Interviews and Findings from Industry Leaders

Different Is Better—
Why Diversity Matters in the Boardroom

Russell Reynolds Associates

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Introduction

"When I want your opinion, I will give it to you."
~ Anonymous

Way back when, it all made sense. Having people on your board of directors who were reliable, like-minded and known entities was the most logical strategy to build a board. After all, the purpose of the board was to support the chief executive officer's (CEO) plan and assure the shareholders that experienced, intelligent people were looking out for their interests.

Even if this strategy was well-intentioned, it came with a number of significant downsides. First, it created an environment in which directors were beholden to the CEO for their seat—something that clearly undermined board independence. Second, a board built on a handful of relationships has the inherent risk of insularity. This homogeneity can be a hindrance in an increasingly dynamic environment. As globalization, the rapid deployment of technology, an increasing need for risk management and the shifting demographics of workforces made businesses much more complex, boards began to broaden their composition. *But diversity for its own sake falls short of both the need and the opportunity. An evolution is under way, and boards now are beginning to realize that it is the breadth of perspective, not the mere inclusion of various diverse traits, that benefits the organization.*

Constructing a quality board is about the caliber and perspective of individual directors chosen as well as the deliberate creation of a dynamic and a chemistry that allow for the effective execution of corporate governance and strategic oversight. The board's primary responsibilities can vary, yet typically include identifying and evaluating significant opportunities and risks, serving as informed counsel for major strategic decisions and assessing the CEO's performance. Executing these changes requires two general conditions: (1) individuals who are experienced, responsible and collaborative and (2) an environment in which challenging issues can be confronted, opposing opinions are sought and trust is implicit.

This complicates the task of the board nominating committee, which has taken the lead in shaping the composition of the board. How does the board determine the characteristics sought in new directors—and the combination of them—whose service will be in the best interest of the company? Which candidates should be selected, especially in the context of those already on the board? What guideposts should nominating committees use given the wide latitude public companies have in who they place on their boards?

In view of the evolving responsibilities and influences of boards, we set about to study how boardroom heterogeneity is perceived and valued by directors. Our focus was gender, as there has been a significant amount of change regarding women in the boardroom over the last decade. We were less interested in the often-quoted statistics and "glass ceiling" issues that have been analyzed and discussed by many before us and instead set out to go further, to identify *why it is important to have a diversity of perspective in the boardroom*. As we began to probe, we realized that our findings on this issue transcend gender to address a broader subject. How does diversity of perspective in the boardroom lead to a good dynamic and better governance? How can boards better structure

themselves to benefit their constituents? Finally, how can candidates and nominating committees respond to the opportunities and needs that already exist?

Our Learnings

"We have a hunger of the mind which asks for knowledge of all around us."
~ Maria Mitchell

Our conversations with women and men directors from a wide range of Fortune 250 companies focused on two central topics: (1) the way in which directors view having a diverse perspective and (2) the degree to which directorships are accessible to a diverse pool of candidates. We learned that:

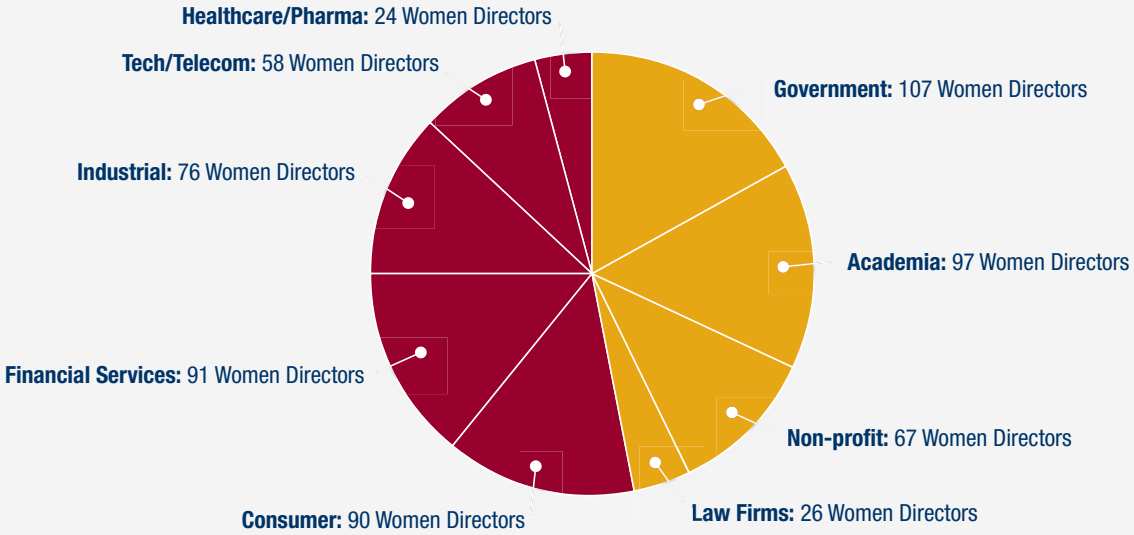
- A wide range of perspectives, not merely token representation, is critical to effective corporate governance.
- The trend toward diversity is essential as boards look to navigate the complex and dynamic issues that companies now face.
- Boards become greater advocates for diversity as they have more direct beneficial experiences with it.
- It is incumbent upon board members and the candidates themselves to reach out to each other at a time when the adage of "who you know" is being replaced by "how you know them."

