

Why board diversity doesn't have to be an enigma

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The current context for change

The business case for building diverse boards has never been stronger or more widely acknowledged. At a time when companies are under pressure to find new ways to grow revenues and innovate in tough conditions, overlooking the latent potential from creating the right leadership teams could be costing millions. For example, McKinsey's 'Diversity Dividend' research report revealed that in the UK, for every 10% increase in gender diversity on the senior-executive team, EBIT rose by 3.5 percent. This is echoed by studies from the International Monetary Fund (IMF) which identified that adding one more woman in senior management or on the corporate board, while keeping the size of the board unchanged, is associated with 3–8% percent higher returns on assets.

Board diversity isn't something new. The composition of company boards has been evolving for decades as globalisation, new technologies, wider workforce demographics and more complex governance frameworks have changed the shape of businesses and the demands on the executive that lead them. As many European businesses,

have expanded into new markets in Asia and Latin America, it made sense to have representation on the board from key territories to help navigate the business environment and to strengthen local networks. Such strategies have had mixed success but it is one example of how board dynamics began to shift before 'board diversity' became a conscious objective.

Today, creating a strong board needs to be far more strategic. It should be driven by convening the right balance of directors whose combined skills, experience and perspectives will bring a competitive edge to a business now and in the future, as well as overseeing the execution of corporate governance standards. To be truly effective, the boardroom must be somewhere that directors can freely challenge ideas, discuss issues and share opinions which requires the creation of a different kind of chemistry between peers. This means deconstructing the way that many leadership teams have been developed over the years which have been built through appointing individuals with similar ethnicity, educational backgrounds, networks, social status, attitudes and of course, gender.

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Bridging the divide

Rebalancing boards should, in theory, be simple. If finding the right person for the job is always the priority, then it is clear that the best talent isn't from a limited pool of white, privately educated, physically able, middle aged and middle class men. Nor does such a homogenous group of people accurately reflect the composition of most consumer markets or shareholder bases. So why aren't more companies making better progress towards reflecting this?

In reality there is a huge disconnect between recognising the value of more diverse boards and the reality of implementing changes. There are a number of rational and emotional factors at play. One of the most prevalent is a perceived lack of executive talent among women, ethnic minority and disabled groups. This has recently been highlighted in France where female representation quotas are due to come into force later in 2017, but board nominating committees are voicing concerns that there is stiff competition to hire the best women from a small talent pool. Such a shortage is symptomatic of a legacy attitude to succession planning where women haven't received the encouragement or practical support required, such as mentoring or effective policies for working mothers, to help them climb the corporate ladder. It is also more acute in some sectors than others. Companies with a strong digital offering tend to be more likely to have female leadership talent based on there being a good gender mix of talent in

this field. However, this has meant that some women have been fast-tracked onto boards for their specialist knowledge yet due to being much younger than their counterparts, struggle to exert the credibility and confidence required to penetrate a longstanding, tight-knit board dynamic.

Cultural fit is not just an experience issue. Boards are in an awkward transitional phase where the 'old guard' is still in place and is naturally being encouraged out of its comfort zone as new leaders come into what will be for many, a new environment and set of responsibilities. This can be a recipe for a dysfunctional leadership team unless individuals are selected for their personalities and emotional intelligence, as well as their core skills and the existing executive is fully bought into the diversity strategy.

This issue of executive buy-in is one of the most significant. When asked, most individuals today would publicly agree with the case for diversity so as not to seem naïve or un-PC, but denial is one of the major barriers to progress. The fact that women hold under 10% of roles on FTSE 100 companies' executive committees¹ attests to this. Whilst there are undoubtedly companies that are striving to meet national targets or their own rationale, there is still a concerning proportion of organisations that are not yet making diversity a priority. More commonly, diversity is paid lip service but the reality of proactive change is out of reach for many smaller and mid-sized companies.

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¹ 2016 Female FTSE Board Report; Cranfield University, City University London and Queen Mary University London

Demystifying the process

Converting board diversity from something complex and intangible into a set of definitive goals and actions can help companies to make sure that their diversity policies are put into practice. There are four key actions that will help to galvanise thinking and improve approaches to building a more sustainable and relevant executive:

- **Create a vision for the board:** Defining what leadership a business requires now and for the future will empower the executive to define the qualities needed and provides a starting point to map out where to find them. This enables companies to define what inclusivity means for them rather than box-ticking
- **Build a diverse leadership pipeline:** Identifying the talent needed for the future, organisations can work back and put structures in place to recognise and nurture aspiring individuals earlier on in their careers, for example mentoring schemes or breaking preconceptions or roles and responsibilities. Giving employees exposure to the board earlier on in their careers also builds credibility and relationships before they join the executive themselves
- **Re-think the hiring strategy:** Reviewing a company's approach to appointing board members or in the levels directly below can revolutionise the extent of its talent pool. Firstly, it pays to be proactive. Identifying and building relationships with current and potential exceptional leaders in the industry shores up another pipeline for the future. Broadening searches beyond the

immediate industry into adjacent company sectors where people with complementary skills continues proving to be effective. Also, refreshing the search criteria for executive positions can immediately open up overlooked opportunities. For example, firms traditionally ask for a certain number of years' experience, which can rule out women who have taken time out to have children, rather than focusing on the results of what was achieved during an individual's career

- **Set realistic, measurable goals:** Benchmarks will vary per each business and their national legislative environment, but building a plan that focuses on implementing small, incremental changes will break down the enormity of the issue. This might include primary initiatives such as evaluating the composition of the board against current business and market intelligence, checking if diversity policies are being implemented, reviewing candidate criteria with board nominating committees and working out a clear plan with outcomes measured against business performance criteria

As different countries and industry groups, such as the FTSE, set new and ambitious targets to accelerate board diversity, it is clear that this is a process of evolution, not revolution. However, with every step-change that occurs, a deeper commercial rationale is being built as well as new boardroom cultures. The cumulative effect of this over the next few decades, should be the rise of more resilient and adaptive companies led by stronger, versatile and innovative leadership teams.

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