SPECIAL REPORT

Q&A: Diversity in the boardroom and C-suite

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Q&A:

Diversity in the boardroom and C-suite

FW moderates a discussion on diversity in the boardroom and C-suite between Janice Reals Ellig at Ellig Group, Steven Cox at Fujitsu, Rohini Anand at Sodexo, and Carl Clarke at Vodafone Group.

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Janice Reals Ellig is chief executive of Ellig Group, a game changing firm whose focus is Reimagining Search. With 20 years prior experience in corporate America, she is dedicated to increasing the placement of women and diverse candidates on corporate boards and C-suites by 2025. Named by Bloomberg Businessweek as one of "The World's Most Influential Headhunters," she is a frequent media guest, published numerous articles, and co-authored two books.

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Steven Cox has held a wide range of strategic roles in Fujitsu across both public and private sectors and until recently was responsible for leading Fujitsu UK's central, local and devolved government and transport business. He is Fujitsu's diversity and inclusion ambassador and is focused on global best practice for D&I initiatives for international companies and considering the impact on culture and the workforce of automation and artificial intelligence in the context of D&I.

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Carl Clarke is head of organisation effectiveness at Vodafone, where he works with senior teams to build sustainable and customer-focused businesses. Most recently he has worked with teams on M&A, integration, segment marketing, shared services, agile ways of working, team effectiveness and building customer care organisations. He has also held a variety of international HR leadership roles in other organisations, with a specific focus on employee engagement and diversity and inclusion.

FW: Could you provide an overview of the business case for greater diversity in the boardroom and C-suite?

Cox: The evidence is clear and it is mounting – team diversity delivers bottom line benefits. Diversity introduces different perspectives, different thinking patterns, as well as different experiences and it enables new creativity. For boards and the C-suite, this is relevant for two reasons: their own performance and the performance of the business they oversee and lead. For their own performance, this diversity will increase the quality of the board and C-suite oversight and insights, the process of inquiry, the ability to determine whether the corporate strategy is fit for purpose, and whether the executives are properly considering all opportunities and risks faced by the company. Board and C-suite diversity will, in turn, also be an expectation signal for those in the business. A diverse workforce with an inclusive workplace is the magic combination. Such a company becomes a magnet for talent. It fosters a culture for innovation, for developing and delivering products and services that meet the needs of customers, for taking a rounded perspective on risk, and for client and stakeholder relationships.

Clarke: Organisations with a diverse and inclusive culture are able to attract, engage and retain a wider range of talent, which, in turn, fosters greater creativity and innovation in the boardroom. Building diverse and inclusive leadership teams ensures that commitment to diversity and inclusion is signalled from the top, which, in turn, sets the tone throughout the organisation. Commitment to diversity should go beyond the business case; it is a human right.

Ellig: A multitude of studies in recent years have demonstrated the strong correlation that greater gender diversity positively impacts financial performance. In 2015, MSCI analysed more than 4000 global companies and found that companies with at least three women on their board achieved higher return on investment (ROE) and earnings per share over the ensuing five years than those with zero women. A Peterson Institute study of nearly 2000 publicly-traded companies in 91 countries across all sectors showed that organisations with 30 percent female leaders were more likely to add six percentage points to net margins. Recent McKinsey & Company global research of 1000 companies across 12 countries showed that gender-diverse companies with diverse executive teams posted larger profit margins when compared to companies with relatively little diversity in top management.

Anand: Studies have long demonstrated that diversity and inclusion is linked to engagement and positive business metrics, including productivity, profitability, work quality, employee commitment and retention. Diversity, combined with an inclusive culture, yields even greater business outcomes. For instance, when explaining the business case of gender diversity, we often put forth the fact that women account for 70 percent of consumer spending decisions. We also stress the importance of the composition of our teams reflecting the diversity of the population we serve. Therefore, it seems logical that a gender-balanced workforce and management will help us to attract and retain clients and consumers. The business case for greater diversity in the boardroom and C-suite is really no different. In order to get a range of experiences and backgrounds, inform more innovative outcomes, be reflective and understand the communities you serve, diverse representation is critical at all levels. In addition, research has proven that diversity in the boardroom and C-suite leads to stronger financial and non-financial performance.

FW: To what extent are boards and C-suites reflective of the broader communities in which they operate? Is there a need to change in this regard?

