

Board Diversity

How to get there?

EgonZehnder

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As diversity has become top-of-mind for most companies and corporate Boards, the concept has broadened from the familiar categories of gender, geography, race, and the likes to an understanding that the best ideas can only flourish when an organization embraces individuals with different views and experiences. In this broader understanding, true diversity is “diversity of thought” that reduces “group think”; and it is perhaps the best way to unlock fresh perspectives, innovation, and organizational creativity. Only with broad viewpoints that originate from differences in perspective will the Board be able to provide the opinion(s) necessary to make the governance and advisory function meaningful.

Board diversity is much more than simply a question of fairness. Lack of diversity represents a missed opportunity to bring in new thinking, insights, experiences, and knowledge – with regard to different markets, consumers, practices, and more. And it can impact negatively on decision-making, corporate governance, and financial performance. Indeed, culturally homogenous Boards can face significant blind spots in responding to various environmental clues, market trends, and in guiding their companies’ future strategies. A strong and diverse Board has therefore become absolutely crucial, particularly in the face of increased global competition and the need for greater Board accountability and transparency.

Recruiting a more diverse group of Board members is important, but in itself that is not enough. It must be accompanied by inclusion – a company culture that genuinely welcomes, values, and leverages the advantages of diversity.

An effective way of bringing about diversity at the Board level is to increase gender diversity. Any approach to increasing gender diversity on Boards will have to address both the demand and supply fronts simultaneously: Encouraging corporates to engage in more aggressive recruiting efforts that extend beyond the traditional pool of candidates is the starting point. Meanwhile, the aspirant women directors should understand what it takes to be on a Board, and then take steps to acquire the requisite Board skills.

The issue of gender diversity on Boards in India is not a new one. However, Section 149 (1) of the Companies Act, 2013, mandating that every publicly listed company must have at least one woman Board director, has brought this issue to the forefront.

The categories of companies which need to comply with the requirement of having at least one woman director are as follows:

- a. Listed companies,
- b. Public companies with a paid-up share capital of INR one billion or more,
- c. Public companies with a turnover of INR three billion or more

While there is a lead-time in this coming to effect (1 year after the law takes effect in case (a) and 3 years in case (b) and case (c), it is critical to start thinking about this issue actively today.

In this context, Egon Zehnder recently organized a series of roundtable discussions in New Delhi and Mumbai in October and December 2013 with senior professionals and eminent Board members to discuss the challenges in building a diverse Board, with a specific focus on gender diversity. This white paper attempts to synthesize the insights that emerged from the discussions.

Our discussions focused on five key questions:

1. What comes in the way of building diverse Boards?
2. What can companies do to make their Boards more diverse?
3. What's stopping women from getting onto Boards?
4. What can women do to better prepare for Board membership?
5. How can individuals contribute more effectively on Boards?

1. What comes in the way of building diverse Boards?

Our discussion highlighted a few key reasons why several companies in India do not have women on their Boards today:

- a. *Lack of clarity on ownership:*** Where does Board diversity start? Who is the champion? Diversity in the Board should ideally start with the Chairperson, with the understanding that he/she needs a team in the Boardroom that will deliver value. However, in some cases the answer might not be so clear as in cases of Boards with a rotating Chairperson.
- b. *Limited understanding of the value:*** This is an issue at two levels. First of all, companies often treat Boards as a “formality” and often do not appreciate or actively seek out the value that Board members can add, in terms of insight and perspective. Secondly, even if companies do understand the value of an effective Board, they often don’t appreciate the additional benefit that diversity of thought and discussion (by way of a woman Board member) can bring to the Board
- c. *Aversion to differences of opinion within the Boardroom:*** In some of the instances, even if there is an awareness of the value that Boards can bring to the company, Chairmen of some Indian family-owned companies consciously choose to minimize differences of opinion in the room and seek compliant Boards. Thus, they end up being apathetic towards the cause of diversity in the Boardroom for fear of new members asking “difficult” questions.
- d. *Lack of a formal recruitment process:*** Many companies do not have a formal process through which they hire Board members. Board positions are frequently filled through informal networks, references gathered from the market, and other similar means. This is in contrast to the recruitment of full-time corporate executives, which is done through a rigorous process in which the Role Specification details all the competencies required, and a Search Strategy is finalized before candidates are identified. Often, there is not enough discussion around the specific skill sets that

the company is seeking in a Board member, or the characteristics that the individual should possess to qualify for the Board role (for example, the ability to offer constructive criticism, collaboration, and influencing skills). People tend to be most comfortable around those that are similar to themselves, in terms of age group, gender, background, and educational qualifications. In Boardrooms, there is an unstated resistance to bringing in people with a background that is very divergent from the current group.

