BRIDGING THE GENDER DIVERSITY GAP:

What else can be done?

A guide for leadership teams

TalentIntelligence
Leadership Risk Management

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Introduction

Corporate boards perform better when they have the best people from a range of backgrounds and perspectives. The board structure is being moved towards proper, professional, objective governance bodies whose role is - amongst other things - to maximise company performance.

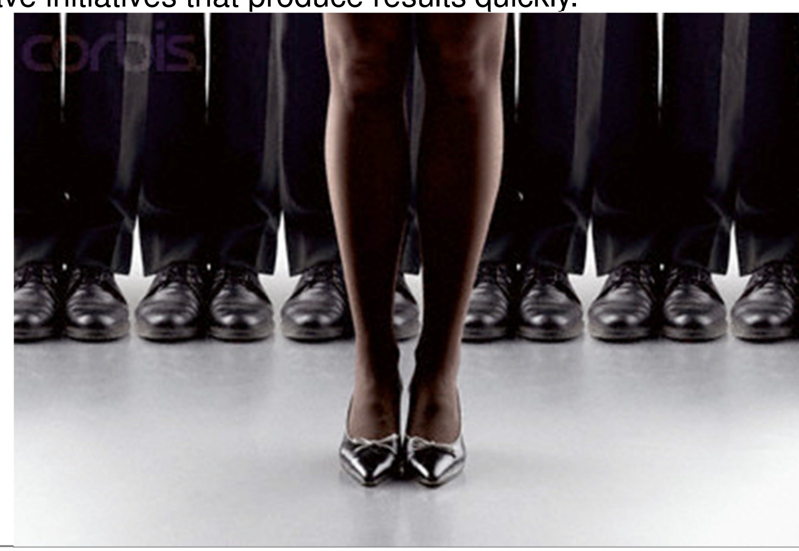
There is a strong business case for gender diversity at board level, with direct links between greater gender diversity and financial performance. Indeed the majority of business leaders now recognise gender diversity as a performance driver – yet measures to implement change remain limited.

Various legislations have been in place across Europe, with varying results. Now the EU Justice Commissioner, Vivian Reding, wants to bring in quotas for all European businesses. Ms Reding proposes all of Europe's listed companies will have 40% of their non-executive board seats for women by 2020 or face fines and other sanctions.

Several EU countries have already adopted their own national quotas, but a European wide hard quota is being fiercely rejected by major players, including the UK. For over a decade the EU has been trying to boost the number of women on boards using voluntary measures. It is however only in those countries where quotas have been introduced that significant progress has been seen, thus prompting the proposed new legislation.

McKinsey's latest *Women Matter* report shows that the vast majority of companies are taking the issue seriously and investing time and resource into readdressing the gender imbalance. Despite this, progress remains slow. The representation of women on Europe's corporate boards remains low and on the Executive Committee (where operational decisions are made) representation is even poorer. According to *McKinsey* at the current rate of change the percentage will stay below 20% on Europe's Executive Committees in ten years time.

It is well known that there are a number of business challenges facing organisations now. The correlation between meeting the business challenges of tomorrow and having the talent required to do so has, in the majority of cases, become a strategic priority for the CEO and executive team, Many have widespread gender initiatives in place but progress is slow. To maximise company performance there is a need to have initiatives that produce results quickly.



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Introduction

By focusing on the wider talent management issues and the talent pipeline, companies can address their gender diversity. This is not just a numbers gain though. Knowing where women are and building relationships with them, means the company can focus on hiring the best talent, based on merit, skills, experience and performance. **But**, given the demographic changes and wider talent challenges, companies **need to** tap into the female talent pool at leadership level to remain competitive and respond to rapidly changing expectations and market demands.

According to *Deloitte Talent Edge 2020* nearly half of businesses surveyed see a shortage in executive leadership talent. Companies are increasingly understanding the need for a diverse board, however, the traditional approach of hiring senior executives from similar companies, hampers quick results. Companies need access to the different leadership styles that women bring in order to influence corporate performance and find new markets for growth. Redefining profiles of what the business needs in the future, rather than focusing on what has happened in the past, will surely help to change thinking and lead to increased diversity. Taken a step further, a proactive approach to finding talented women, connecting with senior women in new fields who are not searching for a career move, opens the playing field.