What the Statistics Told Us

We found it a useful starting point to look into the composition of Fortune 250 companies' boards of directors. We learned the following:

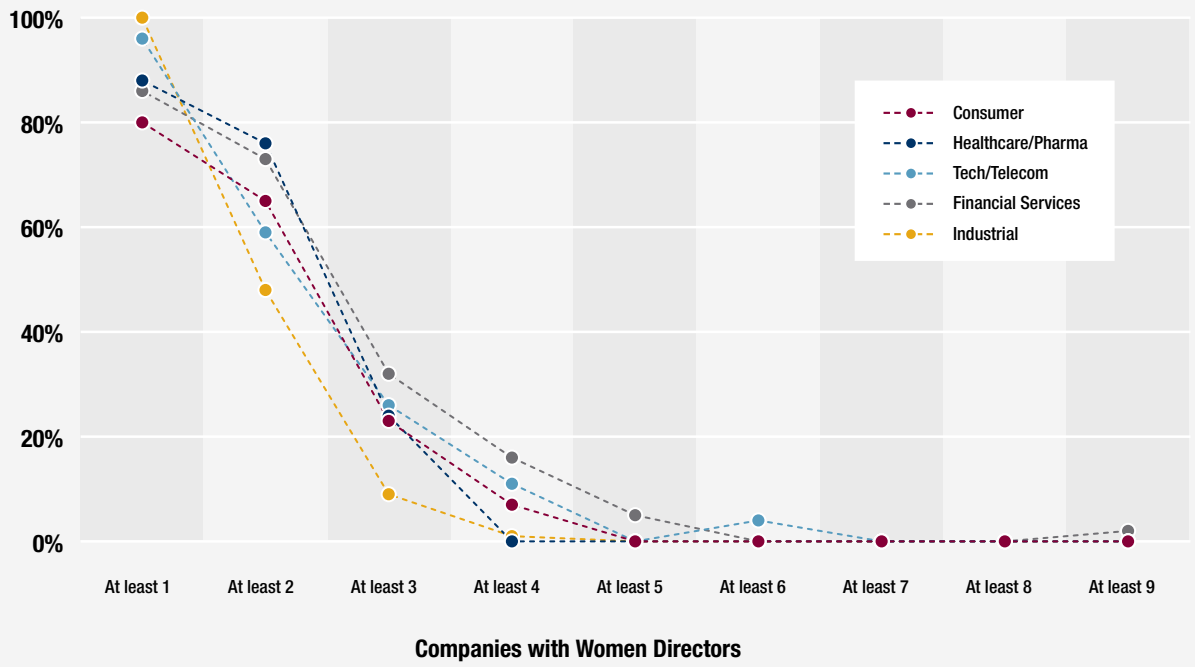
Fortune 250 boards include a large number of women directors from non-business sectors. *Women from government service, academia, not-for-profits and the legal profession currently account for nearly half of all women directors.* Among women directors who have joined these boards more recently, however, we see an increase in those with corporate backgrounds. This trend is not surprising. A decade and more ago, women with significant professional accomplishment were more likely to be found in universities, foundations and government, sectors that were quicker to lower the barriers to their most senior leadership ranks. As more women gain C-suite experience, director candidate pools are bolstered (see Chart 1).

