert.

While governing bodies like these might not be necessary for the smallest of businesses, they can still provide value and should be considered even if not legally required. The question then is in what type of governing body, and level of formality, is most appropriate for your company.

The primary difference between an Advisory Board and a Board of Directors is that a Board of Directors has the power to vote on major company decisions, including:

- Hiring or replacing senior executives of the company
- Selling the company or conducting an initial public offering
- Acquisitions of other businesses
- Preservation of the “mission” of the business
- Other key strategic decisions

Board members of a formal Board of Directors have a legal responsibility to make these decisions in the best interest of the company’s shareholders; this legal responsibility is often referred to as “fiduciary responsibility.” This means that a Board of Directors has not only formal control over the organization, but also “liability” for the company, meaning they can be held responsible for the decisions the company makes.

## Fiduciary Responsibility

*(noun)*

**A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property. Also called fiduciary obligation.<sup>7</sup>**

For more information on what constitutes fiduciary duty see [here](#).

An Advisory Board, on the other hand, does not have the formal power to make decisions or issue directives on behalf of the company or its owners, and therefore cannot be held liable (from a legal perspective) for the company's decision-making and performance. An Advisory Board provides guidance and advice; the company has discretion on whether or not to follow that advice.

### Mission-Aligned Governance

In some cases, companies may opt to expand the fiduciary responsibility of its Directors to include other stakeholders as defined by the company's articles of incorporation. For example, **benefit corporations** have a general stakeholder benefit clause that expands the responsibility of its Directors to include *all* company stakeholders, such as the environment, the community, and its customers. In regions where benefit corporation is not available, it may be possible to include a general stakeholder benefit clause by amending the company's articles of incorporation.

To learn more about mission aligned governance, see "The Basics of Mission Aligned Governance Best Practice Guide."

While a Board of Directors generally has more formal rules regarding the nature of meetings, their frequency, the topics that need to be discussed, and their record-keeping, Advisory Boards can be more informal and ad hoc. For all of these reasons, a Board of Directors is considered a higher level of accountability and governance than an Advisory Board, especially when comprised of *independent* members. Members of a Board of Directors are considered independent when they do not have a material relationship with the company or its ownership beyond their participation as a Director.

For small companies required to have a Board of Directors, Board Members are typically the owners/managers of the company. However, the real value of a Board comes from independent members.

### The Business Benefit of Having a Board of Directors

A 2015 study by Lodestone Global surveyed 272 privately held companies from around the world. 87% of companies reported increased revenues since implementing a Board of Directors. On average, Boards membership was approximately 50% independent.<sup>8</sup>

While this survey focused on mature companies (median revenue = USD \$61 million), even small companies can reap the benefits of expert advice, accountability, and connections that independent Directors provide.

Regardless of whether a company chooses to have a formal board or a board of advisors, both, provide opportunities for expert and stakeholder engagement, adding different perspectives to the company's strategy and how it operates.

**Here's a summary of all the key differences between a Board of Directors and an Advisory Board:**

	<b>Boards of Directors</b>	<b>Advisory Board</b>
<b>Function</b>	Oversee direction of company	Provide advice and guidance on the direction of the company
<b>Liability</b>	Yes: directors have fiduciary obligation	No: informal advisory capacity only
<b>Effort</b>	Requires higher degree of engagement and thus greater time and resources	Variable, does not need to be as time-consuming as formal Board
<b>Advantages</b>	Increased accountability, credibility, new perspectives, expanded network opportunities	New perspectives, expanded network opportunities, flexibility in how advisors are engaged
<b>Disadvantages</b>	Legal liability, more time/cost investment, reduction of management control	No formal accountability or oversight
<b>Required?</b>	Certain corporate forms are required to have a board, even if board does not have corporate members; publicly traded companies generally have board requirements, and external investors will frequently require it of private companies	No

## Impact Snapshot: Advisory Boards

### **Andy Smith Photography** (Certified B Corp Since 2011)

Andy Smith Photography, a sole proprietor photographer based in the United States, recognized the value of independent advisors for his company even as a small business and developed an advisory board that can provide recommendations and suggestions for improvement.

