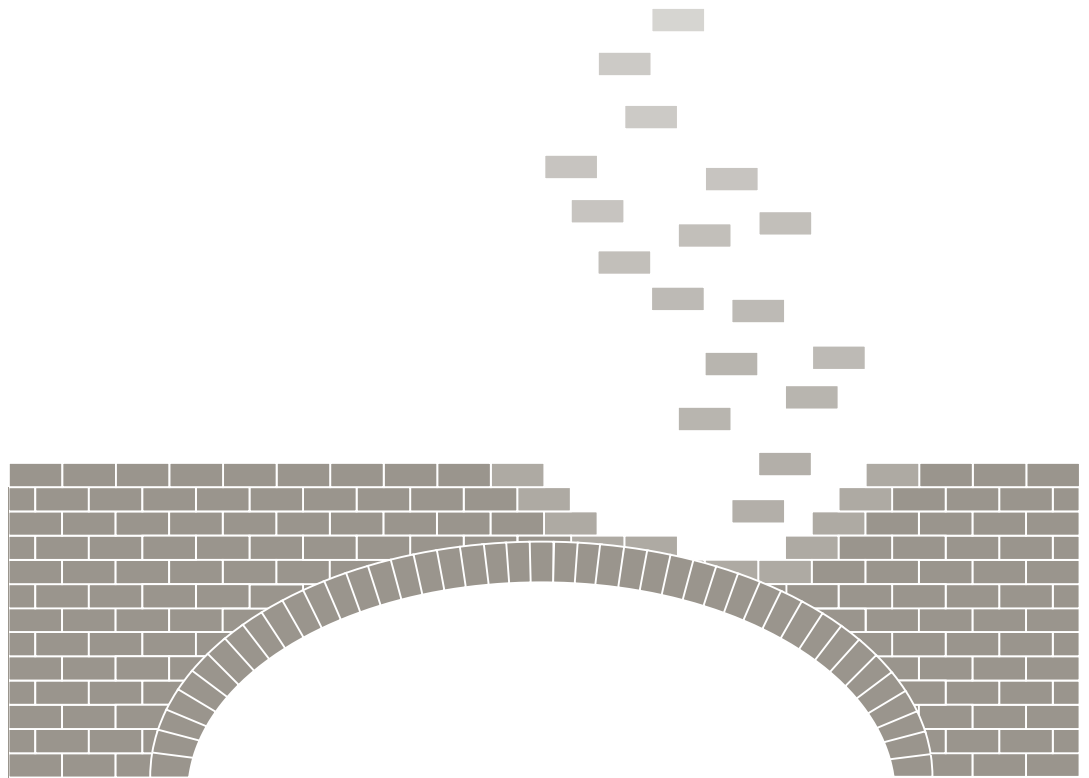


Gender Diversity on Boards

Breaking the Impasse



Amid all of today's talk about the desirability of bringing more women onto corporate boards, two indisputable facts stand out: One, the business case for board diversity of all kinds, including gender diversity, has been well established and widely accepted. Two, over the past decade, progress has been negligible. Here is what boards, top management, female candidates, and executive search firms can do about it.

Despite the widespread acceptance of the business case for diversity, the percentage of women on Fortune 500 company boards has remained stuck for the past seven years at around 15 percent. In both 2010 and 2011, about one-tenth of companies had no female directors at all. The future could be even darker, as recent research by our firm suggests: Over the past five years, the number of women reaching senior executive roles has decreased by 12 percent, shrinking the talent pool from which most female directors are likely to be drawn. Despite some recent high-profile appointments, only 3 percent of Fortune 500 CEOs are women, and – as any board search professional can attest – boards still almost reflexively seek sitting or retired CEOs to fill board seats.