Chart 1: The Professional Background of Women Directors



There are telling differences among sectors in the distribution of women directors. At first glance, the industrial sector appears to be a leader in the inclusion of women in the boardroom. Every industrial company in the Fortune 250 has at least one woman on its board; this cannot be claimed by any other sector. However, companies in the industrial sector more often have only one woman on their board, and, as a result, industrial companies have the lowest average number of women on their board. *Companies with a critical mass of women on their board (three or more) are more likely to be in the financial services sector, with consumer products, healthcare/pharmaceuticals and technology/telecom a step behind.* It is surprising, nonetheless, that not one of these sectors can claim that 100 percent of their companies have at least one woman on their board (see Chart 2).

Chart 2: The Presence of Women Directors by Sector



The board committees on which directors sit often reflect numerous factors. *We found that women are most likely to serve on nominating/governance committees and are least often seen on executive committees.* Our anecdotal findings suggest that women are perceived as being particularly valuable on nominating committees because these directors represent a desired diversity group (the old reason), and they bring a broader perspective (the new reason). Notably, women are underrepresented among the ranks of those chairing committees. This, along with the underrepresentation on executive committees, may be a function of the influence that board tenure plays in determining these roles. Other factors could be at work here as well.

What We Heard from Directors

The directors with whom we spoke were passionate about the topic of diversity of perspective, both in general and in the specific case of gender. They had strong opinions about the effect of bringing different perspectives to the boardroom, the qualities most sought in directors and the paths that lead to the boardroom. Here is what we heard:

- **Having a wide range of perspectives represented in the boardroom is critical to effective corporate governance.**
  - Having multiple views on the possible outcomes of any action makes for a decision-making process that is more likely to take into account the various risks, consequences and implications of possible actions. "Increasingly, boards are in a fishbowl of scrutiny from investors, the media, non-governmental organizations and so on. The problems that boards are grappling with are too hard for any one person to figure out," one director told us. Another director observed that, "You want directors to have experience in dealing with risk from many angles because you don't know where your risk is going to come from. Having directors from very diverse backgrounds really helps."
  - A board needs to take into consideration all of its constituencies. While no one disputes that a board's first responsibility is to the company's shareholders, those shareholders suffer without the support of customers and employees. A diverse board allows for the group to better anticipate and consider the concerns and perspectives of all key constituencies.
- **Being able to draw upon a diverse set of competencies and knowledge is essential if boards are to successfully address the complex issues their companies face.**
  - A board needs to draw upon a range of experiences in understanding opportunities, anticipating challenges and assessing risks. Rarely does a right or wrong answer exist for the many issues a board faces—particularly in an environment where silos defining industries are breaking down, constituencies are globalizing, the effects of technology are accelerating and risk presents itself in new ways. With these lines blurring, having multiple views on the possible outcomes of an action results in a more thoughtful decision-making process.
  - A board needs to constantly challenge itself to keep pace with the changing dynamics a company faces. This is best done through a robust dialogue of differing views as long as they are offered respectfully and listened to carefully. "People tend to get insular, and it's incredibly important for boards to get different perspectives," said one director. "That there is not one right answer is not as easily grasped as one might think."

- **Boards become more appreciative of having a broad perspective as they accumulate experience in dealing with it.**

  - The directors with whom we spoke saw the benefits of diversity as having been established beyond dispute. "Diversity and inclusion are not just the right thing to do but are important to the business agenda," said one director. "Boards are at their best when there is diversity of culture, thinking and perspective."

  - All directors reported that constructively challenging the status quo is healthy. As one woman director with more than two decades of board service recounted, "I helped people move from the notion of 'Being different is bad,' to 'Being different is good.' In other words, diversity is not deviant."

  - While many of the women directors reported that gender played at least some role in their earliest directorship nominations, these women didn't consider it an ongoing factor. Once they garnered the experience and reputation for effectiveness as a board member, the calls came because of individual capabilities and perspective, not because these candidates simply represented a targeted demographic. As one reported, "Being a woman was instrumental to my first board. After that, it was reputation as a good board member."

