

Vanguard Investment Stewardship Perspectives

Board Diversity



Vanguard's mission is to take a stand for all investors, to treat them fairly, and to give them the best chance for investment success. We take that job seriously. We believe that over time, good corporate governance can create and preserve

value for investors. And we believe that good governance begins with a great board of directors.

One of our most important responsibilities at Vanguard is to participate in electing directors who oversee the companies in which our funds invest. Well-composed boards have perspectives that are informed by a range of backgrounds, skills, and experiences. We depend on directors to serve as the voice of shareholders in the boardroom, to ensure that proper governance structures are in place to protect shareholder rights, to plan for the next generation of leaders and board members, and to be an invaluable resource in the oversight of company strategy and risk. This is why Vanguard focuses so strongly on board composition and effectiveness.

A call for greater board diversity

As part of that focus, we have long believed in the importance of diversity in the boardroom, and we have increasingly advocated for greater representation of women on corporate boards. We have expanded our focus to more explicitly urge boards to seek greater diversity across a wide range of personal characteristics, such as gender, race, ethnicity, national origin, and age.

We continue to promote gender diversity—there is still progress to be made—but our research and experience with corporate boards tell us that gender diversity is not enough. The effective boards of today and tomorrow should reflect all facets of diversity, and we are calling for greater progress on this front.

The business case is compelling, and although it's difficult to measure and quantify the impact of board diversity across all market sectors, our approach is grounded in both research and common sense. Diverse boards make better decisions, and better decisions lead to better results over the long term. We urge companies to embrace greater diversity in their boardrooms, and we have outlined the following four expectations for boards in 2019 and beyond.

Our board diversity expectations of public companies

- 1. Publish your perspectives on board diversity.**
Here's what we ask companies: Does your board share its policies or perspectives on diversity? How do you approach board evolution? What steps do you take to get the widest range of perspectives and avoid groupthink? Vanguard and other investors want to know.
- 2. Disclose your board diversity measures.**
We want companies to disclose the diversity makeup of their boards on dimensions such as gender, age, race, ethnicity, and national origin, at least on an aggregate basis.
- 3. Broaden your search for director candidates.**
We encourage boards to look beyond traditional candidate pools—those with CEO-level experience—and purposely consider candidates who bring diverse perspectives into the boardroom.
- 4. Make progress on this front.**
Vanguard expects companies to make significant progress on boardroom diversity across multiple dimensions and to prioritize adding diverse voices to their boards in the next few years.

A global effort

We recognize that cultural practices and norms vary by country and by region; there is no one-size-fits-all approach. But after years of meeting with thousands of companies, we have observed a common thread that runs across many of the world's boardrooms: They are often homogeneous places that could benefit from a broader range of perspectives.

Vanguard's role

What will Vanguard do to advance this conversation? As an investor, we will advocate for greater diversity on boards. We will engage with directors, consider their perspectives, and constructively challenge their assumptions and historical practices. We may support shareholder proposals that seek greater board diversity disclosure. We will also evaluate progress through our voting activities, which will inform our funds' voting considerations in the coming years.

Case studies: Boards that are getting diversity right

Robust approach leads to a diverse board

We engaged with a health care company whose board's processes are thoughtful and deliberate, particularly regarding board evaluation and evolution. Each year the company evaluates its directors. The evaluation consists of individual self-assessments and peer assessments paired with anonymous 360-degree feedback. The board also regularly brings in outside resources to assist with the assessments. This process has enabled the board to identify any skill-set gaps and has led to a consistent focus on screening and interviewing a more diverse pool of director candidates.

Through evaluation and evolution, overseen by the independent board chair, the board has established a notable level of gender diversity. The current board is 40% women, including the CEO, the independent chair, and two other independent directors; the typical industry board is 20%–30% women. We believe that the company's robust processes for board evaluation and evolution smoothed the way for strong board diversity, and we told company leaders we were pleased with these developments.

A window into board composition

A U.S. financial services company reached out to us to have a holistic conversation about its board and governance. We consider this company a leader in governance practices, including its disclosure to shareholders. As we prepared for the meeting, we were pleased to see, in the company's documents, excellent disclosure about its board evaluation process, director recruiting and onboarding, and succession planning.

As strong as the company's disclosure was across various dimensions, what really stood out was its disclosure on board composition. The company has a robust skills matrix that helps inform us about the perspective and value each director brings to the board, as well as discloses information on the board's aggregate diversity on multiple dimensions including gender, race, and ethnicity.

Board-related disclosure, we find, too often focuses solely on gender diversity and neglects other diversity categories. We told executives of this company that we were pleased to see it had adopted a transparent disclosure method that allows investors to fully evaluate its board composition. We look forward to further engaging with the company on these issues and expect other companies to follow its strong example and adopt similar disclosure methods.



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