In order to help choose whether your company should have a Board of Directors or Advisory Board, consider the following:

- What expectations might there be about your corporate governance from stakeholders, including regulators, investors, etc?
- What resources can you commit to establishing, managing, and effectively utilizing governance structures?
- What are the specific benefits you are interested in from your corporate governance?
- Who are potential candidates for either board members or advisors, or what networks would you look to access, and what might their interest and level of engagement be?
- What experts can you discuss with, including current advisors or mentors, fellow company executives, owners/investors, and legal counsel?

In addition to choosing one or the other, given the unique advantages that both may offer, some companies might elect to have both a Board of Directors and an Advisory Board. In these circumstances, the Board of Directors plays the essential role of overseeing the company's performance, while the advisors provide expanded opportunities to engage with different experts and perspectives that, potentially for a variety of reasons, were unable to be incorporated on the formal Board.

## Impact Snapshot: Having a Board of Directors and an Advisory Board

### Falcon Waterfree Technologies

(Certified B Corp Since 2013)

Falcon Waterfree Technologies, a developer of high performance water conservation technology based in the United States, has both a Board of Directors and Advisory Board, with both made up primarily of independent members.

According to Andrea Chase, Marketing & Product Director at Falcon, the value of independent members "allows us to keep in mind several points of view including: environmental impact, community impact and customer impact. It also provides us with a larger and broader network to learn from, work together, etc."

Furthermore, the advisory board and formal Board of Directors offers two distinct values: "The advisory board is more high level to keep abreast of trends and assure we are in the know, whereas the Board of Directors get into the nitty gritty of the daily business. I guess you can say the Advisory Board allows us to be aspirational and push us whereas the Board of Directors helps provide insight and support on day to day business functions."

*Reflection Question:*

*Which types of corporate governance do you think is right for you, a Board of Directors, an Advisory Board, or both?*

## Setting Up Your Board

Once you've determined what type of governance is appropriate for your company, you'll need to go about setting it up. In order to do this, you will need to determine some key characteristics of how your board / advisors will function including its size, frequency of meetings, and rules.

### **Size:**

Generally speaking, the size of your Board of Directors will increase with the size and complexity of your business and can be expanded over time as necessary. The larger the Board, the more difficult it is to schedule meetings, and the more difficult it may be to ensure that all voices have the opportunity to contribute; so be sure to keep the total number of members manageable.

Small companies or companies just creating a Board of Directors will start out with smaller Boards, with recommendations suggesting in the 5-7 range.<sup>9</sup> It is also frequently recommended that a board be composed of an odd number of Directors in order to avoid the possibility of deadlocked votes.<sup>10</sup>

Advisory Boards, on the other hand, do not need to be limited to the above considerations, because they are not voting bodies and meet more informally. In many circumstances, an Advisory Board does not even need to meet together, but individual advisors can be called on individually as appropriate.

### **Meeting Frequency:**

Like size, meeting frequency also tends to vary by the size and stage of the company; in this case, the earlier the stage company, the more frequently it is recommended that they meet, as younger companies often need to be more nimble and flexible, keeping their core strategies under constant review. Meetings therefore could happen as frequently as monthly, while more established organizations will normally have board meetings on a quarterly basis.<sup>11</sup>

While board meetings can frequently occur via teleconference, enabling participation from a variety of locations, it is also recommended to have at least one meeting per year conducted in person. This can enable more active engagement from participants and the opportunity to spend a more concentrated period of time diving deeper on essential topics and will also help build a rapport and collegiality among board members that will make the group work together more effectively.

In addition to formal meetings, individual calls with members might be required through the course of an engagement. This should be communicated to board members.

Just as with size, the frequency of meetings of an Advisory Board can be much more ad hoc, conducting full meetings and individual calls as necessary.

### Impact Snapshot: Board Structure, Role and Composition

#### **Microfranquicias con Impacto Social**

(Certified B Corp 2015)

Microfranquicias con Impacto Social, a company that develops microfranchises to distribute our products and services to and through low income individuals in Colombia, has a formal Board of Directors of five individuals, made up of executives, investors, and one independent member. Board meetings are held monthly to discuss key business issues like actual performance relative to budget and projections, organizational structure and strategy, and key impact metrics. Members, particularly the independent member, provide specific expertise on the nature of franchise business models.



## ***Compensation:***

Depending upon the nature of your company and the relationship with your board members, they could either be compensated directly for their services or not at all.