Source: EEOC Labor Statistics 2000 & 2010

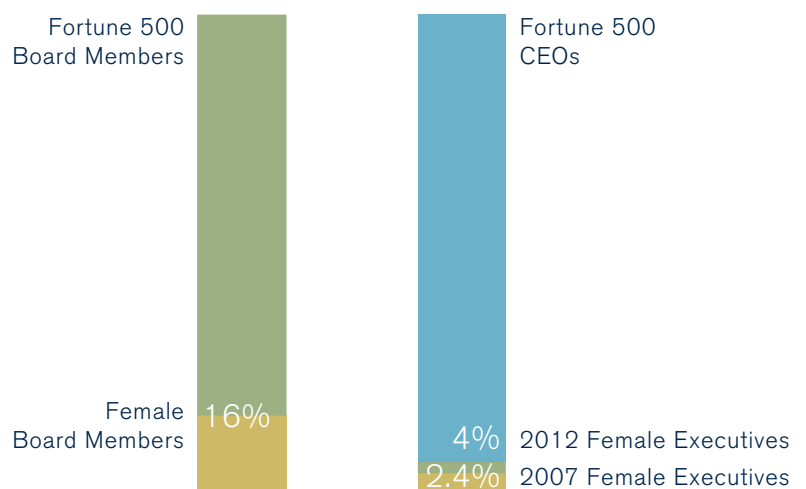


Figure 1
Fortune 500 Female Representation

Source: Fortune 500 Board statistics from Catalyst Quick Takes 2012
Fortune 500 CEO statistics from CNN Money

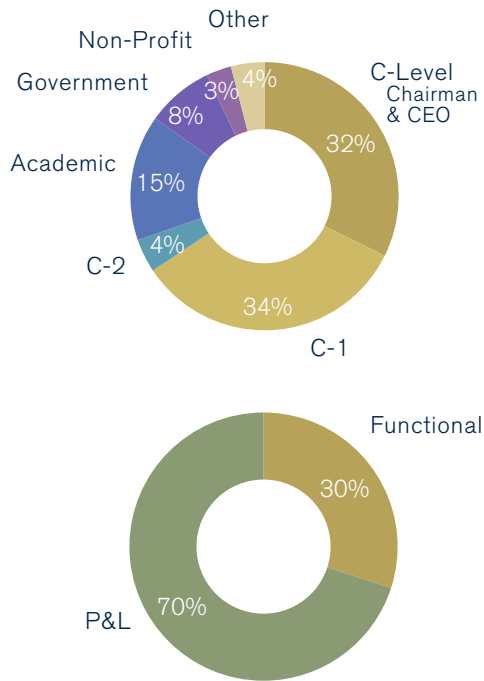


Figure 2
Profiles of Current Female Directors of Fortune 100

Source: 2011 Egon Zehnder analysis

Great Expectations: The P&L Perspective

It's no surprise that boards see CEOs (and COOs) as most qualified to oversee multi-billion dollar corporations and to fulfill the chief responsibilities of directors – to hire and fire the chief executive, set compensation for top management, validate strategy in terms of shareholder value, and ensure corporate integrity and sound risk management. For many boards in search of a new director the bottom line is literally the bottom line: they want someone who has been responsible for a significant P&L, and the title “CEO” is used as a proxy, sometimes incorrectly. When boards fully realize the difficulty of finding a Fortune 500 female CEO to join them, they often try to come as close as they can to the CEO profile.

Any approach to increasing gender diversity on boards will have to address this overwhelming preference on two fronts simultaneously: by broadening the perspective on what constitutes valuable experience and by making sure that women get the experiences that help qualify them for board service. All of the interested parties – boards, top management, aspiring female directors, and board search professionals – have a distinctive role to play. By taking some highly specific actions we can not only increase board diversity but, more importantly, realize the promise of the business case.

The real purpose of increasing gender diversity is not simply to increase the number of women on the board, but to find exceptional directors who can help take the organization to the highest level of performance.

What Boards Can Do: Adopt New Perspectives and Processes

In some countries the issue of gender diversity on boards has simply been addressed through government-mandated quotas, but quotas remain controversial in many other regions. For most Fortune 500 boards there is no simple solution that will change deeply ingrained practices overnight. For most, achieving gender diversity will require a concerted effort to adopt some new perspectives and some new processes, including:

Thinking holistically about the board's needs. When the Nominating Committee is developing a profile of the desired candidate for a board opening they should avoid the tendency to establish qualifications that could only be fulfilled by a CEO or COO and think more flexibly about the competencies the board needs. Because boards often view the head of a function as presiding over a narrow silo that does not qualify that individual to take the enterprise-wide strategic view, they overlook this rich source of potential directors. However the issue should not be whether they have had staff rather than line experience, but whether they have, for example, demonstrable and exceptional competence in an area where the board is lacking.