- **Strategies to influence gender diversity still are evolving**

  - The adage of "who you know" is being replaced with "how you know them." As with most men, the majority of women directors reached their first board seat because someone actively championed them. Whether recommended by a CEO for whom they worked or a board member who saw them in action, new initiates to the boardroom often are introduced by more experienced directors who can vouch for them. It isn't, then, a question of being known by the right people but rather having an opportunity to impress them and be mentored by them. Said one director, "An inexperienced board candidate needs interaction with other board members and CEOs to create comfort among those who are in a position of influence."

  - Women are increasingly making their way into the boardroom, in part because of the greater number of women in the C-suite who make up the pool of eligible candidates. As important, heightened awareness during the past decade of the pitfalls of homogeneity has contributed to more women in the boardroom. We see a trend, its sustainability unknown, that boards are increasingly focusing their recruiting efforts on directors who bring a diverse perspective to the challenging requirements of governance and improved board performance rather than those who are selected because of demographic traits.

  - It would be a mistake, however, to conclude that women face no obstacles to reaching the boardroom. Some of the directors with whom we spoke told us that women still occasionally encounter outdated stereotyping on the path to earning credibility and respect. In fairness, one director referred to this as "a conditioned response for the older generation," and our findings confirm that these attitudes are becoming increasingly rare.

We would be remiss not to mention that there also were many robust discussions about what characterizes the behavioral differences between women and men. We will stop short of opening that can of worms so that we stay on point with our message: *Having differences is a good thing, and celebrating them is even better.* Suffice it to say, the behavioral differences between the genders constitute a science unto itself.

A New Model of Director Competencies and Perspectives

"Anyone who can only think of only one way to spell a word obviously lacks imagination." ~ Mark Twain

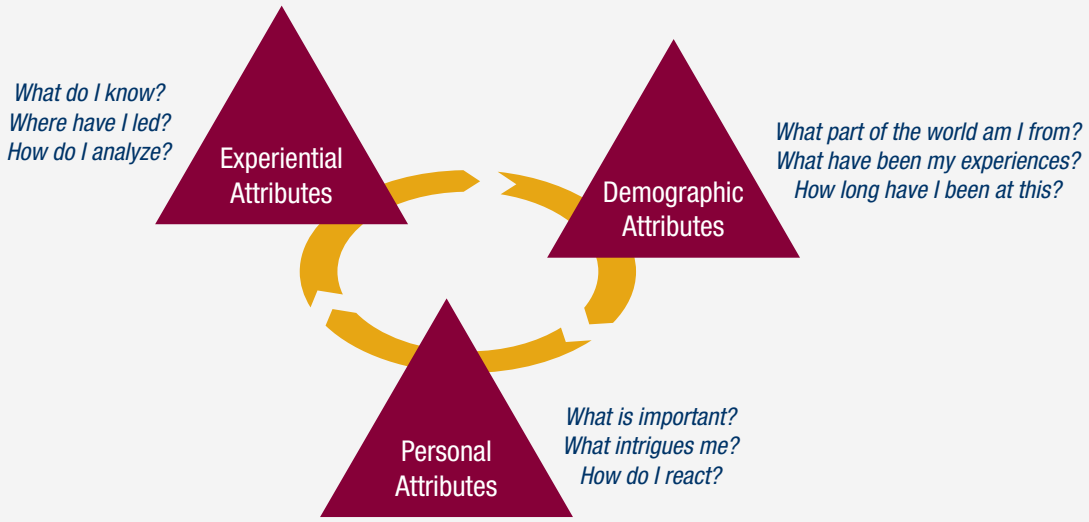
As we noted earlier, gender is only one of many attributes that contribute to the perspective that a director brings to the boardroom. In fact, traditional approaches to diversity recruiting have tended to focus on one or two specific variables at a time: "We need to add a marketing person to the board," or "We need to find someone who is ethnically diverse."

While this has been a step in the right direction, boards would benefit from nominating committees that are charged to take a more holistic, multidimensional view. Such an approach would help them better build boards that can draw upon a wide range of perspectives, as well as experience and knowledge, as part of their candidate assessment process.