For small closely-held businesses, the ability to compensate board members may be limited, and also may pose a conflict of interest between the director's obligations to the company and their payment. For these reasons, it is not necessary to compensate individuals beyond reimbursements for expenses accrued in service of the board (like travel to the board meeting). If compensation is provided, it is recommended that you create a formal compensation agreement.<sup>12</sup>

For larger companies, independent board members are more often compensated for their services, frequently based on the time commitment required, the nature of the organization, and the number of meetings per year. Compensation packages will frequently include a "per meeting" payment.<sup>13</sup> They may also be compensated through equity or stock options in the company as well.

## ***Board Purpose and Rules:***

Finally, the company should outline the formal responsibilities of the Board of Directors and the Directors themselves, as well as the formal rules by which they operate. These rules and responsibilities are generally outlined in the company's bylaws as well as Board Service Agreements that are signed by the board members themselves. See the appendix for samples and templates of each.

It is important to clearly define the role of the Board early on so that Board members, management, and employees understand how the company will be governed. Some questions to consider are:<sup>14</sup>

- What level of oversight will the Board have over management?
- What policies and systems are already in place, and what additional resources are needed to give the Board effective oversight?
- For what types of business decisions (if any) will the Board make a voting decision?

## ***Bylaws should include:***<sup>15</sup>

- Board composition (including the number of directors or a minimum and maximum number)
- Qualifications to serve on the board
- How Board vacancies are filled (by the board or by owners of the company, for instance)
- Length of term commitments or term limits
- Director duties
- Information about any board committees (including their purpose, membership, and/or how they are formed)
- Meeting information (including frequency, time and locations, format for informing participants, etc.)
- Management of conflicts of interest (board members not able to vote on matters that may affect them)
- Methods to amend the bylaws

*Term limits are designed to avoid "entrenchment" of company directors, allowing them to maintain independence and enabling new perspectives to contribute to the decision making of the company.*

## Finding the Right Board Members / Advisors

No matter how well you set up your governing body, it won't be successful unless it is composed of the right people. Whether they will be on a formal Board of Directors or serve merely as advisors, members should be able to bring a new level of expertise, perspective, and value, adding a different dimension to decision-making that complements the strengths of current board members, executives, and the company as a whole.

In order to identify the needs and expertise that would be valuable on your board, consider:

- ❑ **Strengths and weaknesses of your current leadership.** Be candid and honest about where the strengths of your organization lie, as well as what is necessary to take it to the next level or to round out those current strengths. If your leadership excels at business development and vision, but lacks strong operational experience, it might make sense to recruit board members with a strong operational background.
- ❑ **Current and future needs of your organization.** In addition to looking internally at strengths and weaknesses, it's also important to consider both the near-term and long-term opportunities for the organization and how different board members can contribute. Is global expansion in the mix? It might make sense to bring on a board member with experience taking companies international, or a board member from the market you are hoping to expand to who understands local business context and networks.
- ❑ **Business experience and leadership.** Particularly in the context of a formal Board of Directors, it is necessary to have individuals with the right business experience, expertise, and responsibility to provide meaningful oversight. Boards are required to make difficult and significant decisions on behalf of the company and its shareholders, which requires leadership, and, sometimes, courage.
- ❑ **Key stakeholders of the business.** Perspectives from the groups that are most affected by your company's operations can make a valuable contribution to the decision-making process. This could include non-executive employees, local community leaders, a supplier, experts in social or environmental issues, or, in the case of a company like Starbucks, the incorporation of a "millennial" perspective.<sup>16</sup>

Some companies choose to have "high-profile" or even celebrity board members as a means of enhancing the reputation or visibility of the organization, but without considering the elements above, that could come with real risks. Board members need to be actively engaged and have the ability and willingness to provide real oversight to the company.

Individual decisions about board members also shouldn't be made in a vacuum; for those creating their governing body for the first time and looking for new members, there is the opportunity to build your "ideal" board from the start. For companies that already have a governing body, it's important to consider how new members can complement and add diversity to the current mix of participants.

The diversity of the group and the perspectives and experiences that they have to offer is an essential component of developing an effective and impactful board. Not only does a diverse membership improve the functioning and success of the board, but a diverse governing body can create a trickle-down effect to improve the inclusivity of your organization, which itself is a key driver in building impactful, resilient, and successful businesses.