Clarke: Progressively, boards and leadership teams are becoming more representative of the communities they operate within. However, the pace of change is too slow. Within the UK, the 30% Club indicates that female representation on boards within the FTSE 100 has improved, with representation more than doubling since 2010. However, with overall percentages remaining low, it indicates that all companies have more to do. This has been further reinforced through UK gender pay reporting, with pay gaps highlighting the need for structural interventions to improve board representation. While much attention has been given to female representation at board level, there has been more limited debate on other forms of representation. For instance, the UK Parker Review indicated that only 2 percent of director positions in the FTSE 100 were held by people from ethnic minorities, when this group represents 14 percent of the total UK population and more than 50 FTSE 100 companies do not have ethnic minorities on their boards. Moreover, there has been limited debate on lesbian, gay, bisexual and trans (LGBT+) inclusion at board level despite an increase in companies monitoring LGBT+ inclusion.

Ellig: While boardroom diversity is increasing, women remain underrepresented. The majority of boards and C-suites are not reflective of the broader communities in which they operate and constituents they serve. Having interviewed over 20 chief executives who have at least 40 percent or more women on their boards, a key theme emerges: visionary chief executives know the competitive advantage of having a C-suite and board that reflects their employees, customers, communities and shareholders. It is a strategic business imperative. These chief executives are focused, committed and intentional in representing their four critical stakeholders. Yet in the US, less than 5 percent of the F1000 and S&P 500 have 40 percent or more women on their boards. In 2017, only 43 companies were achieving parity – 40 percent or greater. And globally, Credit Suisse found that out of 3000 companies, women held less than 15 percent of board seats in 2015. Clearly, chief executives and boards need to be more intentional and committed, and recognise the strategic business imperative that gender parity yields.

Anand: Many boards and C-suites are not reflective of the broader communities in which they operate, which can result in missed opportunities to include diverse perspectives and ways of thinking. To get stronger financial outcomes and spark innovation, this has to change. A recent study from McKinsey & Company indicates that, on average, women continue to be hired and promoted at lower rates than men, and at senior levels the gap in promotions is more pronounced for women of colour. A similar study conducted by Catalyst indicates that of women in S&P 500 companies, only 21.2 percent hold a board seat, while only 5.2 percent are in CEO-level roles. In addition, women hold only 12 percent of the world's board seats. Boards and leadership teams that are too homogenous often lack diverse market insights and, in many cases, have blind spots that can lead to cultural missteps. Ensuring that the overall make up and composition of these teams is diverse is the best way to avoid these sometimes costly mistakes.

Cox: There is sufficient public discourse and evidence that boards are not reflective of the communities that they operate in from a variety of, but not all, perspectives. On gender, for example, the 30% Club reported that only 25 percent of board seats in the FTSE 350 are occupied by women. With only seven female chief executives of FTSE 100 companies, representation at the very top of the executive line is extraordinarily low, and non-representative. On race and ethnicity, the government commissioned Parker review found that UK citizen directors of colour represent only 2 percent of directors in FTSE boardrooms, a small fraction of the proportion of the population that has an ethnic minority background. There are other factors which are currently not yet necessarily known, for example the representation of LGBT+ people, or people with disabilities.

FW: To what extent can a lack of diversity in the boardroom and C-suite make for less debate and constructive discourse? What impact can this have on overall decision making?

Ellig: A single woman or even two on a board are lost voices. While people of the same gender, age and ethnicity may not always agree, their diverse backgrounds and experiences will raise issues that Caucasian men will 'not have top of mind'. The global 'Me Too' movement – which Tarana Burke began in 2006 – is evidence that 'abuse of power' and denigration of women did not 'hit men's radar screens'

> RESEARCH INDICATES THAT AN UNDERREPRESENTED GROUP NEEDS TO REACH 25 TO 30 PERCENT REPRESENTATION FOR THEM TO FEEL SAFE, BE HEARD AND CHALLENGE THE STATUS QUO.
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> Vodafone Group

as possible risk factors. Yet the charges against a multitude of companies was costly to shareholders. As more women came forward, others stood up, and the momentum for change accelerated. Professor Scott Page of the University of Michigan and author of *'The Difference: How the Power of Diversity Creates Better Groups, Firms, School and Societies'*, demonstrates in his research that less skilled heterogeneous groups actually make better decisions than more highly trained homogeneous groups.

