

Latino Board Representation: Improving or Not?

The overall numbers are not encouraging, yet there may be reason for hope.



Introduction

One year ago, Korn Ferry conducted an extensive study on Hispanic representation in US corporate boardrooms. The results of “The Hispanic Imperative”—which were released at the inaugural convening of the Latino Corporate Directors Association (LCDA)—were disappointing. Only 2.5 percent of board directors of Fortune 500 firms were Hispanic; this for a consumer population that is growing dramatically and is responsible for billions in sales.

Fast forward to today, and representation remains stagnant. As gloomy as the numbers are, there is a silver lining that offers hope. A new Korn Ferry review has revealed two promising data points: an increase in first-time Hispanic directors, and an increase in the total number of board seats, offering more opportunities for Latino representation.

The business case

The role of the Hispanic community continues to expand in the US economy. Recent economic data and social statistics show Hispanics reaching new heights in education, making significant economic gains, and dramatically changing the business landscape. Consider these statistics:

- Roughly one million US Hispanics turn 18 every year, a rate is expected to continue for the next 20 years (Taylor, et al., 2012)
- Latinos are making significant progress in educational attainment (Excelencia in Education, 2015)
- Latino entrepreneurs accounted for 86 percent of new business formations in this country during the last half decade (Stanford Latino Entrepreneurship Initiative, 2015)
- Hispanic families bought 51 percent of homes purchased in the last year (Hispanic Wealth Project, 2015)
- Hispanic consumers accounted for 73 percent of Toyota's 2015 US sales growth (Berenson, 2015)

At the same time, Hispanics continue to account for approximately two percent of directors of boards of Fortune 1000 companies. In light of the growth of the US Hispanic population and the strengthening of its economic muscle, the business case for serving Hispanic consumers is obvious. Yet, there may be reason for hope.

“Hispanics are the new mainstream consumer, and if you’re not addressing them, you’re not going to be in business.”

— Sol Trujillo, chairman, Trujillo Group Investments, and board member of Western Union and WPP

Key Facts

- Hispanics in the US, if they were a country, would rank as the world's seventh-largest economy (GDP of \$2.1 trillion in 2015—and higher today), greater than Turkey, India, and Mexico.
- American Latino buying power is \$1.5 trillion and is expected to grow to \$1.9 trillion by 2019, comparable in size to Canada's current national GDP.
- As young Latinos enter the workforce and the older non-Latinos leave it, the Latino GDP will account for an increasing portion of the total US GDP growth, projected to be 24.4 percent of total US GDP growth by 2020.
- Latinos accounted for 70 percent of the US workforce's increase in the first half of this decade and Latinos will account for the vast majority, 74 percent, of the 10.5 million workers added to the labor force from 2010 to 2020.
- Latinos will consume more than \$1.7 trillion in goods and services in 2017—and create close to two million jobs.

What’s the silver lining?

The Korn Ferry Market Cap 100 (KFMC100) has tracked extensive demographic and professional data on the boards of directors of the largest companies in the United States. The KFMC100 shows a marked increase in new directors.

This year’s Hispanic Imperative update also shows an increase in first time directors (Figure 1). In 2016 to 2017 for instance, in the Fortune 500, there were 27 Latinos elected to new seats; 18—or 67 percent of those—were first-time directors. Similarly, in the Fortune 1000, there were 39 Hispanics elected to new seats; 24—or 62 percent—were first-time directors.

In addition to this movement, the total number of board seats within this same group grew by five percent. However, while increases in the numbers of new directors, first-time Hispanic directors, and board seats are improvement, they’re incremental and fall short.

So, the question persists: Why—after years of talking about diversity on boards—haven’t we seen greater shifts in the boardroom? What’s holding boards back?

“Having a diverse group of people around a table drives healthy discussion and decision-making.”

— Gilbert F. Casellas, board member, Prudential Financial, Inc.

Figure 1

Hispanics on corporate boards.

		Total seats	Total Hispanic seats	% Hispanic	Total female Hispanic seats	Total companies lacking Hispanic directors	% of total companies
Fortune 500 companies	2011	5,493	119	2.2	NA	388	77.6
	2015	5,312	135	2.5	29	376	75.2
	2016–summer 2017	5,361	142	2.6	35	379	75.8
Fortune 1000 companies	2011	10,250	164	1.6	NA	870	87.0
	2015	9,868	208	2.1	52	827	82.7
	2016–summer 2017	10,967	228	2.1	60	826	82.6

Why isn't there more progress?