By connecting with the best talent in the market, based on the future needs of the business, it is possible to gain competitive advantage, and influence diversity stats, without the need for quotas.

Given the number of ground breaking reports in this area, the link between diversity and board performance is no longer questioned. This topic is therefore not, in reality, gender diversity, but is clearly about:

- improving business performance
- accessing the widest talent pool
- being responsive to the market and consumers
- achieving better corporate governance

The subject is high on the corporate agenda for all. This report explains what else companies should implement to gain competitive advantage through a strategic approach to talent and gender diversity.

Companies with more women on their boards outperform their competitors, show better all round financial performance and increased return to their shareholders

Why diversity?

Better financial performance comes with greater gender diversity. The majority of business leaders now recognise gender diversity as a performance driver and there have been numerous studies (referred to throughout this document) to support the idea.

The results are most prominent when at least 30% of the board and its senior management team are women.

Companies headed by a women CEO showed even better results. *Forbes* examined the stock performance of twenty six publicly traded companies headed by women and discovered that they outperformed the market by 28%, and their respective industries by 15%. Based on the 2009 stocks of the Fortune 500 companies with women CEO's *USA Today* calculated their stocks were up an average of 50%, compared to 25% increase for the S&P 500.

Throughout the world, the economic influence of women is growing. As education levels are rising, incomes are following. Broadly defined, the global middle class will at least double in size in the next two decades and much of that growth will be spurred by two-income families as women enter the labour force in greater numbers throughout the less-developed world. While women in the more developed world will continue to find opportunities, developing nations will have the largest impact.

A company's client base and shareholders are beginning to demand diversity.

According to *McKinsey,* at the current rate of change the percentage of women on Europe's Executive Committees will remain below 20% until 2022 and yet the demographics of our population are changing rapidly. Women form 52% of the European population and account for almost half of the labour force (46%). Approximately six out of ten graduates in Europe and the USA are now women, so it can only be deemed that women will start to make up more of the economically active population

Thriving organisations must therefore anticipate what will be different about tomorrow's demands. As the competition changes, as the economy changes and as consumers and their expectations change, it is important that the leadership skills in a business fit the changing demands.

Succession planning, when done properly, is about predicting the skills required in the future and building deep and diverse pools of leaders to ensure the sustained success of an organisation.

Organisations are recognising the need to reflect the longer term in their pipeline, though are faced with a changing corporate world. The capacity of leaders to be adaptable and to learn is more important than ever. What is becoming increasingly apparent then is the need to have women as part of succession pools for key leadership roles if a business is to succeed in the near- and long – term.

Where are we now?

In most European countries there are now more women on corporate boards than ever. Different countries implemented different approaches to addressing gender diversity and the results are reflected across Europe. In France, Norway and Belgium for example, a legally binding quota was introduced. Other countries have no-binding quotas in place. Progress however remains slow. In many countries the board has simply been expanded to create roles for women, or the overall percentage of women on the board has been influenced largely through the hiring of non-executive directors. To have real influence and impact on corporate decision making and performance, the change must also occur on the Executive Committee. The overall figures therefore show that progress is being made, and a positive trend, albeit slow. When we look at the Executive Committee there is a focus on the pipeline, but a look at the top is more sobering. From around 600 of the largest companies listed in the EU, the number of women occupying the top position of chairperson or president has fallen slightly from 3.4% in October 2010 to 3.2% in January 2012. Women therefore are barely visible among European business leaders- a more drastic approach may be needed for significant change to occur.