In our experience, an executive's perspective is influenced by a combination of three different sets of attributes:

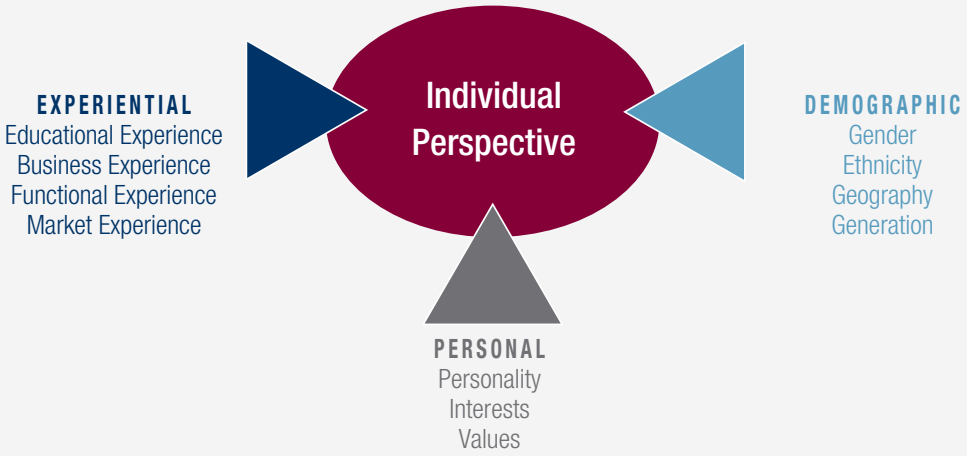
- Experiential attributes, such as functional experience, industry experience, accomplishments and education
- Demographic attributes, including gender, race, region and generational cohort
- Personal attributes, including personality, interests and values

Chart 3: What Shapes a Leader's Perspective?



Our interviews confirm that this broad way of thinking about what informs leaders directly impacts how they contribute in the boardroom. Further, the concomitant nature of these attributes shapes how each individual approaches a situation and responds to others with similar or varying attributes.

Chart 4: The Interplay Further Influences One's Perspective



These attributes combine to influence the perspectives that people draw upon and the lens through which they approach the world. These perspectives, in turn, shape the competencies an executive develops, the priorities that guide his or her work, and the insights that he or she generates in solving problems, identifying opportunities and assessing risks.

This multidimensional model provides a starting point that allows nominating committees to more consciously shape and optimize the collective skills and dynamics of the board by identifying the full range of variables to be considered. Analysis of these variables should be included in the candidate assessment process, including interviews, referencing, psychometric analysis and other techniques.

A board composed of directors representing a range of perspectives leads to an environment of collaborative tension that is the essence of good governance. In a room where everyone has different points of view and there is a greater opportunity for cross-pollination of ideas, there are fewer unspoken assumptions, less "group think" and a greater likelihood of innovation. This allows the board to ask the probing questions and tackle the challenging issues, such as risk management and succession planning, which are at the center of good corporate governance.

Implications for Nominating Committees

"I not only use all the brains that I have but all that I can borrow."
~ Woodrow Wilson

Creating a board composed of directors with a broad range of perspectives must be a conscious choice by the nominating committee. The natural tendency to turn to our own networks when looking to identify candidates can easily give rise to self-reinforcing homogeneity. Often, we are not aware of how limited our own networks are when compared with the full universe of qualified candidates.

The benefits of having a diverse board are particularly powerful when there is a critical mass of varied perspectives to support broad thinking. "A board is better off if the representation is as well-balanced as you can get it," one male director told us. The effects of critical mass were confirmed in a recent Wellesley College study focused on gender in the boardroom, which showed improved dynamics with three or more women on a board and consequent advantages in board governance.[1]

To be clear, we do not suggest that breadth of perspective is to be desired for its own sake. Diversity without cohesion can result in what one director refers to as a "cacophony of voices." Instead, board members must be able to draw upon a certain foundation of deep business experience and judgment and, more important, must be chosen in ways that align with the strategic needs of the company. The challenge of the nominating committee is to compose the board so that the creative tension of different perspectives and personalities exists within a coherent framework that serves the needs of the organization. As one director put it, "Good governance, by definition, is having a breadth of perspective. It is about bringing in ideas from elsewhere. A board that is not getting the quality of input it needs will likely have a loose approach to governance and a less disciplined approach to business."

[1] Kramer, V.W., Konrad, A.M. and Erkut, S. (2006). *Critical mass on corporate boards: Why three or more women enhance governance.* (Wellesley Centers for Women, Report No. WCW 11). Wellesley, Mass.