Based on research and observations, two reasons emerge as barriers to diverse representation in general, and to Hispanic representation, in particular.

First, during and immediately after the recent recession, boards with openings purposefully looked for former C-suite officers to add to their ranks. Since there were few Hispanics in current or former CEO roles, these boards excluded untapped highly qualified and diverse candidates below the C-suite level.

Second, most boards, when seeking to fill openings, ask for a representative group of potential directors and then land on the side of what's most familiar and comfortable.

Not that corporations don't want to diversify their boards, but when faced with the actual decision of choosing between multiple board candidates, most are going to feel more 'comfortable' around people who look like themselves. It requires a leap of faith, and an intentional commitment, to make the kind of change that will diversify a board. As a result, there's been very little progress for Latinos as well as blacks.

On the other hand, women have been more successful in making strides. This is good news, because progress on gender diversity benefits people of color.

Still, it is difficult to understand why advancement in board diversity is not further along, given the correlation between diversity and potential for growth. After all, diversity of thinking is an undisputed core of innovation. Diversity studies are legion, emphasizing the ways diversity makes us smarter by enhancing creativity and by encouraging better conversations, better problem-solving, and better decision-making (Tápiá & Lange, 2016).

Shareholders seem to think diversity at the board level is important, too. In fact, research has shown that board diversity is their most important issue (Equilar, 2017).

Therefore, perhaps a more effective approach is to keep the focus on the economic imperative of diversifying the board. By doing so, the company demonstrates it is taking action to achieve a stronger competitive advantage.

Failure to reach the evolving consumer base may have its roots in the lack of the right representation on the board. With diverse representation on the board, the company will have the right talent that is good for the business. So, how do you find this 'right talent'?

Many paths to the boardroom

There are many paths to the boardroom, and companies have a responsibility to explore all of them. Relying on the defense that the talent isn't there merely reflects a narrow point of view.

Some Hispanics have achieved their board seats through traditional corporate advancement, and others through their visibility and impact as appointed and elected public servants. Still others have made their way to boardrooms via nonprofit board service, networking, and relationship-building. Some have advanced through entrepreneurship. Some find helpful the assistance of talent organizations. Briefly consider these routes to the boardroom:

- **Corporate.** The most natural route to the boardroom is through the C-suite. This is the area where the business imperative dictates the importance of building a solid foundation with Hispanic executives.
- **Government service.** Government service has also catapulted a number of Hispanic business leaders into the boardroom.
- **Private equity firms.** Many PE firms look for independent directors when anticipating IPOs or other portfolio-company exits.
- **Entrepreneurialism.** Individuals seek increasingly responsible experiences, remaining mindful of board opportunities, as boards look for people with a demonstrated level of high achievement.
- **Nonprofit boards.** Volunteerism and giving back through nonprofit boards can bring attention to expertise and capabilities, leading the way to other board seats.

“Latinos are significant cultural and economic stakeholders, and a growing share of the employee base. Companies need to understand this, so it’s important to have a voice that represents Latinos at the board level.”

— Gerry Lopez, CEO and president, Extended Stay of America and board member of Brinker International, Inc. and CBRE

Conclusion

Hispanic representation in Fortune 500 and Fortune 1000 boardrooms continues to stagnate. It defies explanation, given the consumer power that Latinos wield today and their upward economic trajectory for the future.

Increases in the numbers of new directors, first-time Hispanic directors, and board seats are improvements, however, and represent a looked-for silver lining in what are otherwise gloomy statistics.

To make further progress, companies need to acknowledge the barriers. They need to recognize that in order to be successful at diversifying their boards, they have to be both intentional in their selection and focused on the economic imperative. And they must remain strategic in their thinking, resisting the pull to return to what's 'comfortable' and familiar.

Finally, boards have multiple and proven paths to seek out and encourage the right talent to be considered for candidacy. The talent is there, and boards have the responsibility to source it.

Hispanic consumers have become the most important driver of growth in a wide variety of expenditure categories. For businesses to thrive now and for the future, they need to do more to keep pace with the drivers of growth. They must ensure their boards step up and actively pursue Hispanic representation.

Resources

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Author



Victor Arias

Senior Client Partner, CEO/Board Services,
Global Leader, Diversity & Inclusion

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