Requiring that the shortlist of candidates for a board opening include at least one woman. One of the most effective steps a board can take in the short term is simply to adopt such a policy as part of its internal governance process. Neither a quota nor a regulatory rule, this voluntary practice, as one of our colleagues has forcefully argued, exposes the board to highly qualified female candidates they might otherwise not see, compels all candidates, male and female, to genuinely compete for the position, and provides even unsuccessful female candidates with valuable experience of the process. The number of female board members will inevitably rise as board members, once exposed to top-flight, highly qualified diversity candidates, are likely to make the best business decision for the organization.¹

Integrating gender diversity with board succession planning. Forward looking boards should plan board succession far in advance of vacancies. They may even address multiple anticipated successions together in order to make sure that the board will remain balanced and equipped with the competencies needed as the company's strategy and business environment continue to evolve.² Once they've developed profiles of the kinds of directors they will need, they can begin to make contact with potential appointees, including women who, during a purely paper-based process, might not have been considered due to time pressure. As the demand increases for female board members, boards that have already established relationships with qualified women will be better positioned to compete for them.

Ensuring critical mass. Being the sole woman on a board can sometimes be a frustrating role. She may be regarded as a "diverse" checkmark or someone other board members turn to about gender-oriented business issues, not as a member of the board who is listened to on a wide variety of issues that come before the board. By recruiting more than one woman, boards can maximize the impact of their contributions and facilitate their integration.

Evaluating based on competencies, in addition to experience and cultural fit. Often, board members will privately express their reservations about taking a chance on candidates who do not fit the usual profile. The reality today is that boards do not have to take chances. Director assessment has become increasingly sophisticated, scientific, and accurate – partly because

1 "Bring The NFL 'Rooney Rule' Into Corporate Boardrooms," Kim Van Der Zon, Forbes.com, May 9, 2012.

2 "Succession Planning for the Boardroom: Chart a Winning Course through Supply and Demand," George Davis, Egon Zehnder International, 2010.

long established organizations devoted to executive search and assessment have been able to analyze, codify, and apply the enormous amount of experience and data they have amassed over decades.

Most of the many CEOs who currently sit on Fortune 500 boards lead or have led companies that have affirmed the value of diversity of all kinds and in many instances have made progress on it. Taking these steps, not one of which is particularly onerous or difficult, enables these leaders to reaffirm the value of gender diversity and extend it to the outside boards on which they serve.

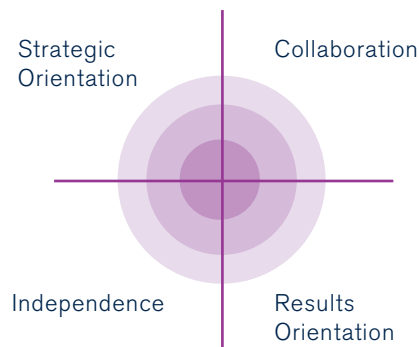


Figure 3
**The Four Core EZI Proprietary
Board Competencies**

Predicting a Prospective Board Member's Performance

EZI has identified four core competencies that boards and directors should have: Strategic Orientation, Collaboration, Independence, and Results Orientation. Through a combination of skilled interviewing and scaled assessment it is possible to determine the degree to which a board candidate possesses each of these competencies and predict the kinds of behaviors that can be expected from the prospective director – even if the candidate has never served on a board, as is often the case with diversity candidates.

Here, for example, are the expected behaviors of candidates who fall into the low (L), medium (M), and high (H) ranges of competency in Results Orientation:

FULL DESCRIPTION

Wants company to perform well

L

- Is interested in the company doing well, but will not identify what drivers will have greatest impact on short-term and long-term performance.
- Will not articulate the key operational objectives of the company and how they would generate results.

Focuses on Measurable, Shorter-Term Results

M

- Expresses dissatisfaction with poor performance and is keen to see that management is held fully accountable for clear operational objectives and targets.
- Questions monthly performance figures and takes an interest in a variety of relevant measures, both financial and qualitative.

Expresses Desire to Improve Long-Term Shareholder Value

H

- Challenges CEO or board member thinking on current strategy or practice for potential longer-term results.
- Draws on real-life examples from experience in a way that illustrates possible directions or alternatively, will recommend external professionals who could advise the CEO on next steps. Will be focused on ensuring that the company performs to the highest levels of shareholder expectation.