Country	**Executive committees** Percentage of total, 2011	**Growth since 2007** % points	**Corporate boards** Percentage of total, 2011	**Growth since 2007** % points
Sweden	21	8	25	1
Norway	15	3	35	3
United Kingdom	11	8	16	4
Belgium	11	4	11	5
Netherlands	8	3	19	12
France	8	4	20	12
Czech Republic	8	0	10	-2
Italy	6	1	5	2
Germany	3	2	16	5
European average	**10**	**6**	**17**	**6**

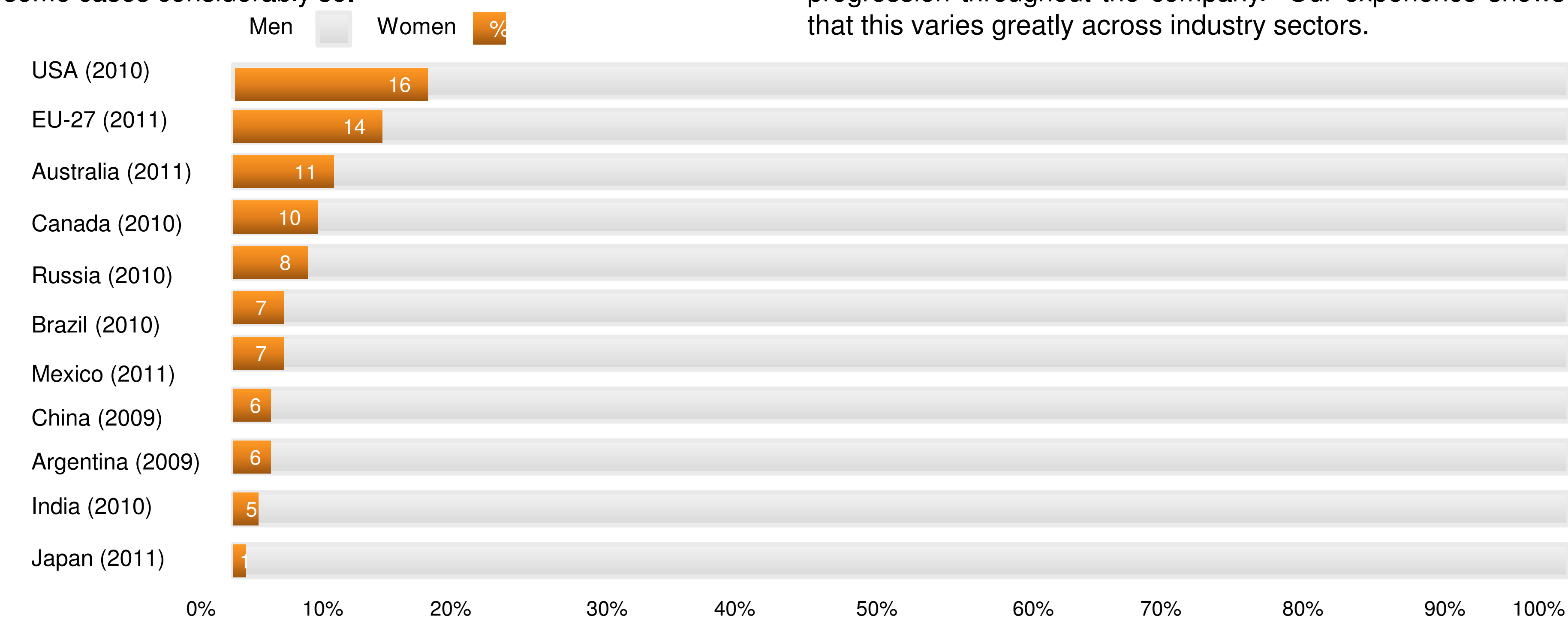
Source: based on analysis by McKinsey & Company of annual reports of companies and press searches

How do we compare?

In the US the situation is slightly different again:

- 18% of Fortune 100 Board seats are held by women
- 16.1% of Fortune 500 Boards seats are held by women
- 12.1% of Fortune 500 have zero representation of women on their boards

The comparison with some of the EU's major trading partners shows that the underrepresentation of women is a reality worldwide. The situation is slightly better in large U.S. companies but elsewhere the imbalance is greater and in some cases considerably so.