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Cox: Research shows that similar people reach decisions quicker and 'more efficiently' than more diverse groups as they settle more quickly and easily into a way of working. Research has also shown that the decisions arising from diverse teams are of a higher quality. Other research shows that diverse teams may be less effective at delivering outcomes. As such, there is clearly a dilemma to be resolved. Diversity, if properly managed, will lead to healthier debate and constructive discourse and therefore better outcomes are available for the board or C-suite. What is required to make it work is to ensure that an inclusive approach is taken, that there is discipline and that there is a recognised process in place to navigate the decision-making processes effectively. Some boards will already have those characteristics, others will not.

Anand: Not having a range of experiences and perspectives at the table to inform decision making can, and in many cases will, result in 'group think'. When teams are too homogeneous, blind spots and cultural missteps are inevitable. An absence of dissenting voices can not only lead to poor decision making, but can also hinder the very creativity and innovation needed for organisations to stay relevant in these ever-changing times.

Clarke: Research indicates that an underrepresented group needs to reach 25 to 30 percent representation for them to feel safe, be heard and challenge the status quo. Underrepresentation increases the risk of alienation, stifles conversations and increases the risk of 'group think'. It also increases the risk that boards become blinkered and disconnected from the communities they work with. This creates a barrier to inclusion and prevents new ideas emerging that could lead to better products and services developing.

FW: How can companies approach their board and C-suite recruitment processes with greater diversity in mind?

Anand: Attracting top diverse talent requires a unique approach, and this applies even more so when it comes to recruiting at the executive and board levels. If you really want to impact change at these levels, you must be intentional about it. Setting deliberate, ambitious goals is key to driving results. Influencing leaders to see the business benefits of integrating diversity and inclusion into key business functions, such as recruitment, is also critical. While we often hear the argument that we have over-exhausted the need for a business case, we have found that if done well, this continues to be a game-changer. For instance, research shows that the majority of the world's regions are due to face some type of talent shortage in the next 15 years. However, there is clearly a growing need for organisations to reach out to under-utilised talent pools if they wish to remain competitive. Also, encouraging leaders to engage and be a part of the process is just as important. Asking them to ensure diversity and inclusion is integrated into their talent management and succession planning processes can be a great first step. And serving as mentors and sponsors to women and minorities, to help give them the exposure and visibility they need to be considered for board and C-suite roles, is another great way for leaders to demonstrate their commitment.

Clarke: Embedding diversity and inclusion into attraction and recruitment processes is a key enabler to making progress in this area. In the last four years, we have adopted a range of tools and methods to support this. Recruitment teams are trained on unconscious bias and have received specific training to reduce the impact of bias on decision making. Every step of the recruitment process has been analysed to reduce bias. Within the UK, recruitment teams have received specific training on removing barriers that may exist for members of the LGBT+ community. The recruitment process starts before candidate engagement and we work hard to ensure it has the broadest possible reach.

Cox: The obvious starting point here is to be clear and honest about the intentions behind such an approach. A strategy which is simply about 'bringing on board diversity' is unlikely to generate many benefits, and besides which could be perceived as cynical compliance. The board and C-suite should invest their time in really understanding what is meant by an inclusive workplace and a diverse workforce and their role in enabling them. Some open and frank dialogue within the boardroom should yield insights into what is missing, and therefore what should be sought, as well as what changes may need to be introduced for themselves. With clarity of the 'requirement' it is then a matter of approaching the recruitment process right from the beginning.

Ellig: Chief executives and boards can achieve parity by 2025 if they focus on the following. First, demand that 50 percent of all slates of highly qualified board candidates are women. Pools of women are out there and no slate should ignore 50 percent of the planet's talent. Second, open the qualifications and experiences aperture to go beyond the chief executive title. With this focus, and setting goals with time frames, chief executives and boards will realise an enhanced board composition and corporate governance. Third, with highly viable candidate slates, fill every other opening, 50 percent with a woman. In the UK, Lord Davies presented a simple new solution to an age-old problem – the Voluntary Code of Conduct, which 86 search firms had signed as of July 2015. The Voluntary Code of Conduct is simple, effective, efficient and elegant. In part, it states that "In presenting long lists, search firms should ensure at least 30 percent of the candidates are women, and, if not, should explicitly justify to the client why they are convinced there are no other qualified female options".

FW: Could you highlight any legal issues and negative impact on shareholder value that companies need to consider when it comes to inclusivity, fair representation, discrimination, and having a safe work environment for all?

