2018 **Global Board Diversity Tracker**

# Who's Really on Board?

EgonZehnder

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Jill Ader, Chairwoman,
Egon Zehnder

# Global Board Diversity Tracker 2018: Who's Really On Board?

Boards of directors are arguably the most influential decision makers in business. They choose the Chief Executive Officer and review and assess much of the top talent. They help their companies determine vision and strategy. They deal with legal and technological challenges, financial regulation, and reputation issues — all critical items that can impact a company's ultimate success or failure. And many boards' own lack of diversity means that they are missing the perspectives of key stakeholders, including their own organization's emerging leaders and the consumers of their products and services.

Over the past two decades, there has been an active push to place more women and others with diverse backgrounds onto boards — a push driven by some vocal business leaders, governments, and, increasingly, shareholders, some of whom are now becoming activists to force change. At its core, this is a fundamental business issue: Compelling data now exists to show that companies with more diverse executive teams and boards of directors perform better financially.[1] Says Paul Polman, CEO of Unilever and a longtime champion of diversity: "I would have a hard time even understanding how you can be successful as a business if you cannot mirror the society that you serve in the first place." It is becoming more and more accepted that diversity in leadership is part of a company's fiduciary obligation.

Yet the reality, in many countries, differs from the rhetoric. Progress on changing the makeup of boards is happening at a much slower pace than one might think. The placement of international directors on boards is becoming more prevalent. And when it comes to gender, even in 2018 — a year in which the topic has come to the forefront of both political and business discourse — momentum remains slow at best and stagnant or nonexistent at worst. While many companies have at least one female director by now, celebrating that statistic may not mean much: Our belief is that true change in the way the board operates doesn't happen until there are at least three diverse directors — what we call the "magic number."

"I would have a hard time even understanding how you can be successful as a business if you cannot mirror the society that you serve in the first place."

Paul Polman, CEO, Unilever

At Egon Zehnder, we have tracked gender and international diversity on boards around the world for the past 14 years. With the release of our 2018 report, *Global Board Diversity Tracker: Who's Really on Board?*, we mark our most comprehensive effort yet, analyzing BoardEx data from 1,610 public companies with market caps above 7 billion euros in 44 different countries as of May 2018. (In countries with fewer large companies, we use the six largest companies as measured by market capitalization.)

We also look at just ***who*** really serves on these boards, going beyond the numbers to examine who serves in leadership positions and what the pool of new directors looks like. We look at how board leaders can create teams that work well together. We look at getting to that magic number — and just how far away we remain from parity. We also highlight real-life examples of companies that have made board diversity a priority, and explain, through rich case studies, how they've done it. At the end of the report, we offer our recommendations, based on more than 50 years advising companies on senior leadership topics, on how best to jump start or accelerate the process of diversifying your board.

In this report, we ask and — with the help of diversity champions — try to answer:

**Which countries lead and lag?**

**Why has progress stalled and, in some cases, gone backwards?**

**What is the true impact of the "magic number" of three women on a board?**

**What can we learn from chairs, CEOs, and directors who are leading this change?**

**What can leaders do *today* to make their boards more representative and inclusive?**

We share this analysis with you because we at Egon Zehnder strongly believe that increasing diversity in both the boardroom and the C-suite is good for business and good for the world. Our hope is that the information and real-life case studies in this report will help your organization build more diversity in leadership — and reap the benefits that will result.

Please visit **www.egonzehnder.com/global-board-diversity-tracker** to see more — and to conduct your own analysis of the data, which can be customized by country or industry.

**Cynthia Soledad** and **Karoline Vinsrygg**
Co-Leaders, Egon Zehnder Diversity Council

**Ashley Summerfield**
Leader, Egon Zehnder Board Practice

**Jennifer Reingold**
Global Head of Content

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# 2018: One is Only the Start

Overall, there is certainly some good news to share: Since 2004, when we first began to track board diversity, the overall presence of women and international directors has grown significantly.

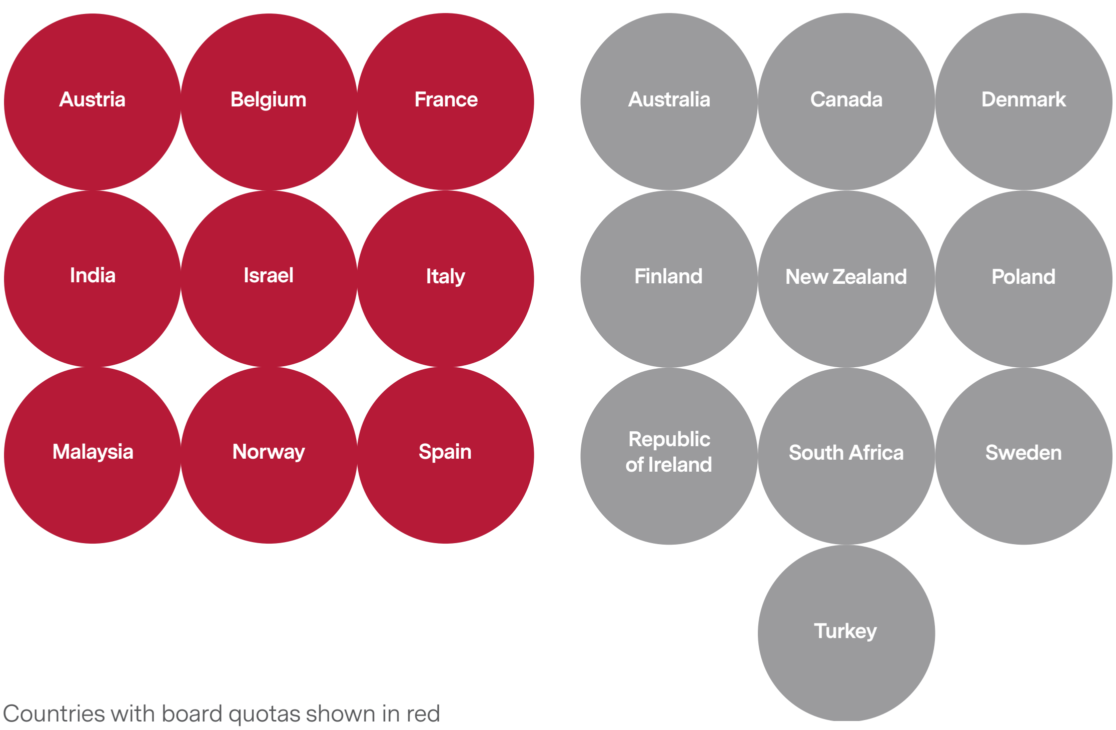
In 2018, 84.9 percent of large company boards across 44 countries included at least one woman among their directors. Overall, 20.4 percent of all directors in the countries we studied are women — up from 13.6 percent six years ago. In Western Europe, board positions held by women have risen from 15.6 percent to 29.0 percent over the same time period. On the international diversity front, 72 percent of the companies surveyed had at least one non-national board member.