Apart from Australia and Canada, women account for less than one in 10 board members of major companies in many of the EU's major trading partners. In Japan, men dominate corporate boardrooms to such an extent that women have virtually no voice in the decision-making process and account for less than 1 in 100 board members.

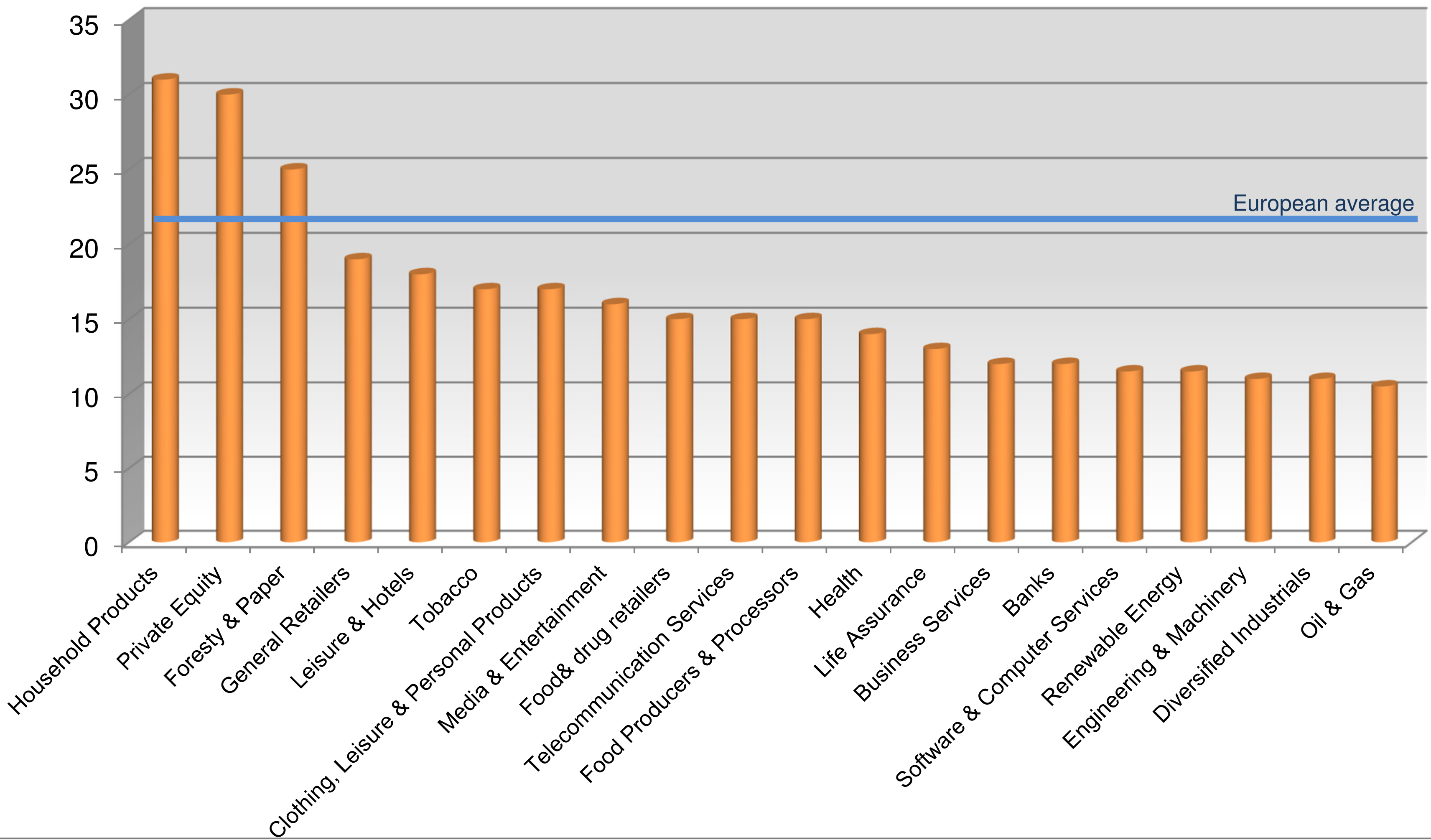
In order to fill Board and Executive Committee roles in the future the majority of businesses have implemented initiatives to focus on filling the pipeline. To do this successfully companies must understand where they 'lose' women in the progression throughout the company. Our experience shows that this varies greatly across industry sectors.