Clarke: We operate in a diverse range of countries where the legal, social and cultural contexts are different. While recognising these differences, we are committed to ensuring that we provide a safe and inclusive environment for all – customers, colleagues, suppliers and partners. In some of our markets this does provide a challenge, for instance in a number of markets it is illegal to be gay. However, instead of shying away from our core beliefs, it just means we need to find different ways to connect and progress local activities. In some countries this means talking about 'inclusive leadership' and in others it means partnering with local NGOs and other organisations to understand local conditions and collectively find ways to move forward.

Cox: The starting point here is to ensure that the corporate is abiding by all necessary legislation and has good practice policies in place to prevent discrimination, enable equal opportunities, and provide for whistleblowing, anti-bullying and so on. Of course, discrimination can occur in ways that do not lead to specific cases. A company's culture therefore has to be one that ensures that there is no such discrimination. There have been several cases recently of failings due to corporate culture. One could perhaps argue that boards should have had insights into those and acted accordingly. The needs go far beyond this, however. Governments around the world are increasingly setting out new legislation or expectations. One example is gender pay gap reporting in the UK. One can ostensibly meet all legal requirements, but still have a gender pay gap which could generate bad press. That, in turn, could impact on shareholders and other stakeholders. We should expect more such measures to follow.

Ellig: When the chief executive drives an equitable, inclusive, empowering and safe workplace environment, change happens. Like driving financial growth, responsible chief executives that champion equality do the same for talent acquisition – at the board, C-suite and throughout an organisation. These chief executives know that talent at all levels is their competitive advantage and enhances innovation. They know a more diverse senior team will more effectively represent the marketplace they serve. And these chief executives know that by attracting the best women and diverse candidates to their company, they will enhance their ability to attract and retain more diverse talent, and most importantly, reflect what their diverse customer universe needs and wants. Companies that are not inclusive and have discriminatory policies and practices face substantial financial penalties and reputational damage. In the US, looking most recently at Harvey Weinstein at the Weinstein Company, Roger Ailes at Fox News, and a long list of prior corporate governance failures including Lehman Brothers, Bear Stearns and Countrywide, where there is a

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> Fujitsu

preponderance of all white male boards, from similar backgrounds, decision making becomes 'group think'.

Anand: Organisations should always be thinking about their brand and the impact that any type of negative attention can have on it. It is important for companies to have policies and mechanisms in place to help prevent, and in many cases resolve, these issues as they arise. Non-discrimination policies, grievance processes and other proactive approaches can help to manage unexpected situations. And being mindful of reverse discrimination is also something to consider.

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> Ellig Group

FW: Could you provide any examples of initiatives which have had an impact on greater representation of certain groups and, in turn, on senior decision-making processes?

Anand: For us, sponsorship is an expectation of leaders and is informal, but more formally it is built into the talent management process. We have seen great results from sponsorship, both in terms of career progression of women and minorities, but also in terms of reciprocal learning on the part of the sponsor. While we have a very robust mentoring culture which has been very successful in advancing women and minorities in North America, sponsorship has served to accelerate the advancement of senior women with P&L responsibilities.

Ellig: Chief executives such as Accenture's Pierre Nanterme have publicly stated 50/50 by 2025 at all levels. Everyone in the company knows the goal and is committed to hiring, retaining and achieving 50 percent gender diversity by 2025. Larry Fink, chairman of BlackRock, the $6 trillion institutional investor, has advocated for the importance of a diverse board, stating that such a board is "less likely to succumb to groupthink or miss new threats to a company's business model and is better able to identify opportunities that promote long-term growth". The 43 US companies that in 2017 have achieved 40 percent or greater female representation know it is just 'good business'. The solution is a simple three-point plan that requires being intentional, focused and committed to gender parity. First, targets and transparency. Like setting financial targets, talent requires a strategic focus with long-term objectives. Second, balanced candidate slates. It starts with the pools of candidates under consideration: a 50/50 long and short list of highly viable candidates must be demanded by every chief executive. Third, accountability and celebration. For every chief executive, their direct reports, and every leader cascading down through an organisation, the communication of goals should be clear and results celebrated.