What Management Can Do: Create a “Board Track”

Top management can help female executives acquire the desirable characteristics of a director by creating, in effect, an informal “board track” designed to increase the pool of talented women. Critical elements include the following:

Identifying female executive talent early. Companies should establish a high-potential program that has as one of its explicit goals the identification of talented female executives as early as possible. Here again, advances in assessment can be extremely helpful. For example, our firm has recently developed a first-of-its-kind model for executive potential (Figure 4) specifically designed to identify possible CEOs early in their careers. By identifying these extremely high-potential executives and involving them in carefully tailored high-potential programs, the organization can accelerate their development and keep their careers on track toward the kind of experience boards value and for which, as the assessment indicates, they are supremely fitted.

Providing appropriate development opportunities. While a broad range of experiences is desirable, the most difficult to acquire are roles that would prepare someone to help oversee a multi-billion dollar corporation. Often, women fail to get these opportunities because their bosses make assumptions that may not necessarily be true. For example, sometimes it is assumed that a woman would not take on an international assignment or work in a high-risk locale – precisely the kind of line experience boards like in potential directors.

Supporting board service. Talented women should be encouraged to express interest in board service. To support them, CEOs should open their networks and actively refer and promote “board-ready” women in their organizations. They should provide exposure to the company’s board, broadening their networks and multiplying referral opportunities. CEOs and board members should facilitate introductions to influencers, search firms, and other board level executives for added exposure.

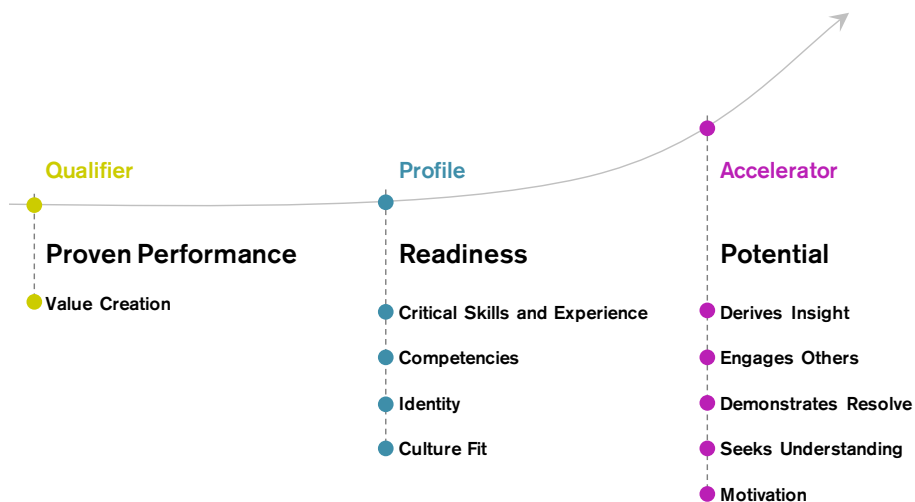


Figure 4 **Potential Model** Each element of potential has a corresponding scale.

What Female Executives Can Do: Proactively Prepare

Given the stagnant numbers of female directors, it is clear that women who aspire to a board seat face formidable obstacles. To overcome them, they should consciously do everything they can to put themselves in the position to handle such a role and, just as important, do everything they can to secure one, including:

Seeking the right experiences. Board aspirants should be diligent in seeking assignments that provide the breadth of view and responsibility that would prepare them to deal with macro-strategy and other issues of broad oversight at the board level. Such experiences might include international postings, general management roles, and exposure to governance issues, or it might mean gaining great depth in areas that are critical to boards in particular industries, such as risk management in financial services, or digital marketing in consumer products.

Gaining sponsorship and networking. Highly qualified women should be on guard against simply assuming that hard work and high performance will suffice. They should therefore be especially proactive in seeking sponsors in the company and networking with relevant individuals and organizations. Even if a female executive has a sponsor, she should reach out to mentors, directors, and search firms to gain valuable exposure – getting her name in circulation as a possible director and obtaining valuable advice from people who know first-hand what it takes.