How do industries compare?

Different industries vary considerably. Not surprisingly, those industries where the consumer has increasingly become female, show a greater proportion of women on boards.

The chart below illustrates the top industries for female representation on boards in Europe.

Source: EuropeanPWN Board Women Monitor 2010



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What should be achieved by country?

At present different countries have adopted different approaches to increasing gender diversity. Some, such as the UK, have a code of practice, others, such as France, have mandated quotas in place. The table below shows how the different approaches are impacting in each country. In reality, they show that quotas work.

Country	2008	2010	2012	Legislation
Norway	44.2	37.9	37	Quota legislation introduced in 2005 40% by 2008
Sweden	26.9	28.2		Voluntary corporate governance code
Finland	25.7	25.9	27	Voluntary corporate governance code / 40% from 2013 (proposed quota)
Netherlands	12.3	15.8		Voluntary corporate governance code / 30% by 2015 (proposed quota))
Denmark	18.1	13.9		
UK	11.5	13.5	15.6	Corporate governance code, FTSE 100 should aim for 25% by 2015
Austria	9.2	12.5	13	30% by 2018
France	7.6	11.9	24	Quota legislation 40% by 2016 for listed companies and 2019 – penalties apply
Belgium	7.0	11.1	7.7	Voluntary corporate governance code of 30% by 2018
Spain	6.6	10.3	11.2	Quota legislation public companies & IBEX 35 40% by 2015. Priority status given to those that achieve in the allocation of government contracts.
Greece	6.0	10.2		
Rep of Ireland	10.1	8.9		
Switzerland	6.6	8.8		
Germany	7.8	8.5	11	Voluntary corporate governance
Luxembourg	7.2	6.1		
Italy	2.1	3.9	6	Quota legislation in place 33% by 2015
Portugal	0.8	3.4		

What are companies doing?

McKinsey's *Women Matter* report identified thirteen gender-diversity measures that businesses should implement:

1. Adopt flexible working conditions and / or locations
2. Implement visible monitoring of gender diversity by the CEO & executive team
3. Implement programmes to encourage female networking & role models
4. Support programmes to reconcile the balance between work and family life
5. Bring in mandates for senior executives to mentor junior women
6. Gender diversity indicators to be included as part of the performance review for executives
7. Start skills building programmes aimed specifically at women
8. Change performance evaluation systems so they neutralize the work situation of females
9. Bring in clear indicators around hiring, retaining, promoting and developing women
10. Have gender-specific hiring goals
11. Allow for a smooth transition around parental leave
12. Include a minimum of one female candidate in the succession pool
13. Have gender quotas for hiring, retaining, promoting and / or developing women

All of these measures will have an impact, if given priority by the CEO. As disclosed earlier the majority of companies are taking the issue seriously. Training programmes to address the value of diversity, recruitment and promotion processes have been rewritten and clear goals have been set.

In the most recent *Women Matter* survey by *McKinsey* 63% of the companies surveyed had at least 20 different initiatives in place as part of their gender diversity programmes and gender diversity was among the top 10 strategic priorities in more than half the companies.

The increase in the number of female university graduates will have an impact on the number of females in leadership roles (though is not sufficient on its own to close the gap), over time.

The inherent increase in the number of women role models will help to close the diversity gap, over time.

The changing characteristics of women who push themselves forward and present themselves for more board opportunities will improve their representation, over time.

Most organisations believe that there are simply not enough talented women with the appropriate experience for them to achieve these goals in the short term. The reality is in fact that these women are not easily identifiable but they are there – **the lack of supply is a myth**. *Cranfield School of Management* identified a pipeline of 677 women on corporate boards and Executive Committees in FTSE 50 companies, excluding those 116 already on FTSE 100 boards. In June 2012 *EDHEC* published a list of more than 6,000 board ready women from European business schools.