A successful board aims to cultivate membership with a broad spectrum of demographic attributes and other characteristics and to create a board culture that fosters meaningful input from all members.<sup>17</sup>

### The Business Case for Diverse Boards

Research shows that companies with more gender and racial diversity on their Board of Directors experience better financial performance, even when controlling for size, industry, and corporate governance structure.<sup>18</sup> A study of Fortune 500 companies in 2009 showed that companies with the highest level of gender diversity on their Boards experienced a 42% greater return on sales and a 53% higher return on equity than their peers.<sup>19</sup>

A successful board aims to cultivate membership with a broad spectrum of demographic attributes and other characteristics and to create a board culture that fosters meaningful input from all members.

### Diverse Boards perform better because they:

- Promote new ideas – A Board with diverse demographics and experiences allows your company to incorporate a range of perspectives into the strategic decision-making process.
- Understand all of your stakeholders – Diverse boards that represent multiple stakeholder groups and demographics enables more direct input about the needs, interests, and concerns of those stakeholders into business decisions.
- Reduce group think – “Group think” is a psychological phenomenon where real conflicts are overlooked and group consensus is reached without fully evaluating all of the alternatives.<sup>20</sup> Group think in the Boardroom is a material risk to businesses, and can be minimized through diverse Board membership.
- Enhance your company’s reputation – Prioritizing diversity in the boardroom demonstrates that your company is a responsible corporate citizen and takes inclusivity and accountability seriously.<sup>21</sup>
- Expand your network -- Diverse board members will themselves have networks that the company might not already have access to, create expanded opportunities for different groups to learn about your company, creating new business development and recruiting opportunities

While there is considerable evidence pointing to the value of diverse boards, and more and more companies are recognizing its importance, there are still challenges in identifying the path towards actually accomplishing a more diverse board.

*In 2016, women and minorities occupied a total of 31% of Fortune 500 Board seats for United States based companies. This included 16% of board seats occupied by Caucasian women, 11% by minority men, and only 4% occupied by minority women.<sup>22</sup>*



**Q&A with Robert Acton, Principal and Founder at Cause Strategy Partners** (Certified B Corp Since 2016)

**Why is board diversity essential to good business?**

*Public perception matters. Today, a board lacking in diversity simply doesn't pass the smell test. A homogenous board is also more likely to miss key opportunities and insights in a company's governance. Varied backgrounds offer a much wider range of perspectives.*

**What are three concrete steps that a company can take to increase the diversity of its board?**

1. *Take a census. Who do you currently have on your board? What are the gaps in terms of race and ethnicity, gender, other demographic areas, skill sets, and industries.*
2. *With this gap analysis in hand, build two or three one-page profiles describing ideal board candidates. The more specific you are in the profiles, the more likely you will source strong candidates who can fill a number of gap areas at once.*
3. *Then get the word out. Send these profiles around broadly in your network and ask for recommendations for people you should meet.*

**What's your advice for a company looking to recruit diverse candidates for its board?**

*Nobody wants to be asked to serve on a board solely because they represent a particular demographic group. Approach candidates with a range of specific ways they can be a unique contributor in your boardroom.*

The most frequent challenge cited to increasing diversity in governing bodies is the inability to find qualified individuals to serve. There are, however, a number of ways to overcome the misconception that there aren't qualified candidates from diverse backgrounds and experiences ready to serve on governing bodies.

**1. Communicate openly with current (or potential) Board members:**<sup>23</sup>

Whether you are establishing a Board for the first time or increasing the diversity of an existing body, not all Board members will have the same perspectives on what diversity and inclusion mean, nor whether it should be a priority to the board and the organization.

Proactively communicate the strategic value of diversity on the board in discussions about board composition with company management, current members, and potential new Directors. Work with current and prospective board members to see if they can connect you with a broad range of candidates through their own networks. For more information on how to effectively communicate the value of diversity and get buy-in on diversity and inclusion related matters, see "The Basics of Diversity and Inclusion in the Workplace."

## 2. Set targets to achieve your “ideal Board”:

With owners, management, or your existing Board of Directors, conduct an analysis to identify key perspectives that are missing or necessary to your board, including the backgrounds of the individuals and their demographic groups. When doing so, consider factors like the current (and prospective) constitution of your workforce, your customer base, and the communities where you operate to understand how your board can be representative of the many different groups that influence and are affected by the success of your business.