In 19 of the 44 countries we studied, all of the large cap companies have at least one female director. This "One on Board Club," up from 15 countries in 2016 and just eight in 2012, includes nine countries that have instituted a quota, a law requiring that companies reach a certain percentage of women on boards by a specified date.

The progress, however, is far from consistent, as 15 percent of large cap companies still have no women on their boards. 25 countries, including China, Brazil, and Russia, are home to large companies with no women on their boards at all. And in the past two years, **the overall percentage of companies with at least one woman on the board has stayed roughly flat.**

**One on Board Club**

Countries where all large public companies have at least one woman on the board




Countries with board quotas shown in red

# Inconsistent Progress: Champions, Slow Movers, and Underachievers

Looking at several factors, including the numbers of new female board appointments and how many women on average sit on a board, we have classified the 44 countries into three groups: Champions, Slow Movers, and Underachievers.

In the "Champions" category, we see countries that are making significant progress on board diversity. This may be driven by a good dose of public, shareholder and stakeholder pressure as well as regulation. It has also been a result of increasing numbers of women reaching the upper echelons of business.

Yet in some countries that have historically been Champions, progress is slowing:
For example, although the United States has long been considered a diversity leader, overall progress in adding women to the boards of large companies has slowed; the percentage of female directors has risen by just 3.2 percent since 2012.

Look at some other countries in the "Slow Movers" group, and optimism continues to dim. The 12 companies in this list include Brazil, China, Mexico, Russia, and Singapore. Here change is happening, but at a relatively glacial place; on average, just 10 percent of new board appointments are women.

In our "Underachievers" group of countries — a list that includes Argentina, Chile, Hungary, Japan, Saudi Arabia, South Korea, and the UAE — less than 55 percent of boards of directors have at least one woman, and less than 10 percent have two or more. But even in these countries, some companies are leading the way with new practices and differentiated results.

## Inconsistent Progress


Countries with board quotas are shown in red

### *Criteria for the classification of countries

**Champions**

Criterion 1: >=60% of boards with at least 1 woman on board

Criterion 2: >=18% female new hires

Criterion 3: >=30% of boards with at least 2 or 3 women on board

**Slow Movers**

Criterion 1: >40% and <=75% of boards with at least 1 woman on board

Criterion 2: >10% female new hires

Criterion 3: >=5% of boards with at least 2 or >=5% and <30% of boards with at least 3 women on board

**Underachievers**

Criterion 1: <=55% with at least 1 woman on board

Criterion 2: <10% female new hires

Criterion 3: <=10% of boards with at least 2 or 3 women on board

* Note: despite not meeting Criterion 2, Indonesia and the Czech Republic were classified as Slow Movers due to overall progress to date

**Quota only applies to supervisory boards

# Grupo Supervielle, Argentina: Pushing Past Cultural Norms

“If you have a small pipeline of talent as you do in less diverse societies, it’s always a challenge,” says Laurence Nicole Mengin de Loyer, who was the first woman to join the $650 million market cap financial-services company’s board in 2011. “But I think the differential factor here is the chair sending out the signal and putting the objective on the table. **If you go after great women candidates, you will find them.”**

As the company prepared for an IPO, it became clear to Chair Julio Patricio Supervielle that other perspectives were needed. He believed that the markets would see diversity as a plus and encouraged his recruiter to propose many female candidates. Two more women joined (one has since left). “I was thrilled,” Loyer says, “because it’s important for one woman on the board to have another. After that, gender is not assigned to one specific person. It helped me to speak up even more.” It has changed the dynamic for everyone, she says. “The groupthink risk disappears, because we are not so much a group; we are a team and everybody has to add his or her part, and we all do it in a different way.”

Getting to diversity in a more traditional culture begins at the top, says Richard Guy Gluzman, another director: “First of all, it must be defined within the board that diversity is the priority. Once it is defined, you can do it.”

# Hering, Brazil: Looking Past Gender

For Hering, a $900 million market-cap retail company, female board diversity was not a deliberate strategy. New shareholders demanded a change in the composition of the board, saying that it was too homogenous, too old, and too financially oriented. CEO Fabio Hering set out to find more retail and digital experts, and ended up with two women on a seven-person board — quite unusual in Brazil. It was more about finding the right skill set than a specific gender play, says Hering. **“I wanted to promote diversity regardless of gender,”** he says.

Andrea Mota, one of the female directors, says that women with operating backgrounds are very much in demand — and very hard to find. “In every board I look at, I always see the same people,” she says. She suggests looking at women who have retired or stepped down from executive positions as a way to increase the pool.

## Inconsistent Progress: Champions, Slow Movers, and Underachievers

# Our Take

"Companies have come to the realization that in this time of dramatic technological change, the 'traditional' perspective on governance is no longer sufficient. New voices are needed — and many of those are women."

Jill Ader, Chairwoman, Egon Zehnder

The relative lack of women in top business roles presents a pipeline challenge for directors, one that is both created and exacerbated by lasting cultural norms. And yet that is no excuse for not making the effort to find qualified female directors, difficult as it may be.

Even in countries where senior women leaders are rare, some innovative companies have established new talent networks rather than relying on existing ones. Says Egon Zehnder Chairwoman Jill Ader: "Companies have come to the realization that in this time of dramatic technological change, the 'traditional' perspective on governance is no longer sufficient. New voices are needed — and many of those are women."

# Tokenism to True Impact: The Magic of Three

Having one woman on a board is progress. But it is far from a gold standard when most boards average between nine and 13 members, and some have as many as 20.