There are several ways in which nominating committees can successfully incorporate breadth of perspective into their candidate selection process:

- **Determine the set of competencies, priorities and insights to be sought and establish a process for screening for those qualities.** In addition to needed functional or regional expertise, it is critical to include other competencies, such as conceptual thinking, resilience and the ability to manage ambiguity that are prerequisites to adding value to boardroom discussions. The list, of course, will vary for each situation and requires thoughtful analysis by the nominating committee.

- **Conduct a gap analysis of the board that considers that full range of attributes.** A gap analysis can be a helpful tool to identify the experience and competencies represented around the boardroom table—and those that are lacking. Traditional gap analyses, however, usually are focused on a fairly select range of competencies and professional accomplishments, such as CEO experience or financial expertise. By expanding the analysis to include the full range of competencies sought and the experiential, demographic and personal attributes that form perspective, a nominating committee can act with greater awareness of the variables at work in shaping a board.

- **Place priority on effective communication skills and interpersonal acumen.** Every director with whom we spoke emphasized that effective communication is essential to competent directorship. This is all the more so in a diverse environment where shared perspective cannot be assumed. Director candidates should have a track record of successfully working with multiple constituencies and building support for difficult undertakings. They should be able to succinctly and clearly express their point of view, probe and learn from the perspective of others, and extract solutions from the flow of boardroom dialogue. As one director put it, an effective director is one who can "stand out for what you bring to the table and fit in so that you can be listened to."

- **Cast a wider net.** Our conversations suggest that there is a substantial pool of developing talent of women immediately below the C-suite level that can be tapped into if nominating committees are willing to look a little deeper. These candidates can contribute additional competencies and perspective, in addition to uncommon energy and drive. "When diversity becomes a requirement for the candidate pool, it makes for a better search," said one director. "It forces the issue of people getting comfortable with people who are not like them." As one woman director who was tapped for a directorship while still a vice president commented, "They reached down for me, and it was a gift to both of us."

- **Ensure a meaningful director evaluation process.** A diverse board is united by common boardroom standards and goals. A thorough director evaluation process is central to maintaining that touchstone. "Boards need to get beyond the 'clubby' perspective that keeps them from providing robust direction and evaluation of their members," in the words of one boardroom veteran.

Summary

"To succeed, jump as quickly at opportunities as you do at conclusions."
~ Benjamin Franklin

Diversity of perspective does matter. Having a broad range of collective attributes, rather than overlapping or redundant qualities, helps the board significantly in fulfilling its responsibilities of providing good corporate governance and strategic oversight. Boards that can collectively draw upon a broad assortment of competencies, priorities and insights are an invaluable resource for CEOs and senior management teams working in complex business environments with wide-ranging, multiple constituencies. Diversity of perspective leads to more innovation, better risk management, and stronger connections with customers, employees and business partners.

While tremendous progress has been made, there is significant work yet to be done. Notwithstanding many encouraging findings of our study, women often still are approached for boards because they represent a diverse demographic and not because they bring a specific, needed perspective. The good news is that the pool of C-suite women is expanding, and boards are becoming increasingly attuned in their thinking about the importance of maintaining a broad perspective. While our conversations focused on women in the boardroom, we are confident that these findings transcend the gender issue.

Methodology and Acknowledgments

"If you have knowledge, let others light their candles on it."
~ Margaret Fuller

We began our study by focusing on where boards are in terms of composition and participation. Specifically, to see how women directors are drawn from different corporate sectors, what types of patterns there might be in their professional backgrounds and what role they play on the board, we examined the boards of Fortune 250 companies. This information gathering provided a foundation that allowed us to move to the heart of our work: a series of in-depth, candid and enlightening interviews with experienced women and men directors who could provide insight on the role that breadth of perspective plays in the boardroom.

Our input came from a series of conversations with a range of directors who collectively sit on the boards of more than 100 of the Fortune 250 companies. In particular, we gratefully acknowledge the following directors who offered us an especially significant amount of their time and insight that were crucial to this study:

Roxanne S. Austin
Teresa Beck
Adrian D.P. Bellamy
Ann C. Berzin
Dina Dublon
Susan E. Engel
Karen N. Horn
Ellen R. Marram
Blythe J. McGarvie
Jan L. Murley
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James D. Robinson III
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Michael D. White
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