### Considerations for Board representation could include:

- Age
- Race
- Gender
- Socio-economic status
- Relationship to company (e.g. independent, non-exec employees, etc.)
- Educational background
- Professional experiences
- Life experiences
- Personal beliefs
- Stakeholder expertise\*



“We created a diverse Board of Directors by establishing demographic expectations based on the diversity we wanted to see represented. We wanted more than half of our board members to be from underrepresented groups, the majority to be women, and to have age represented across multiple generations. Once we established that as the expected norm we did not stop until that goal was achieved. We also help our clients and partners create plans to diversify their boards.”

- Tiffany Jana, CEO and President, [TMI Consulting](#)  
(Certified B Corp since 2012)

With the analysis conducted, then set clear targets to achieve for your board, and a timeline by which to achieve them. This can help hold the company accountable to achieving their goal. Some companies have even including diversity requirements into the bylaws of the board.

When setting goals to increase the diversity of your board and recruiting them, make a conscious effort to avoid tokenism. Encourage decision-makers to recruit new board members and advisors based on the expertise that they will contribute, beyond who they are or where they came from. Once you identify the qualifications that you wish to enhance, seek out people from underrepresented groups who match with those specific qualifications.

### Tokenism (noun)

The practice of making only a perfunctory or symbolic effort to do a particular thing, especially by recruiting a small number of people from underrepresented groups in order to give the appearance of sexual or racial equality within a workforce.<sup>24</sup>

Companies should not settle for selecting one individual from underrepresented groups to serve on their Board and calling it a day. Research shows that adding one Board member from an underrepresented background does not create the same benefits as truly diverse boards, and can create additional challenges for the individual board member in question.<sup>25</sup> Commonly cited targets for true diversity say approximately 30% or at least 3 individuals from underrepresented populations.<sup>26</sup>

### 3. Develop a pipeline of diverse candidates<sup>27</sup>

With an understanding of board diversity and some goals set, it is then necessary for your candidate search to strive to make that Board a reality. Board diversity does not happen automatically, so it's important to be intentional in your search and selection processes. Here are some guiding principles to conduct an effective candidate search:

- **Look beyond personal connections and the “usual suspects.”** It's common for companies to identify board members from their own networks, frequently leading to a self-fulfilling homogeneity. Start to move further afield by asking stakeholders like your employees, customers, or investors for recommendations.
- **Focus on what people will do, not just what their qualifications are.** Just because a candidate is highly skilled or has a lot of experience does not mean they will be the best fit or highly invested in the role. Companies should “deconstruct” what they are looking for in board members to focus on that rather than qualifications that create barriers for traditionally underrepresented groups.<sup>28</sup>
- **Recruit for a spectrum of diversity and perspectives.** Avoid having two distinct camps, like executive employees and community representatives, as this will likely lead to unproductive conflict in the boardroom

**In order to expand the scope of your recruitment for board members, consider doing the following:**

- Review any “requirements” that have been written into your board bylaws, or have informally been used to qualify candidates to understand if they are necessary and/or unintentionally limiting the diversity of your pipeline. Is previous experience specifically as a CEO required to provide the skills necessary for board service, or are other metrics of skill and success more relevant and inclusive?
- Consider intentional requirements around promoting diversity, such as stipulating diversity requirements of the Board in the Board's bylaws, requiring that new Board members “alternate” genders, or that at least one candidate from an underrepresented population be considered for every new board position.<sup>29</sup>
- Ask various stakeholders like your employees, customers, or investors for recommendations of prospective board members to extend your overall network.
- Build relationships with relevant organizations that can expand your network. Even well in advance of any time where you are specifically seeking new board members, companies can deliberately cultivate relationships that can provide long term benefits. Organizations could include Chambers of Commerce, other business associations and affinity groups, or even specific diversity related organizations / initiatives. (For more information, see the “Growing a Diverse Workforce” Best Practice Guide on relevant organizations that your organization could support / partner with.)
- Consider hiring a search firm. While coming with a cost, a search firm will have a level of expertise in identifying candidates that cannot readily be replicated by a company themselves and can frequently focus on increasing the diversity of candidates.
- Using a directory of Board candidates focused on increasing Board diversity. In addition to search firms, there are also a variety of resources that have been developed to help companies readily access Board-ready candidates from a wide variety of backgrounds.