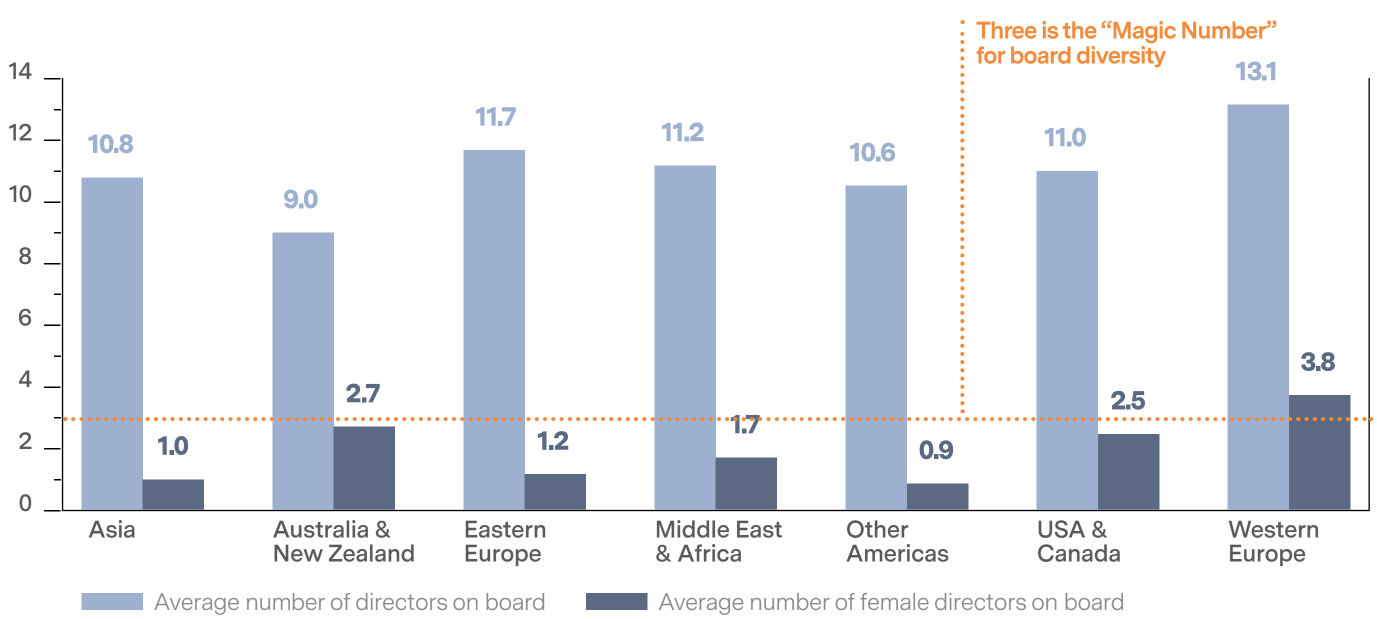
There is significant evidence suggesting that it takes at least three women on a board to fully reap the benefits of gender diversity. One MSCI study found that companies with at least three women on the board in 2011 experienced a median increase in return on equity of 10 percentage points and earnings per share of 37 percent by 2016.[2] This "critical mass" changes both the way the board is run and the way women are able to share their insights. Says one chairman of a large financial firm in the United Kingdom: "My conclusion is that having one woman on the board doesn't work; having two is a bit of a cabal, but when you get to three, it all changes. On average, women have much greater EQ. In my experience, they enhance the ability of the board to see around corners and scan the horizon."

Let's take a closer look at the average number of women on a board by country.

First, the leaders: Australia, Belgium, Finland, France, Italy, Norway, and Sweden all average more than 30 percent female directors (France leads with 42 percent). The countries with the lowest percentage of women on board are Hungary, Japan, South Korea, and UAE. None of these countries average more than 6 percent women; for Saudi Arabia, the number is 1 percent.

If we delve further into the numbers, we see 13 countries that have reached the magic number: Here, the largest companies have, on average, three or more women per board, with five countries (Belgium, France, Germany, Italy, and Sweden) averaging four or more. All of these countries except Sweden operate under some form of quota system.

**Average Number of Directors/Female Directors**



# ITT, United States: Forethought and Potential

"ITT was ahead of its time," says Christina Gold, who was the industrial conglomerate's first female board member in 1997, when the company had more than $30 billion in sales. "They were looking to be reflective and making sure that their board reflected society," focusing in particular on race and gender. Gold, who at the time was running Avon's North America unit, was hugely in demand as a female operating executive.

Over time, ITT's conglomerate model fell out of favor, and in 2011, it decided to split into three separate publicly-traded companies — which meant that each needed a brand new board. Denise Ramos, who had been CFO, was put in charge of what was left of the original company and given three members, including Gold and Linda Sanford, to build a board virtually from scratch — a process that she led.

With three female directors, including Ramos, gender was no longer the main gap to address; Ramos created a "skills matrix" and tried to build an ideal combination of experiences and backgrounds. Yet she also was aware that Sanford would soon be leaving — and selected Rebecca McDonald, an energy executive, as her replacement. In 2018, Ramos knew that she would be retiring and that Gold was also approaching ITT's director retirement age, so she started planning in advance, putting gender diversity atop that matrix as a must, with an emphasis on digital expertise. Ramos has little patience for those who say it's too hard to find diversity and maintain the same level of quality. **"That's a bad argument,"** she says. **"You just have to look harder."**

After a nine-month search, she had identified two female candidates with quite different credentials — Cheryl Shavers, CEO of advisory firm Global Smarts, and Sabrina Soussan, CEO of a unit of Siemens. Rather than lose either of these two strong candidates, and recognizing the need to be flexible, the board decided to increase its size to accommodate adding two directors instead of just one. Currently, five of 13 directors are women. "If the organization is willing to make it happen," says Gold, "it will."

# Our Take

> "We need a new definition of board-ready. It is being open to candidates who do not have prior board experience, but have sufficient executive experience to be additive to the board."
>
> Cynthia Soledad, Egon Zehnder

Boards must raise their aspirations if they want to have true impact. Yet the fact that many large companies require their directors to be experienced directors or CEOs in order to even be considered for a board position — and that, conversely, many companies looking for CEOs want to see external board experience — means that there is a true pipeline problem. Complicating matters is the fact that many existing female CEOs already serve on several boards, making it difficult to add new board work.

To address this issue, boards must be willing to develop first-time directors. "We need a new definition of board-ready," says Cynthia Soledad, the Co-leader of Egon Zehnder's Diversity Council. "It is being open to candidates who do not have prior board experience, but have sufficient executive experience to be additive to the board."

An executive with functional or industry experience and high executive leadership potential can add value, whether or not she is a sitting CEO or director today. This executive potential is made up of four traits: curiosity, insight, determination, and engagement. Our experience shows that individuals with these traits can step into new situations and deliver impact.

Boards who are willing to go beyond their known networks to really investigate and evaluate the executive talent pool and connect with high potentials can fill the pipeline. Says Christina Gold, a member of three boards, including ITT and New York Life: "This is not a one-time event: It's about constantly nurturing relationships over a couple of years."

# Board Leadership: The Disappointing Truth

While it is good news that women now make up 20.4 percent of directors in our study, it is equally critical to advance the number of women in leadership positions on boards. This matters not only because some board positions are more powerful than others — but also because diversity in board leadership correlates with diversity across the rest of the organization. Says Karoline Vinsrygg, Co-Leader of Egon Zehnder's Diversity Council: "When gender diversity becomes the norm in a boardroom, we also start seeing more types of diversity, such as ethnic background, expertise, etc."

**Overall, just 5.6 percent of all board seats are held by women in leadership roles.**

In the U.S. and some other countries, it is the nomination and/or governance committee that leads the selection process for the Chief Executive and other board members. A recent study published in Sloan Management Review by Deb Henretta and Kimberly Whitler shows that when women lead these committees, there are, on average, 21 percent more women on the board [3], creating a virtuous cycle.