“Boardrooms need constructive conversations that address alternatives. Getting women on Boards is not the same as getting an existing Board member’s wife, sister, or mother on the Board. You must get women on Boards because they’re good, not because they’re women.”

2. What can companies do to make their Boards more diverse?

- a. *Understand the value:*** At a fundamental level, companies need to first start viewing Boards as a facilitator of growth and as a think tank that can help shape the company's future. This premise needs to be bought into, for any discussion around real diversity to take place.
- b. *Install a systematic appointment process:*** Companies need to follow a systematic approach to identify a Board member, similar to the rigorous process involved in hiring senior executives. This includes: a) Clearly articulating the competencies that the Board member should bring, as a net addition to the Board; b) Agreeing on a Search Strategy; c) Having an open mind about considering professionals from non-corporate sectors, as long as they bring the required competencies; and d) Conducting a rigorous evaluation of individuals coupled with market references.
- c. *Decide who the ownership lies with:*** Both the Chairman of the Board and the Nomination Committee play an important role in driving the Board diversity agenda. It is critical that they own the process of hiring a woman on Board end-to-end. This starts from identifying the "Spec" all the way up to integrating the new woman Board member into being a fully functioning Board member.
- d. *Look "outside the box":*** Companies should change their approach on where to look for female talent. Given the limited availability of talent in the "traditional corporate world," companies should delve into other areas (such as the non-profit sector, the public sector and academia) where there are extremely competent and successful women with the right capabilities to be an effective Board member.

e. Create an ecosystem for women to grow into leadership roles:

More women are needed at all levels of the corporate hierarchy. Companies need to provide enough flexibility to ensure that enough capable women rise to the top, and are able to manage family commitments in addition to full-time executive roles.

Women need mentors to help them grow through their careers, and companies should consciously provide them with such mentors to help them stay the course through their career. Several companies have already embarked upon this journey, but there is still much more ground to be covered. In addition, it is important for companies to build flexibility for women leaders to take on Board positions. Given the scarcity of talent, there is a critical need for flexibility on the “supply side” of the equation.

“A Diverse Board should be seen as an enabler rather than a blocker of progress.”

3. What's stopping women from getting onto Boards?

- a. *Leaking pipeline:*** Due to social and cultural norms, there is a scarcity of female talent in India at the highest levels. To understand the potential reasons behind the leaking pipelines in a country like India, one must understand the socio-cultural environment that effects the advancement of women executives throughout their careers. At the outset, there is a smaller percentage of women entering the workforce compared to men but most of the women, like men, start out ambitious. However, as they move up the corporate ladder, many talented women's ambitions are diluted by family and other commitments. The lack of an enabling environment at the workplace – the difficulty of re-entering the workforce after a period spent away on maternity leave, the lack of role models and the lack of a flexible work environment – act as stumbling blocks.
- b. *Limited bandwidth:*** Even if there are women leaders at the top who would qualify for a Board position, they are bereft of the additional bandwidth (in terms of the time required) to take on a Board role. Some women may not have the time owing to family commitments, in addition to the responsibilities that come with full-time executive roles. Unhelpful attitudes and stereotyping by both men and women merely make it much harder for women to create the time and space to be able to pursue potential Board opportunities
- c. *Limited appreciation of the benefits of Board membership:*** Being on a Board can provide opportunities of significant learning from other talented and successful Board members. Being on a Board also refines the skill of constructive enquiry, and enhances an individual's influencing ability when one participates in discussions with accomplished Board members. However, women often do not appreciate these benefits, and consequently often do not raise their hands to accept a Board position.