For a list of resources that aim to help companies add women to their board, see the [30% Coalition list of Company Resources](#), Broadroom's [list of databases](#), and, in Canada, the [Diversity 50](#).



*“ We have defined, in our By-Laws, who shall make up our Board of Directors and it includes the following: at least one frontline employee; at least one supervisory level employee; 50% of the board must be composed of members that are not a shareholder or employee of the Corporation and must have community and/or environmental expertise; at least 50% of the board must be composed of members that are racial minorities, female, LGBT or economically challenged; at least one Board member must be a representative of one of Corporation's customers and at least one board member must be economically challenged.*

- Jennifer Coombs, HR/Ops VP, [Facilities Management Services, Inc.](#) (Certified B Corporation since 2016)

#### 4. Promote inclusion at the Board level.

Beyond expanding your pipeline to incorporate candidates from more diverse background, it is also essential to think about what the experience of being a board member will be like for the individuals themselves. There is a risk that, despite joining the Board, individual Board members (particularly if from an underrepresented population) never become actively involved or engaged in the process. This limits their ability to provide the value of their expertise and perspective. Be proactive about orienting and welcoming new members to the board.

Orientations can range from a few hour session to the whole day, and serve an overview to the organization, its goals and core values, its history and past strategic decisions, as well as the role of the board and how it functions. New board members should be actively encouraged to participate and contribute their ideas, including how to improve the way the board itself functions.

In order to foster this, it may also be useful to assign a new board member a “mentor” from the current board in order to give them an additional point of contact to rely on when they might have questions and someone to provide proactive support and encouragement. Structures like these also foster collaboration and connections among the Board members, helping to facilitate effective decision-making and ensuring collegial and inclusive environments.<sup>30</sup>

Do not involve Board members of diverse backgrounds only in decisions related to their demographics. All your Board members bring relevant business expertise—do not unintentionally downplay that expertise by turning to Board members from minority backgrounds only for advice on “diversity issues.” In addition to orienting the new board member, be sure to include them into all of the relevant discussions that fit their expertise and experience, including assigning them to specific board committees if your board is structured in that way.

Finally, particularly as the company is looking to diversify its board, it may also be useful to train current board members on key issues related to diversity and inclusion, both as an expression of the commitment to the issue as well as to improve how the individuals currently on the board can manage challenges like unconscious bias and promote inclusion as a group. Ongoing Board education on inclusion and diversity will also help provide context for the Board on your company’s other related initiatives. For more information on diversity and inclusion training, see the “Basics of Diversity and Inclusion in the Workplace” Best Practice Guide.

## Board Diversity Around the World: Mandatory or Voluntary?

While board diversity is recognized as a global priority that companies should strive to pursue, just as corporate governance requirements vary widely by region so do regulations regarding board diversity. As you plan how to structure a new Board or how to increase the diversity of your current one, be sure to consider the local context and norms for your region.

For example, gender equity in the boardroom is recognized as a diversity goal in both Europe and Latin America. Some European countries, such as Norway, Iceland, and Finland, have implemented quota systems with penalties for not meeting regulations.<sup>31</sup> However, a separate study in five Latin American countries showed that 90% of Board chairs in those countries opposed gender quotas for Boards.<sup>32</sup>

For a list of different legislative requirements regarding board diversity around the world, see [here](#).

In addition to building diversity into your own board, also consider how you can proactively support diversity and inclusion on boards more generally, for instance by identifying and championing qualified candidates in your company or network for potential board positions, as well as sharing the insights of your own efforts towards a more diverse board and its value with other companies.<sup>33</sup> You can also consider joining organizations focused on improving Board Diversity like the [30% Coalition](#).

### Reflection Questions:

- *Does your current board or highest level of governance include sufficiently diverse representation?*
- *What networks or methods could you use to expand your candidate pool to be more inclusive?*
- *Are there any aspects of your company and its current governance that might create challenges for board members from underrepresented populations?*

## Getting the Most Out of Your Board

Once you've put in the work to identify the right governance structure for you, and then built it with the right candidates, it's now time to put them to work. Consider these topics as you get started.