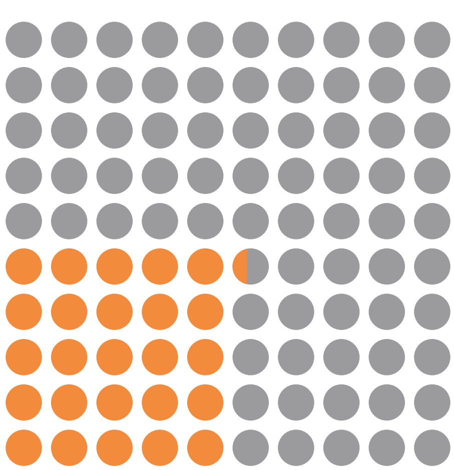
When it comes to executive and non-executive chair roles — the true leaders of the board — the numbers are significantly worse: Just 4.5 percent of non-executive chairs in the countries we studied are women, and only 2.5 percent of executive chairs. Those numbers have actually decreased in the past two years, each falling by half a percentage point globally. And in almost half of the countries we measured, there are no women at all in board chair positions.

These numbers have implications for the entire board: A 2017 study by Deloitte found that companies with a female chair have nearly twice the amount of women serving on boards that male-chaired companies do.[4]

### Women in Leadership Positions

Percentage of women in the boardroom

**20.4%**



Of the 20.4%:

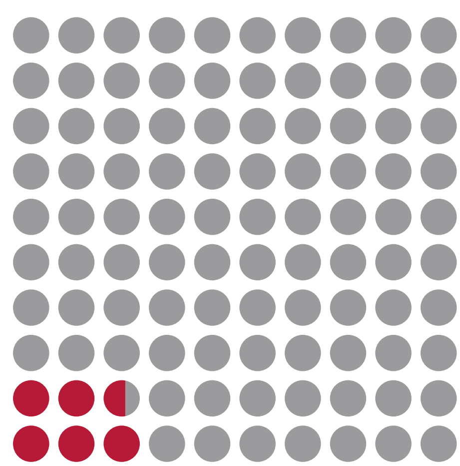
Board chairs
**1.5%**

Executive directors
**6.0%**

Committee chairs
**25.5%**

Percentage of women in leadership positions in the boardroom

**5.6%**



Success Stories

# Link, Hong Kong: Committee Leaders Count

Link is a real estate investment trust based in Hong Kong with a market capitalization of approximately $19 billion. Although gender diversity in the region lags, Link has been a leader, with four female directors on a 12-member supervisory board. Back in 2013, May Tan, a bank CEO, and Elaine Young, a real estate executive, were invited to join a board Tan laughingly now describes as "male, pale, and stale." Then-Chair Nicholas Sallnow-Smith was very committed to setting the tone, telling Tan that "neither Elaine nor I were in the room because we were women, but because we had skill sets that were relevant."

Tan resolved to work with Sallnow-Smith to improve diversity on the board, and he then placed her in charge of the Chair Search Committee, which meant that she would lead the process of finding his replacement. For her, comfort with leading an already quite diverse board was a key requirement. "I made sure I asked each of the candidates their views on diversity. And [current Chair] Nick Allen answered the questions brilliantly." Although Allen views diversity through a much wider lens than gender, he says that he thinks having four women on the board creates much more nuance in the overall discussions.

Today, Young and Tan say the question of gender has become somewhat irrelevant. Says Young: "We have demonstrated that women can speak up in the boardroom. And so when more women came in, no one made a big deal out of it. Tan agrees. "It is not women and men talking, it is financial, legal, and real estate professionals. There is no tokenism." Yet both women caution other women considering board positions to do their due diligence beforehand and not jump at the first offer. "Make sure you join a board where your voice is appreciated — not because they need diversity," says Young. "Women who are well qualified would not want to be in a rubber-stamp role."

# Our Take

"At every stage — briefing, long lists, interviewing, selection — the Nomination Committee should repeatedly ask itself, "Could this individual — because of gender, ethnicity, career experience, thinking style — bring us valuable, fresh angles that may take us out of our comfort zone but be a service to stakeholders in the long run?"

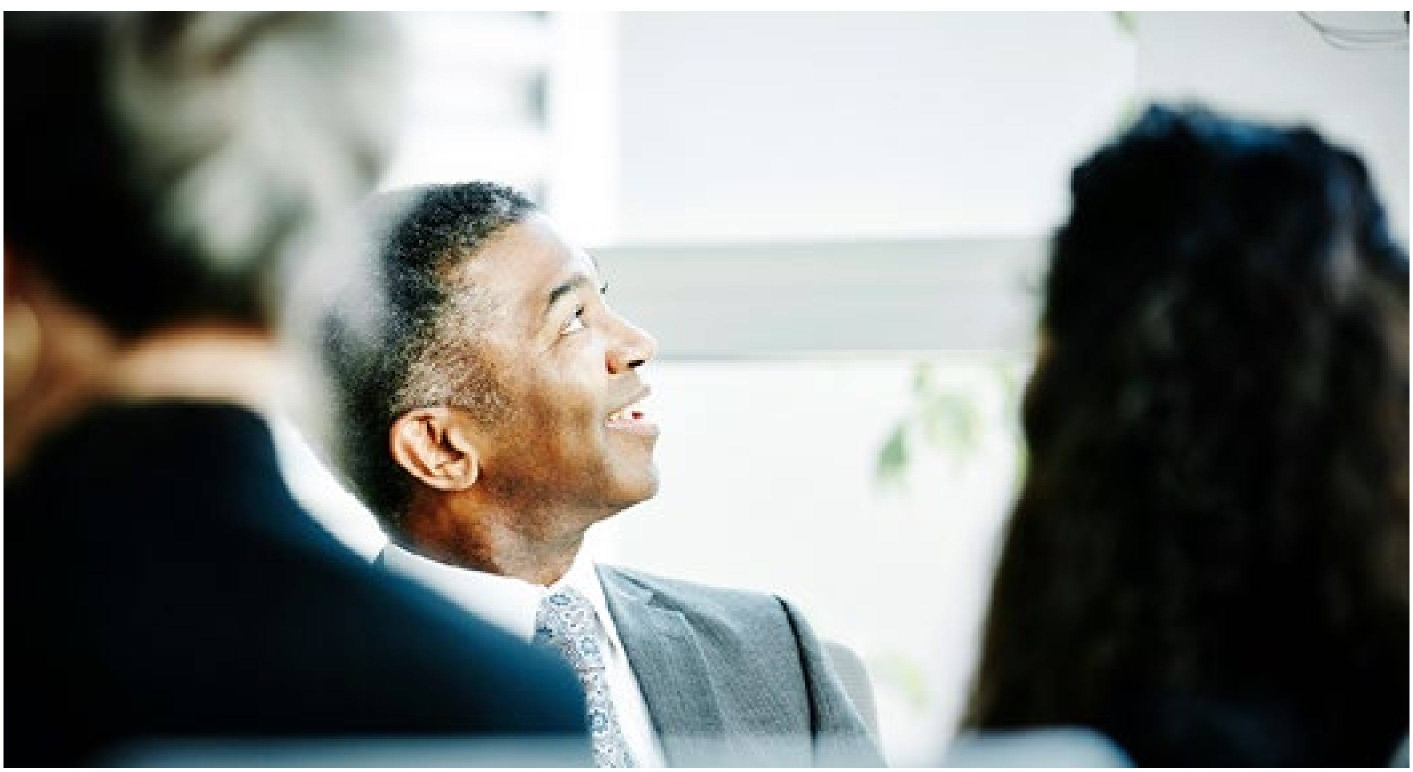
Ashley Summerfield, Egon Zehnder

Boards must look closely not just at placing women on the board, but also developing them for leadership positions to create sustainable diversity. Says Ashley Summerfield, leader of Egon Zehnder's Global Board Practice: "At every stage — briefing, long lists, interviewing, selection — the Nomination Committee should repeatedly ask itself, "Could this individual — because of gender, ethnicity, career experience, thinking style — bring us valuable, fresh angles that may take us out of our comfort zone but be a service to stakeholders in the long run?"