Aiming appropriately. Board aspirants should be aware of setting themselves up for disappointment by assuming, for example, that experience with a relatively modest P&L qualifies them to serve on the board of a multi-billion dollar company, or by being unwilling to accept anything less. There are more than 12,000 public companies, offering a multitude of opportunities for board service. However, that should not mean jumping at the first chance that comes along unless it is the right chance. The key is to aim for board service that aligns with the individual's career path and offers opportunities to learn and grow, preparing the way for service on boards of larger enterprises in the future.

In addition to breadth of experience required by any board, particular depth in emerging areas that are critical to boards, such as digital for consumer companies or risk for financial institutions, allow women to make a greater impact.

However, once in the running for an appointment, potential female directors should avoid getting pigeonholed by gender. As candidates, they should be clear and specific about the special skills and perspectives they bring beyond gender and how those skills can complement those of other directors. Once on the board, female directors should resist simply becoming relegated to the role of “representing” all women.

What Search Firms Can Do: Educate, Challenge, and Nurture

Search firms that are well aware of the business case for diversity know that they are doing no greater service for their clients than when championing and facilitating diversity. Because they influence which candidates get serious consideration, they have an opportunity and an obligation to help boards understand and achieve the full benefits of diversity. Critical elements include:

Challenging and broadening the criteria for directors. Instead of letting nominating committees fixate on the issue of experience and the CEO/P&L paradigm, search consultants should guide committee members to a deeper understanding of what they really need a prospective director to do in relation to the current board, its composition, and company strategy.

Nurturing candidates at each point along the journey. Working with management on their high potential program, search consultants with powerful assessment tools and extensive coaching experience can help high potential women identify their level of readiness and help them close any gaps they have. For “ready-now” candidates the search firm can help build networks and begin to expose those candidates to relevant opportunities. For first-time candidates, the firm can provide guidance and advice as they make their way through the maze of assessment, interviews, and formal and informal contacts with board members.

Facilitating the on-boarding process. Because it is hard for anyone to join a new group and can be especially hard for a woman joining a previously all-male board, it is critical to design a careful onboarding process to set her up for success. The process should begin by exposing her to board members who can explain honestly what can be expected in terms of decision-making, openness, and collegiality. On boards appointing a woman for the first time, the other directors may need some “onboarding” as well, with an experienced search consultant facilitating a head-on discussion of biases, especially since many are unconscious.³

If the firm does these things right diverse slates will become routine. More importantly, boards will greatly increase their chances of finding someone who not only brings the business value of diversity to the boardroom but is also extraordinary – as a leader, a colleague, and a wise counselor to management. The real purpose of increasing gender diversity is not simply to increase the number of women on the board but to find exceptional directors who can help take the organization to the highest level of performance.

3 “What CEOs Need to Know to Make Diversity and Inclusion Really Work,” Michel Deschapelles, Egon Zehnder International, 2011.

Time to Make Good on the Promise of Diversity

We began with two indisputable facts: the acceptance of the business case for diversity and the stagnant numbers in achieving it on boards. We conclude with a third: There should no longer be any excuse for a lack of gender diversity in the boardroom. Boards need only to widen their perspective about what constitutes board-worthiness and put in place processes to make sure it is realized – including the shortlisting of women candidates, the integration of diversity with succession planning, and the objective evaluation of candidate competencies. Management can support that vision by creating a “board track” that gets highly talented women into the historically closed network of potential directors, and women can do their part by seizing opportunities and experiences that will prepare them for board service. Search firms, too, have an important role to play – challenging clients to embrace diversity and nurturing worthy candidates at each step of the journey. By taking these steps, boards, top management, potential candidates, and search firms can translate the promise of diversity into practice, raising the number of female directors and – most importantly – changing the landscape of corporate governance.

Authors



Claudia Pici-Morris
Egon Zehnder International
Head of U.S. Research
claudia.picimorris@ezi.net
+1 212 519 6000



German Herrera
Egon Zehnder International
Managing Director, Atlanta & Miami Offices
german.herrera@ezi.net
+1 305 569 1040

Contributing Authors

Jennifer Gooding, Research Analyst, Miami
Talya Bobick, Research Analyst, New York

Amsterdam	Lyon
Athens	Madrid
Atlanta	Melbourne
Bangalore	Mexico
Barcelona	Miami
Beijing	Milan
Berlin	Montreal
Bogotá	Moscow
Boston	Mumbai
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