### Running Effective Meetings

To make the most of your Board meetings, and to respect your Board members' time, it's important to design meetings so that they are efficient and productive. When organizing your board meetings:

- *Plan ahead.* Without sufficient planning, key agenda items might not be adequately covered, there might not be enough time to produce the necessary materials to have a meaningful discussion, and items might be discussed in a time frame that doesn't make sense for the company's strategic planning. Plan agenda items and areas of focus for several board meetings at a time to ensure that they are timed appropriately.
- *Send out agenda and pre-read materials ahead of time.* Giving Board members time to prepare for the meeting allows the group to focus on topics that matter most. This may require including all key data points and other materials along with your meeting agenda. Expectations should be established that board members come having read all materials sent in advance



- *Review action items at the end of the meeting and share detailed meeting minutes.* While there might be very fruitful discussions at the board level, those discussions will need to be executed on by the company. Keeping track of the minutes and action items will enable the Board to hold the company accountable and let future meetings easily pick up where the last one left off. You can find a template for meeting minutes [here](#).
- *Leave room for discussion.* You might have an instinct to structure board meetings as presentations and to provide Board members a lot of information at once. This style of meeting can reduce the ability of the Board to digest information and provide real strategic guidance and oversight. Presentations should be kept to a minimum; that's what pre-read materials are for. The focus of meetings should be on discussions and decision-making. For the best results, make sure every Board member has the chance to contribute.<sup>34</sup>



## Q&A with Stephanie Niemann, Principal of SJF Ventures

(Certified B Corp Since 2016)

### What are some ways to make sure that Board Meetings are run effectively?

*The expectation should always be set that everyone has already reviewed meeting materials ahead of time. One of our CEOs even does a 1:1 call with each Board member before an in-person meeting so that clarifications can be made and it's possible to infer ahead of time where the group should spend more time discussing together.*

### Do you have any recommendations about how to build effective board relationships?

*Always have a Board dinner either before or after in-person meetings and encourage members to come early or stay late to ensure good attendance. This gives the Board time to build personal relationships. Some companies keep dinners as relationship-building only, while some companies also use the Board dinner time to either go over the quarter's company updates or to engage deeply on a single topic in a more intimate setting.*

### What are some ways to ensure that Board meetings can have the appropriate depth of understanding of key topics?

*During meetings, it may be valuable to include management (i.e. Head of Sales, Head of Product) in relevant sessions of the meeting when you can.*

*It can be hard to cover in-depth topics like long-term future roadmaps or larger strategic ideas in a typical Board meeting. If the company is putting together longer-term strategic plans, a Board retreat in an off-site setting for a longer meeting time may be the best way to discuss these topics.*

## Creating Board Accountability

Boards, as well as executives, may fall into routines that may not be optimal, and it's therefore necessary to regularly review how the board functions and identify opportunities for improvement. During board meetings, it is generally valuable to provide opportunities for board members to engage with one another without, for instance, the CEO of the company so that they can candidly discuss their performance and provide feedback to the CEO.

Beyond regular, perhaps informal, opportunities to review effectiveness, it is also best practice to regularly evaluate the effectiveness of the board as well, most commonly on an annual cycle. When conducting a board evaluation:<sup>35</sup>

- Seek consensus from the board about the value and need for an evaluation.
- Consider whether it is appropriate to conduct the evaluation internally or whether the support of an independent firm is necessary. Independent firms can bring valuable objectivity to the process, but naturally come with additional costs.
- Identify specific areas for evaluation, such as Board processes, composition, and structure
- Develop a questionnaire on the topics for evaluation to be completed by the Board members and conduct individual interviews with Board members
- Analyze and present the findings of the evaluation back to the board
- Create an action plan to implement improvements based on the findings

Consider whether you want to conduct evaluations not just for the Board collectively, but for individual Board members as well. Advocates of this practice suggest it provides improved accountability, while critics believe it adversely affects group dynamics, particularly when it includes an element of peer review. It is therefore important to build consensus among the Board before conducting individual reviews.

## Engaging Board members beyond the boardroom

Board members are intended not only to provide oversight of the company, but also to serve in an important advisory role. A well-composed Board can be useful in expanding your network, providing guidance and expertise on specific topics, securing future investments, and building your reputation.

Make the members of your Board of Directors transparent, both publicly on your website as well as internally; give them a chance to meet and interact with the staff members of the company. Consider selecting an independent Board member to serve as an objective ombudsman regarding complaints or whistleblower issues in the company; this gives concerned parties a mechanism to alert them of issues within the company.