Boards must be thoughtful about the committee leadership positions new female directors could take on in the future, and purposefully train and prepare them to play these roles. In the meantime, chairs must train and educate the current (mostly male) committee leaders to fold diversity into their overall approach to governance.

# Where are the CEOs — and How Can They Help?

It is fascinating — and concerning — that the increases in female directors have not been mirrored inside the corner office. Our data show that women make up just 3.7 percent of worldwide CEO positions in the 44 countries we tracked — and that this number has not changed over the past two years.
Even more surprising is the fact that in seemingly progressive countries like Finland, Canada, and Germany, there were no female CEOs at all in the large set of companies we studied. This matters: There is, in fact, a correlation between diverse CEOs and diverse boards of directors, though it's not quite clear which drives which.[5]



## Success Stories

# Unilever, United Kingdom and Netherlands: Accountability in the Corner Office

To see the video of this interview, visit **www.egonzehnder.com/global-board-diversity-tracker**

Under the ten-year leadership of CEO Paul Polman, Unilever, the global consumer company with a market cap of $141 billion, has grown the number of women in management positions to 48 percent of its total, and five of 13 directors are female. While these numbers are impressive, Polman says there's so much more to do. "For me," he says, "it is broader than just gender diversity. It really goes back to the simple principles of respect for everybody."

Polman believes that diversity won't become a reality unless it is led by the CEO directly, as he has for the past ten years — not just inside Unilever, but also as an advocate for women and girls all around the world. He also believes that the commitment to diversity, which spans not just gender but also race and culture, must flow through the company's entire value chain, from its employees to its customers to suppliers around the world. He works closely with political and nonprofit leaders to push this commitment far beyond his own company.

When it comes to senior management, the company has followed a very deliberate strategy on gender diversity. It generally requires that women make up at least 55 percent of any slate of potential candidates. The company's Diversity Council — which meets monthly and is made up of Unilever's senior-level leaders — reports directly to Polman. "We are able to monitor anybody's contribution in their departments. So if someone is in senior management, and they've never promoted women or they are always in an environment that is skewed towards males only, we say 'Yeah, Houston, we have a problem,' and we dive into that."

For those who say that all of this emphasis on women can create a sense of reverse discrimination, Polman has an interesting solution. "It is very important that we don't talk about a program on gender diversity," he says. "We call it gender balance. For us, it's important that we don't make programs exclusively for one group or another. **When we do our diversity training, it's for everybody.** When we have our maternity leave, we also have paternity leave."

# Ørsted, Denmark: Balancing Diversity and Efficiency

Thomas Thune Andersen, Chair of Ørsted, a Danish energy company with a market cap of $26.8 billion, assumed his new role in 2014, just before the company began its IPO process. With Ørsted's history as a state-owned company (formerly known as Dansk Olie og Naturgas and Dong Energy) in the process of a strategic shift from traditional to green energy, Andersen needed to rethink the composition of the board. He initiated a competency analysis, which revealed a need for new financial and technological expertise as well as much more diversity, and prioritized candidates with all the right attributes. It wasn't easy: "Our commitment and focus were important," he says. "We needed to look internationally and we had to dig deep and invest time in the search to get the profiles we wanted."

Now, Ørsted's eight-person board boasts three women who also bring new international and functional experience, and Andersen sees much positive change. "You need critical mass in order to see and feel the difference," he says. "I have learned that if you have a minimum of three executives from whatever minority group, the differences start to gain momentum and pay off."

Andersen also cautions that increased diversity can lead to increased complexity — both for the board itself and for the chair, who must be aware of the challenge of leading a group that may have widely different perspectives. "The homogenous board can be efficient but not necessarily effective," he says. On the flip side, "If not managed well," Andersen says, "diversity can drive unnecessary complexity." The key is to leverage that complexity by drawing the best ideas out of informed debate.

Andersen says his recipe for leading a diverse board is "to show respect, be a good listener, invest time in understanding the individuals, and remember your sense of humor." He continues: **"I sit in the middle of the table, and I do not look for efficiency, but for effectiveness."** Discussions may take longer with a diverse board, he says, but they also lead to better decision-making.

# Our Take

> "The pressure goes up on a board chair to be a real leader, having assembled a diverse set of characters."
>
> Philip Jansen, CEO, Worldpay

Change must come from the top. Without the full and active support of a Chair and/or CEO who make clear that board diversity is a strategic imperative rather than a "nice-to-have," unconscious bias in the succession planning systems won't be uncovered and addressed. But if those leaders put their reputations and energy behind the establishment of new practices, the way new director candidates are screened, assessed, and chosen will shift almost immediately. Says Paul Polman, CEO of Unilever: "It really has to be done with conviction by the CEO of that company."

Yet the Chair and CEO must do more than help appoint diverse directors. They must also onboard directors in a way that celebrates rather than diminishes different perspectives, including allowing time and space for debate. Importantly, it is equally critical to make sure that the existing board members understand just how much things may change. "The pressure goes up on a board chair to be a real leader, having assembled a diverse set of characters," says Philip Jansen, CEO of Worldpay. Decisions that were once easy because of aligned views may be tougher, and every board member must be prepared for a messier — but ultimately richer — experience.

