

Goodbye to groupthink

Diversified perspectives make for better solutions



JILL ADER

Egon Zehnder International, London
jill.ader@ezi.net



GERMAN HERRERA

Egon Zehnder International, Miami
german.herrera@ezi.net



DANIEL TOURNIER

Egon Zehnder International, Paris
daniel.tournier@ezi.net

The issue of board diversity – or the lack of it – is commanding widespread attention in the media, from policymakers, and amongst business leaders. Despite recent improvements, most corporate boards around the world remain homogenous to a high degree: their members are typically drawn from the company's home country, have similar career backgrounds, and are overwhelmingly male.

Board diversity is much more than simply a question of fairness. There is considerable evidence that overly homogenous boards can find themselves trapped in groupthink, missing out on fresh insights and ideas – and that a lack of board diversity can therefore impact negatively on company performance.

WHAT IS to be done? In our experience, the greatest barrier to strengthening board diversity is a search and selection approach that is too narrowly focused on candidates with previous board experience – and insufficiently bold and systematic in seeking out excellent candidates from a wider pool. Even the quotas now in place in many countries will not necessarily break through this barrier; countries with mandatory percentages of female board membership typically see a limited pool of senior women holding multiple directorships.

In this article we show how companies can widen their sights to identify outstanding board candidates who are currently below the radar, bringing diversity of perspective where it is most relevant to corporate strategy, operations, and markets. Board diversity can and should be transformed from a thorny problem into a solution that unlocks competitive advantage.

The problem: entrenched board monoculture

The core problem in strengthening board diversity is the recycling of a limited pool of incumbent board members, driven by a predominant focus in the selection process on previous board experience. In many European countries, companies seeking new directors are typically even more stringent, specifying that candidates' prior board experience must be in companies based in the same country. Inevitably, this focuses the search on local candidates – most of them male.

This problem entrenches monoculture in boards, shutting out the perspectives of different nationalities, cultures,

A tipping point is reached when there are several non-traditional board members around the table.

and life experiences. It represents a missed opportunity to bring in new thinking, insights, experiences, and knowledge – on different markets, new technologies, the next generation of consumers, and more. And it can impact negatively on decision-making, corporate governance, and financial performance.

Indeed, culturally homogenous boards can face significant blind spots in directing their companies' global strategies. It is not unusual for a company that generates 20 percent of its revenues from its domestic market to have a board that is 80 percent local. The result can be a lack of insight at the highest level of the company on key global markets such as China and India. Sometimes the same is true of companies' domestic markets: in the US, for example, the large Hispanic population has fast-growing purchasing power and political clout, but remains underrepresented on company boards.

The recycling of incumbent directors – by definition, mostly men – also results in intense competition for a small group of existing female directors. Egon Zehnder International's European Board Diversity Analysis found that women held 15.6 percent of European Board seats in mid-2012, up from 12.2 percent in 2010 – yet they were more likely than men to sit on multiple boards. Quotas and voluntary initiatives to encourage companies to increase female board representation are already accelerating this trend.

If improvements in board diversity are to be sustained and accelerated, companies will need to rethink the trade-off between board experience and fresh perspectives, and cast the net wider in search of women and other minority candidates. They will also need to put renewed effort into the task of developing and grooming their female and minority senior managers as the next generation of potential board directors.

Rethinking board diversity

Solving the problem of entrenched board monoculture starts with understanding the full value of board diversity. Our own experience in working with boards around the world is that innovation and creativity flourish only when an organization embraces individuals with different views and experiences. The ultimate goal is for the board to achieve diversity of viewpoint.

A broader view of diversity

Although efforts to increase female board membership have received the most attention in recent years, companies' approach to strengthening board diversity should reach far beyond just including representatives of designated categories. A broader view of diversity embraces gender, culture, nationality, skills, experience, and – very importantly – thinking style. For example, a global retailer might systematically increase its board's diversity of perspective by recruiting directors with deep experience in digital technologies and in fast-growing Asian markets; these and other directors might also be female and from national and cultural backgrounds different from those of the company's home country.

Such efforts to strengthen board diversity must be relevant to a company's strategic challenges – and squarely focused on creating value. For example, can new board members bring valuable perspectives on the company's key future markets, talent pools, technologies or operational challenges? Based on such questions, each company must set and develop its own targets and strategies for board diversity.

One overarching insight, though, is that critical mass counts. We have learned from several boards that one non-traditional board member makes limited impact – but a tipping point in diversity of perspective is reached when there are several non-traditional board members around the table. Previous studies, such as that by Erkut, Kramer, and Konrad (2008), have suggested that a critical mass of three or more women directors creates “normalization,” where women are more likely to feel comfortable, supported, and free to take action and raise issues at the board table.

Beyond experience: broadening selection criteria

Such an appreciation of the true value of board diversity should prompt companies – and their advisers – to search for and evaluate board candidates on a broader set of criteria than experience alone. Many business leaders recognize this imperative. On the topic of gender diversity, for example, Sir Roger Carr, President of the Confederation of British Industry, was recently quoted in the Financial Times as saying:

Chairmen must be adept at drawing new board members in and leveraging their insights.

“There’s a layer of very proven female talent whose only shortfall is missing boardroom experience. We just have to work a little harder to identify them and then work harder to bring their boardroom skills up to speed: it just requires more effort, but it’s worthwhile.”

In our experience, rigorous approaches to evaluate candidates’ competencies and potential can greatly widen the pool of top-caliber, diverse candidates. These individuals, almost always first-time board candidates, are often younger than average (45-55 years old); typically have successful track records as CEOs, regional managers or business unit managers; and can even include very strong functional leaders (including chief financial officers, chief marketing officers, and chief people officers). Such candidates typically continue growing in their careers while contributing at board level.