## Reviewing Non-Financial Performance

Even if your company has not yet adopted a mission-aligned governance structure, be sure that your board reviews not just the financial performance and key business KPIs of the organization, but also its social and environmental impacts, risks, and opportunities. While the fiduciary obligation of traditional businesses mandates that they act in the best interests of shareholders only, it is increasingly clear that a variety of social and environmental issues have material risks to the success of a business; proactively addressing them also presents significant business opportunities as well.

## Impact Snapshot: Independent Boards for Mission-Alignment

### Ben & Jerry's

Certified B Corp since 2012

Despite being a wholly owned subsidiary of the publicly traded Unilever, Ben and Jerry's Ice Cream has an independent Board of Directors whose role it is to "Preserv[e] and [expand] Ben & Jerry's social mission, brand integrity and product quality, by providing social mission-minded insight and guidance to ensure we're making the best ice cream possible in the best way possible." Members of their board can be found [here](#).

Identifying key issues or approaches to social and environmental issues for board review will orient the company to proactively addressing them. This can include reviews by the Board of:

- Sustainability reporting efforts of the company, such as the creation of a GRI report or the completion of the B Impact Assessment
- Stakeholder engagement processes and materiality analyses of key issues
- Specific KPIs or product developments for products or services designed to address social and/or environmental issues, like products targeting Bottom of the Pyramid consumers or new renewable energy products

## Using the Board to Drive Inclusion

Beyond the social and environmental impact of the company, when you intentionally create an efficient, collaborative, diverse governing body, that body can also help drive your inclusion and diversity efforts throughout your organization. Consider the ways your Board of Directors are uniquely positioned to support broader efforts to make your company more inclusive and equitable.

Your Directors might:<sup>36</sup>

- Hold company leadership accountable to inclusion and diversity goals by specifically requesting annual or quarterly reporting on key inclusion and diversity KPIs
- Include an equity lens in the responsibilities of the compensation committee to look for gender or racial wage gaps
- Conduct an active listening tour or act as formal ombudsmen for company staff, allowing them to share confidential feedback or concerns about company leadership
- Engage in their own inclusion & diversity training, or recommend similar training for company management
- Share lessons learned or best practices on inclusion and diversity programming from their own industries or professional histories
- Connect your business to expert third parties in their professional networks for consulting or training

Getting value out of your Board is not a one time payoff; once set up, it will provide ongoing opportunities to add value to your company. Naturally, that ongoing potential for value creation comes with an ongoing commitment to engage them and continue to identify new ways to make the most of your governing bodies. With the content included in this guide, you'll be off to a great start.

### *Reflection Questions:*

- *Given the size and structure of your company, what is the best way to organize your board?*
- *What ways can you ensure that board members remain engaged and effective?*
- *Have you ever conducted a board evaluation or sought feedback from Board members about how the board itself could be improved?*
- *What types of non-financial information are most material to your business, and how could it be effectively shared/discussed with your Board?*
- *What inclusion- and diversity-related company goals could your governing body contribute to or support?*

### **Appendix:**

#### *Worksheet: Envisioning Your Ideal Board*

***Did you find this resource guide useful? Do you have feedback on how it can be improved, or ideas for other resources we can provide? Let us know what you think at [inclusion@bcorporation.net](mailto:inclusion@bcorporation.net).***



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# Worksheet: Envisioning Your Ideal Board

As you consider the diversity of your governing body, it's important to think about the perspectives and backgrounds that should be represented. Brainstorm the composition and interests of important stakeholder groups like those below. Write the factors and demographics that are most relevant to those groups in the boxes below. Here are some ideas to get you started:

- Age
- Sexual orientation
- Personal beliefs
- Race
- Nationality
- Stakeholder expertise
- Gender
- Educational background
- Physical ability
- Socio-economic status
- Professional experience

Workforce	Customer Base	Suppliers	Local Community

Based on your brainstorming, mark down which important perspectives are currently appropriately represented on your governing body (if your company has one) and which would have greater representation on your ideal Board.

Fully Represented	Not Fully Represented

Based on the current composition of your governing body and your ideal composition, think through what changes to your Board are most urgent, and which stakeholders you might reach out to for recommendations for new members.