# New Directors: The Pipe Dream of Parity

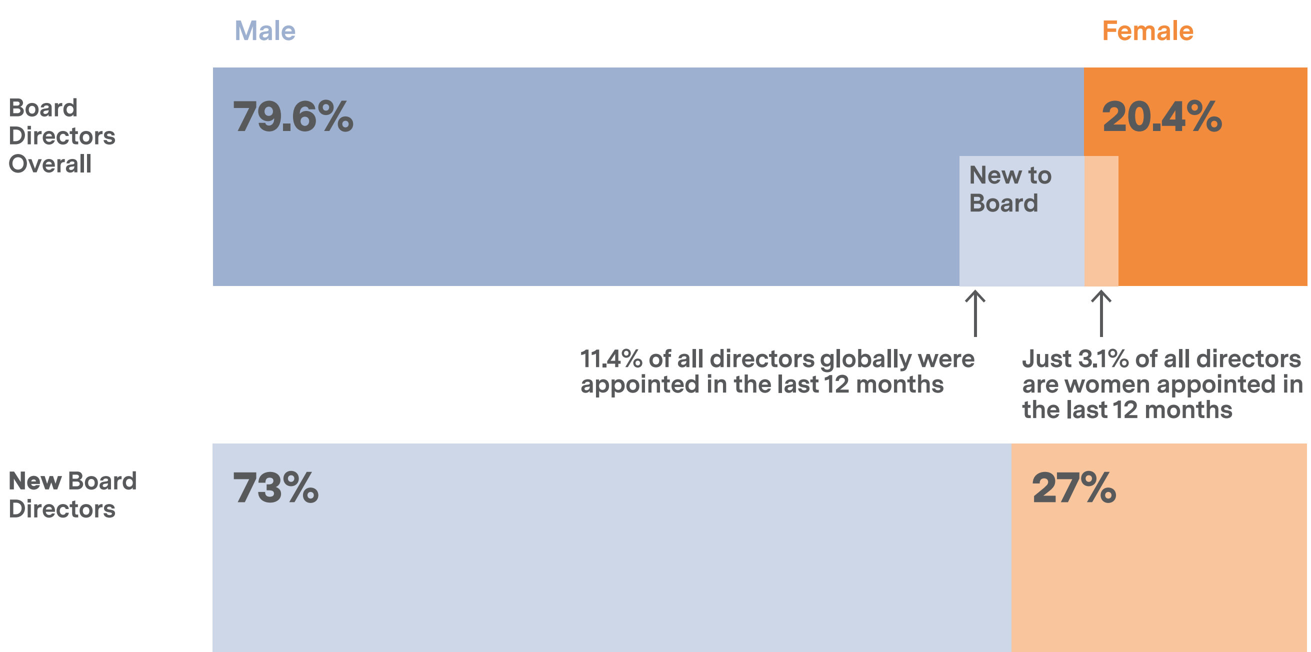
Many companies (including Egon Zehnder) have publicly pledged to achieve gender parity at various levels of corporate leadership or on boards. This is a bold and positive commitment, but one that seems impossible to achieve at the current rate of change. If there is ever going to be anything approaching parity on boards, it must come from an acceleration in the hiring of new female directors. In 2018, new board appointments — those brought on within the past 12 months — made up 11.4 percent of all board positions. Of that number, 27.0 percent were women, up from 24.1 percent in 2016.

This is a significant shift that definitely outpaces the current representation of women on boards. Yet it means that nearly three-quarters of all new board positions worldwide are still going to men and that **new female appointments make up just 3.1 percent of all board seats. What's more, turnover on boards has decreased in every region, meaning that there are even fewer opportunities to appoint new and diverse directors.**

While the number of new directors varies dramatically by region — 35 percent in Australia, Western Europe, the U.S., and Canada versus 16.7 percent in South America and 12.5 percent in Asia — it is hard to square the reality with the lofty goals set.

**Women in the Boardroom: 20.4%**

**New female directors make up just 3.1% of all board positions**



# The Hershey Company, United States: First Skills, then Potential

At Hershey, a confectionery company in the United States with a $22.6 billion market capitalization, the 11-member board has five female directors, including its Chief Executive, Michele Buck, as well as a female CFO. “We have never compromised skills for diversity,” says Pam Arway, who joined in 2010. She was targeted as part of a move by another director, Jim Nevels, who was keen to expand both ethnic and gender representation. “He wanted to make the board more representative of the customer, employees, and the shareholder base,” Arway says.

Part of the secret, says director Mary Kay Haben, former president of Wrigley North America, was actually to focus first on the skill set and only afterwards on gender. Haben, for example, was targeted for her operations and marketing expertise. This is easier to do in consumer companies, which historically have more female leaders than some other industries.

For a first female hire, Haben thinks it’s particularly important to choose someone who has already served on a board, in order to counter any arguments of tokenism. After that, says Arway, you need to shift your lens toward potential in order to find a deep pool of diverse candidates. **“You need to stop judging people on their pedigree and focus on their skills,”** she says. Because board turnover is no longer seen as a lifetime sinecure, directors can afford to take a chance by looking beyond current CEOs.

# Siemens, Germany: Diversity as Business Imperative

For both Lisa Davis and Janina Kugel, the two female members of Siemens AG's eight-person Managing Board, diversity is no longer a choice if you want to succeed in business. **"It's a business imperative as opposed to a nice-to-have,"** says Davis. "To bring the best team means you leverage everything you can: diversity of background, nationality, thinking, leadership style, gender, everything that allows you to create a very strong team. It's even more important than it was in the past, when the environment was not as challenging."

Both women are used to standing out: As a woman of color growing up in Germany, Kugel always felt different. "The positive aspect is, people almost always remember you. But this has a negative side as well; if you screw up, people also remember you! This applies to being a woman as well." Today, Kugel is Siemens' Chief Human Resources Officer.

Davis, who now runs Siemens' global energy business, was the third woman named to the board back in 2014. "My whole career has been in male-dominated environments, so I don't really fuss about that too much. To me, diversity is more the fact that I am not German and I am not [originally] from Siemens."

In Germany, Kugel says, the relative lack of board diversity has a lot to do with cultural and social issues, with the pipeline reduced by many women leaving the management track or scaling back too quickly. "Women often say to me: 'I'd like to, but not now.' That's the wrong approach," Kugel says. "You have to say 'I want to do it.' And then when the opportunity comes, you have to say: 'I'm going to seize it.' And then follow through all the way."

According to Davis and Kugel, pushing for diversity is also the responsibility of corporate management. "I'm not one for quotas, but I'm also one who thinks you have to have some means to measure progress, otherwise you are probably fooling yourself," says Davis. "It's crucial that decision makers don't just promote people that are just like them — so-called Mini-Me's." Kugel concurs: "The more diverse teams are, the better results they deliver — and it's not only about gender, skin color, age, but also about experience, skills, and mindset."

# Our Take

> "Focusing on refreshing talent with quicker turnover could add diversity of gender, age, and experience to boards."
>
> Karoline Vinsrygg, Egon Zehnder

The conclusion is simple: Without a major change to the numbers of new hires, it is mathematically impossible to get to parity — a goal many organizations aspire to.

One way to accelerate change is to refresh the board more frequently and to fill the new slots with diverse candidates. In a recent survey of U.S. board members by Deloitte, 87 percent said they supported term limits.[6] And in the UK, the government has passed a law limiting the term of board chairs to a maximum of nine years in total.[7]

Leaving the gender issue aside, the old paradigm of board members having a seat for life is less and less relevant in an environment that requires a different style of leadership — one that is proactive, not reactive, that's flexible and open to new business models, that is digitally savvy. It is true that a board needs "corporate memory," but this has often been overemphasized vis-à-vis "current" business experience. In today's fast-changing business landscape, this is a liability.