So what can be done to have an impact now and in the immediate future?

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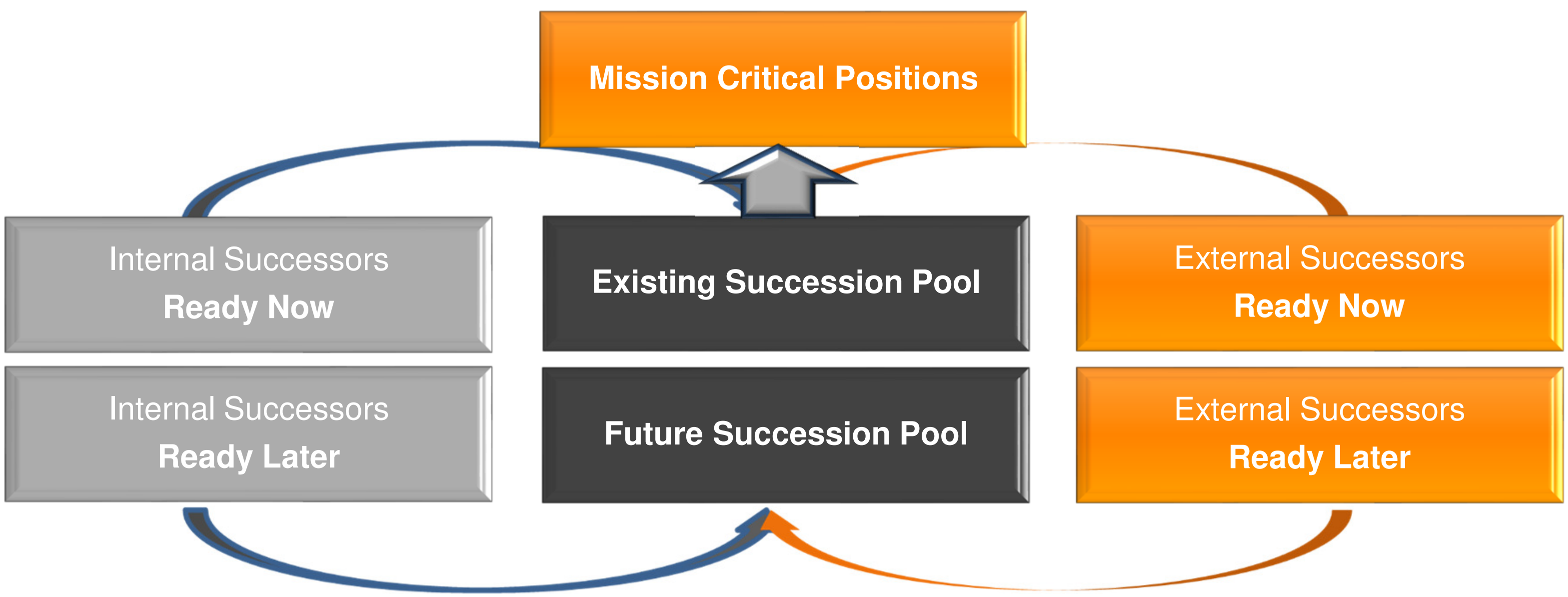
How to create change now

In most companies succession is still viewed as an annual event and not given the consideration it deserves by the key stakeholders. With this in mind, unless companies have a high percentage of women in their existing executive teams and senior management teams now, **it is simply not possible for them to achieve the 40% diversity balance** within the timeframes indicated, unless they take a different approach to their succession planning.

In the event of an unexpected change in leadership, the majority of companies still rely on their relationships with executive search firms to identify external candidates. Search firms will only present to their clients individuals who are prepared to move at that time. By forcing search firms to include a minimum of one female candidate in their shortlist a company is further restricting their view of the talent available in the market. A company should identify, as part of their succession management strategy, a pool of all individuals, whether active or passive, who meet the benchmarked criteria - regardless of gender - so that the best person is hired based on their merit, skills, experience and performance.