For example, a major engineering firm appointed a high-performing female operations executive from outside its industry to its board – recognizing her potential well before she was on the board search radar. Some 18 months later she was appointed CEO of her own company, by which time she was already well established and a great asset on the engineering firm’s board.

Companies can also look beyond corporate backgrounds in their search for diverse board directors, appointing senior leaders from academia, NGOs, government, and management consulting. Such candidates can bring unexpected insights, networks, and skills. Finally, companies can encourage their own senior female or minority executives to consider joining the boards of other organizations – and so help them prepare for the moment when internal board opportunities arise.

One simple yet powerful way to broaden selection criteria, proposed by our colleague Kim Van Der Zon in a recent article in *Forbes* magazine, is for boards to require that for all openings for independent directors, the nomination committee must interview a diverse slate of candidates – ideally including at least one woman. This not only helps the company cast the net wider for its particular search, but also helps give women and candidates from other underrepresented groups greater exposure to board interview processes.

Of course, we should emphasize that widening the pool of board candidates can bring its own risk – and that ap-

pointing the wrong candidate can deter the company from seeking out further non-traditional board members. It is therefore critical that companies and their advisers use clear criteria and robust processes to avoid mediocrity and ensure that only top-caliber candidates are appointed.

Investing in inclusion is a must

Recruiting a more diverse group of board members is important, but in itself is not enough. If diversity is to help unlock innovation and growth, it must be accompanied by a commitment to inclusion – a culture that truly embraces diversity and leverages differences.

Joining a board as a minority can be difficult enough on its own. Joining a board as a minority with no previous board experience, however, is even more of a challenge. A strong focus is therefore required on integration support to help diverse, first-time board members get up to speed quickly. One way to achieve this is through Board Reviews: as these become more widely established as a regular check-up point in the life of a board, there is an opportunity to emphasize the essential dimensions of openness and inclusiveness.

Of course, successful inclusion and integration is a two-way process, and also rests on the newly appointed board member being adept at integration. For example, a new Asian board member appointed to a Western company may have a deep understanding of Asia – but will struggle if he or she does not fully understand the culture of the company. Like any global businessperson, this board member needs to be a skilled two-way interpreter – able to describe Asia to the board, but critically, do so in terms that his or her fellow board members fully understand and can act upon.

Inclusion needs to be one of the core competencies of chairmen, who must be adept at drawing new board members in and leveraging their insights, at the same time as encouraging others around the board table to do the same. They must be comfortable with managing livelier debate and disagreement – natural consequences of diversity of viewpoint. When appointing new chairmen, therefore, boards need to give high priority to dimensions such as emotional intelligence, facilitation, and mentoring skills, rather than relying overly on past experience.

Making it happen: a systematic approach to strengthening board diversity

Putting these insights into practice entails adopting a systematic approach to board search and selection – in many cases moving away from the traditional approach of drawing on existing board members' personal networks to fill a vacant seat. Such an approach can include the following steps:

- Entrust a formally constituted nomination committee with the search for suitable candidates – and give it a mandate to seek out potential directors over a 2-3 year time horizon. Experience has shown that the nomination committee should have no more than four members, two of whom should be independent, bringing outside expertise to the table. The chairman should be one member of this committee. The nomination committee should itself be as diverse as possible, to avoid the unconscious bias to recruit in one's own image – a bias that can be present even when there is a conscious desire to hire diverse candidates.
- Before the search can begin, this nomination committee should define a requirements profile. Alongside criteria to evaluate skills and potential, this profile will also include clear specifications in terms of personality and character. The committee will first carry out a systematic assessment of the existing board members, so that the requirements profile is based on the board constellation as a whole, taking account of how the individual members' skills and personalities complement each other. When defining the skills-based criteria, the committee will consider the strategic and organizational challenges that the company will likely encounter over the next few years.
- Undertake a systematic search across a wide pool of candidates. Egon Zehnder International often helps companies get the greatest possible value out of such a process by proactively sourcing diverse candidates from a wide range of backgrounds, across our global network. To expand the pool of potential board candidates, companies should be ready to discuss out-of-the-box candidates, encouraging more lateral and creative approaches to board selection. It is also important to help the next generation of diverse board members – executives with high potential – think about and prepare for a board role.
- The selected candidates are then carefully evaluated against the criteria already identified – ensuring that significant weight is given to relevant skills, potential, and personal qualities, and not just proven career experience. A structured process of this kind has been shown to have a powerful impact in reducing the impact of unconscious biases.
- At the end of this process, the full board concerns itself only with the candidate proposed for election.
- Once the candidate is elected, they are taken through a carefully designed onboarding and integration process.

In sum, board diversity is an issue that is driving intense debate in many countries, and putting considerable pressure on business. But we encourage companies to see this as an opportunity. Those that step back from the fray, and systematically seek out strategically relevant candidates from a broader pool of talent, can draw on their boards to unlock fresh perspectives, innovation, and new paths to growth.

THE AUTHORS

JILL ADER is based in the London Office of Egon Zehnder International. She joined the Firm in 1996. She focuses primarily on Board Consulting and CEO Succession.

GERMAN HERRERA joined Egon Zehnder International in 1998. He leads the Miami and Atlanta offices and focuses on Board Consulting and C-Level search in the Financial Services and Industrial sectors.

DANIEL TOURNIER is based in the Paris Office. He joined Egon Zehnder International in 1984. He has led the French Offices for the last five years and focuses primarily on Board Consulting and CEO Succession Practices.