Also, cultural changes and social progress have resulted in younger generations being more open to female leaders. Says Karoline Vinsrygg, Co-Leader of Egon Zehnder's Diversity Council: "Focusing on refreshing talent with quicker turnover could add diversity of gender, age, and experience to boards."

# Quotas: Effective — to a Point

Wherever one stands on the idea of quotas, it is a fact that the most significant improvements over the last decade in board diversity have come in the countries that used regulation to get there.

The first country to impose a quota, Norway, met its target of 40 percent women on boards of public companies within two years, though it has not improved since then, and in 2018 dropped to 36.7 percent.

Some other quota countries have managed to meet their goals — some, of course, under the penalty of fines or sanctions.

Other countries have used targets instead of quotas, such as Sweden and the United Kingdom. Here, too, there has been progress, with the UK reaching 28 percent this year. The UK government also encourages search firms to report their own diversity statistics, and **Egon Zehnder is proud to report that 44 percent of our placed candidates on UK-listed boards in 2017 were women.**

**The Impact of Quotas**

Countries with quotas in 2018

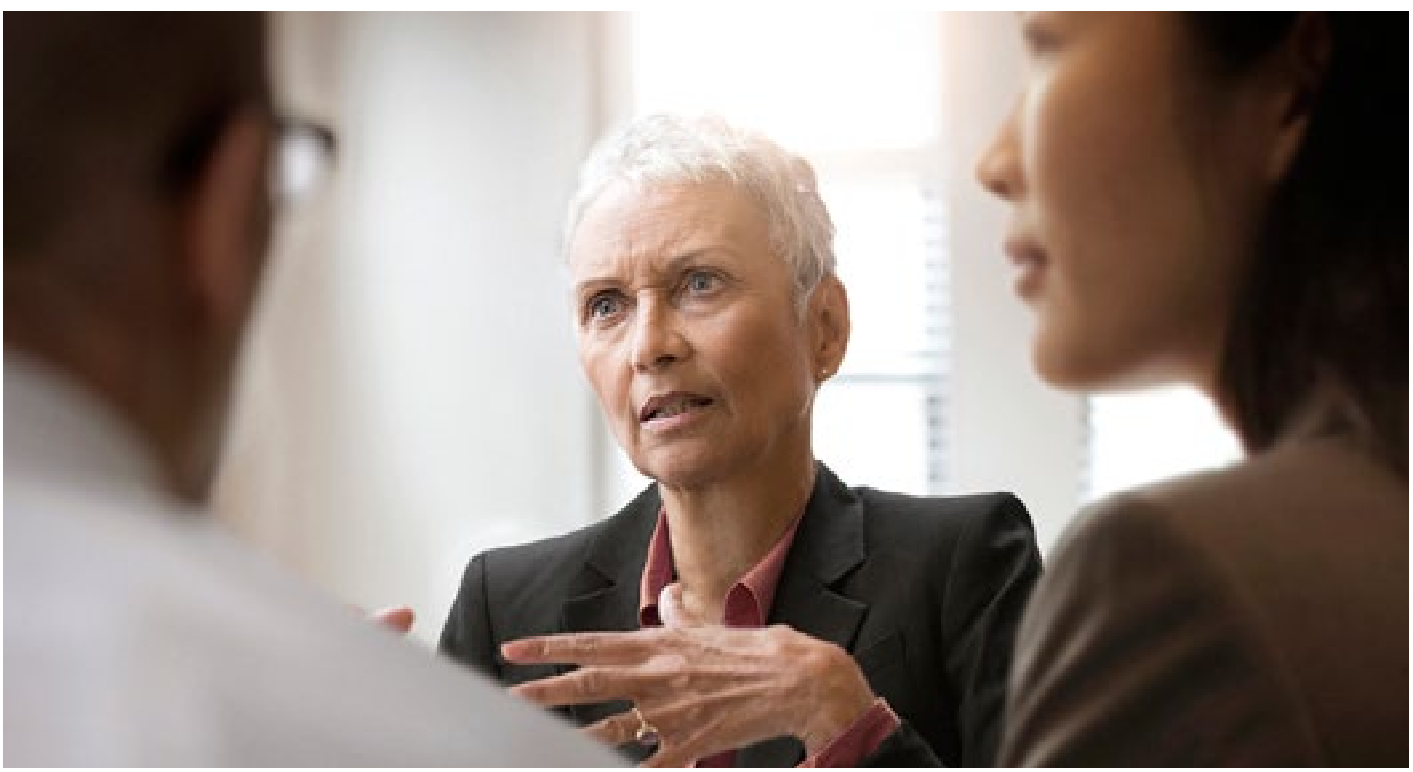
| Quota Deadline | Country | Quota | Women on Boards in 2018 |
|---|---|---|---|
| 2006 | Norway | 40% | 36.7% |
| 2007 | Israel | 50% | 22.6% |
| 2015 | India | Min. 1 woman | 14.1% |
| 2015 | Italy | 33% | 36.1% |
| 2015 | Spain | 50% | 24.8% |
| 2016 | Germany* | 30% | 25.4% |
| 2016 | Malaysia | 30% | 24.1% |
| 2017 | Belgium | 33% | 42.1% |
| 2017 | France | 40% | 42.1% |
| 2017 | Netherlands | 30% | 27.5% |
| 2018 | Austria | 30% | 16.7% |
| 2020 | Portugal | 33.3% | 16.3% |
| None | UAE | Min. 1 woman | 3.1% |

Countries that currently meet the quotas are shown in red, those that don't in gray

*Quota only applies to supervisory boards

Some countries, such as the United States, are resistant to regulatory solutions. However, in October 2018, the state of California — home to Facebook, Google, and many other technology giants — passed a law establishing quotas for boards domiciled there, with all boards required to have at least one female director by 2019 and equal representation by 2021.[8]

Elsewhere, cultural factors mean that the available number of women in the business world is so small that the only way to meet such targets is to import female directors.
This can be a double benefit in that it also boosts international diversity; on the other hand, these companies may not be investing in the development of local talent.



# Our Take

Are quotas supposed to be a ceiling — or a floor?

Do targets make more sense?

And once a quota has been reached, what else can be done to push diversity to the next level?

Quotas force change. Yet quotas — like many regulations — have both perceived and real unintended consequences. The first, of course, is the presumption that quotas force companies to choose unqualified women as tokens who are not taken seriously. Certainly, quotas have forced some countries to look at different résumés and competencies, given that the normal pipeline of CFOs and CEOs is not large enough to sustain the demand. But that does not seem to have had any measurable negative impact on corporate performance.

A second observation about quotas is that they seem to work until the target is reached — but then progress slows. All of this brings up a key question: Are quotas supposed to be a ceiling — or a floor? Do targets make more sense? And once a quota has been reached, what else can be done to push diversity to the next level?