Succession planning is different from replacement planning: it is more future focused. It acknowledges that the world is fluid and changing. The focus is not so much on preparing individuals to succeed to a particular position in today's organisation chart, but to develop deep and broader bench strength in the organisation. Best practice now includes the integration of external talent benchmarking.



How to create change now

As already identified there is not a lack of female leadership talent. What has been lacking, and is still lacking in many organisations, is the identification of these individuals and the intelligence to show where they are and how they are performing.

So, to impact on gender diversity whilst maintaining a focus on hiring the best people for the organisation of the future, we believe that what companies need to do is start to integrate external female talent benchmarking as part of their overall strategy now. By doing so they can significantly impact on their diversity statistics, and therefore business performance, in the short term.

In this way the identification of female talent can take an unrestricted view of the market and include those women not actively looking for roles. Companies should start a socialisation process in which their senior executives network with identified talent of both genders in the marketplace. Business leaders are routinely called upon to influence key customers, key vendors and strategic partners, it is only logical that they play a part in leadership and talent acquisition too.

This process will help companies to understand how the external talent compares to their current bench, will provide intelligence on the market, will give an understanding of their employer brand and will help them to identify the female talent of the future.

By creating the link between the long term business objectives of the company and the skills needed to fill them, organisations have more chance of achieving the desired business outcome.

Companies that take a strategic approach to leveraging talent now will emerge as more efficient and successful organisations. Companies that include **a proactive method to include talented females** as part of this approach will develop relationships that will enable them to change the diversity of their boards as an inherent part of the process. Good CEOs and executive teams will see this as an opportunity that will help them to gain competitive advantage in a world of executive talent shortage, as well as the opportunity to change the diversity of their leadership team. This in its own right, will have a positive impact on the financial performance of the company.

Gender diversity can be achieved by building a pool of the most talented individuals in the marketplace.

Conclusion

There is a still a long way to go before diversity in the boardroom is achieved. There is compelling evidence to show companies that more women on the board achieve better results.

Whilst gender diversity must be a strategic priority for companies, with a focus from the CEO, to gain competitive advantage this should be as part of a wider process to identify and attract the best leadership talent in the marketplace.

Organisations should continue to implement better gender-diversity measures internally that will have an impact over the course of time. But to achieve the proportions recommended by the Davies reports a more proactive approach is required.

Organisations will continue to struggle to find agile leaders with the business acumen and commercial savvy to operate in the global market. Companies must reinvest in the workforce now and place the emphasis on ensuring they have relationships with the external female talent they need to meet their strategic objectives and to prepare for any future mandate.

Case Study

Our diversity intelligence service is designed for clients who understand the link between diversity and competitive advantage and who want to understand the strategies and diversity composition of their competitors. Our process includes the confidential quantification and qualification of the diversity pool within defined industry sectors / target companies / job families / job levels for benchmarking, networking and acquisition. The service goes beyond traditional market surveys and anecdotal data to provide accurate, timely and relevant intelligence on where the top diversity talent is located, with supportive analytics and trends.

Currently being used by multiple organisations, particularly in Australia, we are building pipelines of talented female leaders across the globe in a variety of different industry sectors.

As a direct result of this work some of the world's largest companies are already impacting their diversity statistics.

Talent Intelligence

Talent Intelligence is a global leadership risk management company that solves its clients critical talent challenges through the integration of external talent intelligence in key areas of succession, talent pipelining and competitor intelligence.

Talent Intelligence provides client stakeholders with the ability to include benchmarked external talent, and related actionable intelligence, against planned or unplanned changes in the structure, composition and performance of their own leadership team on a continual real time basis.

The result is improved speed, quality and reduced cost around strategic succession management and workforce planning. This in turn provides the basis for sustained competitive advantage, improved return on investment and enhanced business performance.

Please note this report is not available on the open market, for further information or copies, or to recommend individuals who may benefit from the results please contact us directly.

For more information on how best practice companies address talent on an ongoing basis to underpin their success please contact:

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