Workplace diversity & equality

ISS urges companies to disclose ethnicity of directors

Action by proxy adviser comes as pressure builds to diversify US boardrooms

A march against police brutality in Detroit on Friday: the Black Lives Matter movement has focused new attention on the lack of diversity in American boardrooms © AP

Andrew Edgecliffe-Johnson and **Billy Nauman** in New York YESTERDAY

One of the most influential shareholder advisers has called on US companies to disclose the ethnicities of their directors and senior executives, as pressure builds to diversify the upper echelons of corporate America.

Institutional Shareholder Services, a proxy advisory firm with a record of influencing the US corporate governance agenda, has written to companies asking them to make the disclosures on a voluntary, aggregated and self-identified basis.

Many institutional investors use the data compiled by ISS and its main rival, Glass Lewis, to inform their voting so the extra disclosure could lead to votes against boards which shareholders deem to be insufficiently diverse.

Companies have faced intensified scrutiny on diversity at every level since the killing of George Floyd sparked protests over racial inequality. According to ISS data, black directors accounted for just 4.1 per cent of all board seats in the broader Russell 3000 index last year, while 13.4 per cent of the US population is black.

The rise of environmental, social and governance-focused investment strategies, known as ESG, has added to the pressure to add more female and non-white directors to boardrooms.

Vanguard is among the institutions to have called for greater diversity disclosure, telling the companies it invests in: "The business case is compelling… Diverse boards make better decisions, and better decisions lead to better results over the long term."

ISS has sought to compile its own data on directors' ethnicities in the past but the new approach suggests it is seeking more comprehensive disclosure.

A letter seen by the FT from Marija Kramer, head of ESG for ISS, tells companies "we are seeking information on the self-identified race/ethnicity of each of the company's directors and named executive officers (NEOs), to the extent that the company and the individual directors or NEOs are willing to provide this."

Subodh Mishra, managing director of ISS, confirmed the outreach, saying it was "consistent with our long-standing focus on ensuring the accuracy of data underlying our research, ratings, and other solutions."

It will allow each director to choose to disclose up to three ethnicities, from a list of eight in use by the US government since 1977, to describe their ethnicity as "other" or to decline to answer.

Pamela Newkirk, whose book *Diversity Inc* examines the history of workplace diversity initiatives, welcomed ISS's move.

"Transparency should help. It doesn't always, as tech annual reports show. But if institutions are serious about increasing diversity, transparent metrics are a good place to start," she said.

Steve Klemash and Jamie Smith of the EY Center for Board Matters found last year that 45 per cent of companies in the Fortune 100 index explicitly disclosed racial or ethnic diversity statistics for their board, up from 23 per cent three years earlier.

The Securities & Exchange Commission last year told US companies they must disclose whether self-reported diversity characteristics played a part in choosing candidates for board seats, although some critics have argued that such disclosure is insufficient and that regulators should demand quotas.

In its letter, ISS said it was looking “to help ensure that all stakeholders have accurate and complete information as they consider the wider debate concerning the state of corporate diversity beyond gender.”

It added that it planned “to engage with a broad cross-section of stakeholders on the potential need to expand the use of self-identified race and ethnicity director data” in its ESG ratings methodologies, voting policies and other offerings.