Cox: In the UK, as a result of the Parker review, Britain's biggest companies have been given four years to appoint one board director from an ethnic minority background. This is part of a package of measures outlined in the review into the lack of diversity at the top of corporate Britain. A failure to comply will be visible, and in all likelihood negatively received, even if it is not an explicit legal requirement. In the context of gender, gender pay gap reporting in the UK and similar measures elsewhere should mean that the gender balance at all levels within a company, including the C-suite, is a board issue. That is, of course, alongside groups such as the 30% Club which are specifically campaigning for an appropriate representation of women in the workforce. It is worth noting that while there are many studies on, for example, the gender-mix on boards and the impact on corporate outcomes, the results are not consistent. Some studies show a correlation between companies with more gender diverse boards or leadership teams generating greater profit than their less diverse competitors.

Clarke: In the last three years, we have signed up to HeforShe and the UN Standards on LGBT+ inclusion, launched in November 2017. Both activities demonstrate our commitment and intent to progressing equality. These commitments have been supported by senior leaders speaking externally on diversity and inclusion topics and reinforced by community engagement initiatives, such as Connected Women, in our frontier markets. Underpinning our commitments are progressive policies that support employees through key life stages such as maternity and paternity. We have also introduced a reverse mentoring programme where junior LGBT+ employees support senior leaders on LGBT+ topics. Providing a mechanism for senior leaders to hear experiences from different communities has provided new insights on our organisational maturity and where improvements need to be made. For example, in the last year we have changed the name change process for employees transitioning gender and incorporated the

'Mx' prefix into our systems to support colleagues and customers that do not identify with male or female genders. This sends a powerful signal to our customers and colleagues that we are an inclusive organisation.

FW: Do you believe the pressure on companies to evolve and diversify their leadership will only intensify in the months and years ahead?

Ellig: I am cautiously optimistic that the pressure will intensify on companies to enhance gender and diverse representation on their boards and C-suites. I believe that pressure will come from the large institutional investors. State Street Global Advisor's (SSGA) 'Fearless Girl' and 'Me Too' movements have opened up an 'old new conversation'. Accenture's recent study, 'When She Rises, We All Rise', is an eye opener of how to create a culture where everyone thrives. As the study notes, "It is well documented that women advance less in the workplace than men". Chief executives recognise the megatrends impacting our multigenerational workforce and the need to compete for the best talent. They see the growth of the majority-minority talent pools, the spread of transformational technologies, the pressure from institutional investors and greater regulatory scrutiny. Only companies that diversify and empower their people will be the leaders in innovation and succeed in this highly volatile world of constant change.

Cox: Undoubtedly there will continue to be pressure applied to leadership, and for many different reasons. For example, there are macroeconomic effects that national and regional governments are dealing with and which they expect corporates to play a part in addressing. The UN Sustainable Development Goals and the Global Compact are good global examples. On disability in the UK, the House of Commons recently reported that the employment rate of people of working age with disabilities is 49.2 percent, compared to an employment rate of 80.6 percent for people without disabilities. Separate research showed that in the UK only 16 percent of people with autism are in full-time employment. Aside from being the 'right thing to do' as a responsible business, and the benefits of increasing the number of people who are 'economically active', this is a potentially rich and diverse talent pool that companies could benefit from employing. On gender, the World Economic Forum recently noted in its 'Global Gender Gap Report 2017' that on current trends, the overall global gender gap can be closed in exactly 100 years across the 106 countries covered since the inception of the report, compared to 83 years last year.

Clarke: With customers and communities expecting organisations to be more representative and take a stronger lead on championing equality, there will be an ongoing need for organisations to commit to, and demonstrate, what they are doing to embed diversity and inclusion into their everyday practices.

Anand: Given the changing demographics we continue to see, we believe that companies will need to evolve and change at many levels, if they plan to stay relevant. Diverse and inclusive leadership is necessary to drive innovation, foster creativity and guide business strategies. Studies have long demonstrated that diversity and inclusion has been linked to engagement and positive business metrics including productivity, profitability, work quality, employee commitment and retention. Having leaders in place that reflect and support this notion is definitely something that companies need to be intentional about. With minorities representing a larger portion of the population than ever before, multiple generations working side-by-side in the workplace, baby boomers retiring later and the purchasing power of women and minorities continuing to increase, companies that do not make diversity and inclusion a priority at all levels are sure to be left behind. They must continually develop leaders who have the cultural competence to motivate diverse teams and be able to evolve their focus and adjust their strategies to anticipate changing marketplace demands. ■