# International Diversity: Increasingly Important in an Interconnected World

Although most of our report focuses on gender, diversity is of course also represented through race, ethnicity, country of origin, age, and different ideological and political perspectives, or what we call diversity of thought. Incorporating all of these points of view contributes to a stronger business.

Our 2018 data show that 72 percent of the companies surveyed had at least one non-national board member — a number that has risen by two percentage points since 2016. Australia and New Zealand perform best, with 95.0 percent of boards having at least one foreign board member, and Western Europe is not far behind, at 92.5 percent. On the other side, both Asian and South American boards lag, with just 58 percent of boards having a non-national director.

# Godrej Consumer Products Limited (GCPL), India: Doubling Down on Diversity

Godrej Consumer Products (GCPL), a global manufacturer of beauty and wellness products based in Mumbai, India, is an example of a company that has deliberately onboarded international directors based on the need to better understand the markets it operates in.

For GCPL, diversity is a key part of its overall philosophy. Nisa Godrej, Executive Chairperson of Godrej Consumer Products, says that it was important for the company to better understand its customer, particularly after several global acquisitions. “We were an Indian company ten years ago with 90 percent of our revenues coming from there, and now it’s 50 percent Indian/50 percent elsewhere,” she says. GCPL today has a total of 14 directors, including five women, two of whom hail from Africa — making it one of the most diverse boards in the region. “One of the drivers was to have more representation of women independent directors,” says Godrej. Having gender diversity also changes boardroom dynamics, says director Ireena Vittal. “Women bring a different lens — they know how to call out unconscious biases.”

Having directors from Africa also has helped Godrej with its expansion on the continent. **“Their diversity not only provides another narrative, but they also provide the contacts and the introductions on the ground,”** Godrej says. The board agrees. “A board member from this region brings empathy and perspectives,” says one director. “It gives depth to a discussion that reading a newspaper doesn’t. So decisions are superior.”

# International Diversity: Increasingly Important in an Interconnected World

# Our Take

To operate globally, particularly in the current environment of geopolitical volatility, international board diversity is an imperative. Directors of different nationalities and cultures bring a different approach to business altogether and can be of tremendous help with a company's foreign markets. They also offer alternative approaches to governance and new talent pools, particularly in countries without a lot of internal diversity. Yet making such a board effective requires thoughtful onboarding of the new directors as well as teaching existing directors that diversity changes board dynamics.

Companies must think carefully about whether their board reflects not only their employee base but also their customer base — and if they do not have the expertise they need, they should consider recruiting outside of their home country to get it.

# From Talk to Action: What You Can Do Now

For all of the frustrations around the pace of change, there are reasons to be hopeful. At Egon Zehnder, we focus entirely on senior executives and board members, helping place them in companies but also helping to develop them as leaders. Our experience, combined with the above case studies of success, show that meaningful change in boardroom diversity is absolutely achievable — *if* it becomes a core element of a company's overall strategy.

There are several long-term and short-term actions that companies can take to make sure that their boardrooms reflect both their customers and employees.

### 1. Make Leadership Accountable

A focus on diversity and inclusion has to be a core part of a company's strategy and has to come directly from the top. If board leaders and CEOs make diversity in leadership an explicit goal — one that will be rewarded if achieved or, possibly, penalized if missed — it can and will happen. But leaders must communicate its importance to the entire workforce over and over again — and prove it with action rewarding those who promote diversity — or it will not be taken seriously.

### 2. Raise Your Ambitions: Focus on Three

Hiring a female director simply as a token is a mistake that will not improve the effectiveness of your board. True diversity replaces groupthink with healthy debate, which leads to greater innovation and better results. And until a board reaches the critical mass of three — the number that studies show shifts the dynamic — little is likely to change.[9] To get there, directors must be proactive about spotting female talent, including having a watch list of executives with potential. They should also consider board term limits or encourage more active turnover.

### 3. Set Measurable Goals

Opinions on whether to impose a diversity quota on boards vary widely. Yet the evidence is clear that setting hard targets and creating accountability around diversity is one of the only actions that has truly moved the needle. There are many ways to build measurement into your board practice. Many boards now insist that there be equal numbers of female and male candidates presented for every board search; some overcompensate, requiring a female-majority slate, and call for all directors to do their part.

### 4. Pick for Potential

Boards need a new definition of board-ready. It is conventional wisdom to fill the boardroom with C-suite executives with decades and decades of senior management experience. And yet that is not enough. Our own research and global client experience have found that executives with certain leadership attributes can deliver enormous positive impact, even in business situations or industries in which they have no prior experience. We call these traits, which include **curiosity, engagement, insight,** and **determination**, Executive Potential. Betting on potential expands the talent pool automatically and also contributes to boardroom success.

### 5. Diversify the Pipeline

CEOs must be intentional about developing diverse succession pipelines all the way up to the C-suite. They must create inclusive cultures where women and other groups can thrive and therefore can be retained long enough to be considered for succession to the C-suite and board positions. Companies must also make sure that as women reach the upper levels of management — a time when many women stall — they are supported and developed by mentors and peers alike.

## 6. Train the Board for Success

It is not enough to simply add fresh faces to a board. Chairs and current directors must also support the integration of new directors after their appointment, both by teaching them the norms of the board and by allowing for the norms of the board to change. New directors should be encouraged to speak out and challenge the status quo. Current directors must understand that having diversity of perspectives and opinions sometimes makes doing the work of the board less efficient, but more effective in the long term — a major change.

## 7. Professionalize Your Recruiting Process

A recent survey of large U.S. boards showed that 46 percent of organizations with board succession plans said they had no specific process for bringing in diverse candidates. What this means is that recruitment for diversity is often done in a haphazard and unintentional way.[10] Directors must go beyond tapping existing networks and get exposure to a wider pool of board-ready executives. And they must hold themselves and their recruiters accountable for reviewing diverse candidate slates. Diversity must be built into the nomination process at every stage — from briefing to interviewing to selection.

## 8. Use Both Your Head and Your Heart

Anyone involved in the business of developing leaders must think about both the skills that an effective leader must be able to tick off and the human connection that this leader must also be able to make. The same is true when building a diverse board. Both individual and team dynamics must be part of every director search — not for fit in the traditional sense, but for flexibility.

Thank you for taking the time to read our study. For more — and to analyze and personalize our data — please see **www.egonzehnder.com/global-board-diversity-tracker**

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# About Egon Zehnder

Egon Zehnder is the world's leadership advisory firm, sharing one goal: to transform people, organizations, and the world through great leadership. We know what great leaders can do and are passionate about delivering the best leadership solutions for our clients. As One Firm, our more than 450 Consultants in 68 offices and 40 countries bring our individual strengths to form one powerful collaborative team. We partner closely with public and private corporations, family-owned enterprises, and nonprofit and government agencies to provide Board advisory services, CEO search and succession, executive search, executive assessment, leadership development, and organizational transformation. We share a commitment to and pride in doing work that contributes to successful careers, stronger companies, and a better world.

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