- d. *Risks and liabilities of a Board member:*** Board service can provide some of the most rewarding experiences of one's career. While the appeal of Board service is obvious, its demands are considerable. Some women may be concerned about the risks involved with accepting a Board membership, leading to the question: "Is it worth being on a Board?" A woman executive may need to carefully consider both what she has to offer and what most interests her, before agreeing to join the Board. By conducting systematic due-diligence (further expanded in Section 4 b), women can address the risk (or perceived risk) in taking on a Board role.

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4. What can women do to better prepare for Board membership?

- a. *Build visibility:*** Aspirants should attend Board-related events to further build their connections in the space. They should endeavor to join associations, take up speaking engagements and write articles for publications. This will help them to become more visible and get on the radar of companies looking for female directors. This is specifically relevant for women who might have moved away from a traditional corporate career path but are still active in other spaces such as Not for Profit.
- b. *Conduct systematic due diligence:*** Even though there are certain risks perceived with accepting a Board membership, one could conduct systematic due diligence in order to mitigate these risks before accepting the role. Among other things, this includes confirming that existing independent Board members are of high integrity and reading Audit reports of the company. Women should focus their energies on de-risking the opportunity by doing the due diligence, rather than shying away from these opportunities. However, at the same time, they should be selective in accepting Board memberships. When identifying companies where a potential Board aspirant feels she could add value as a director (based on sector, interest, conflicts, availability, and fit), she should have an open discussion with the Board Chairman, other Independent Directors, and the CEO to gain clarity on expectations, functioning, and contribution before agreeing to join.
- c. *Do not prejudge or “switch-off” from opportunities:*** Women should view Board membership as an opportunity to drive change and make a positive impact in society. They often do themselves a disservice by feeling resentful about the fact that they are offered Board memberships solely because they are women. Instead, women could think of this as an opportunity to make a difference to organizations, and to themselves.

“You may get in (to the Boardroom) for the wrong reasons, but stay on for the right reasons”

5. How can individuals contribute more effectively on Boards?

- a. *Take the ownership of integrating into the Board:*** While recruiting the right Board member is key, integrating the individual effectively into the Board is as important. Once on a Board, the individual should be proactive and ask for information about the company, its strategy, other members of the Board, and other key figures required for them to become familiar with the company and the industry. They should be proactive and take charge of their own integration into the Board, rather than waiting for guidance from the company.
- b. *Set the tone early on:*** It is imperative that the individual makes weighty contributions and asks “inconvenient” questions early on in the discussions, so that others will sit up and take notice of their voices and the value they bring to the table. This is especially critical when the rest of the Board members are of a similar background and can tend to operate like a clique. Often, after a couple of Board meetings, it becomes much harder for the new Board member to “break in.”
- c. *Keep “sharpening the saw”:*** Sitting on a Board often requires a different set of skills than running a company. This includes building judgment on how one can contribute in a group setting without losing one’s identity or unique perspective. This is a continuous journey, and being on Boards provides a unique opportunity for individuals to learn from others around the table and refine their skill sets as a valuable Board member.

“Diversity is not about counting people but about making people count”

In summary

Being a Board member is a role where one can make a real difference, and the diverse views of Boards make companies more resilient and agile to face the complex world of the 21st century. The changes needed to harness diversity, while a stretch on companies and search firms to rethink the usual practices and candidates to push harder to get accepted, are worth it. In conclusion, gender diversity imbalance in the Boardroom is not due to a lack of ability, but can be attributed to the lack of a supporting environment and cognitive biases. What we likely need is more transparency and accountability on how individuals are appointed to Boards. There should be increased pressure on companies to reach out beyond the traditional networks. Companies can consider seeking help from professional services firms to include suitable women on their shortlist of candidates. There is also the need to bring female talent up the ladder and to increase the number of women Executive Directors. Whether quotas will bring about the desired effects still remains to be seen. The fact that they are generating a lot of heat around the issue of women on Boards seems to be a good starting point.

Our Board Consulting Practice

Egon Zehnder has a dedicated practice specializing in Board Consulting. The Group focuses its efforts on the highest level of an organization and works in a collaborative manner with the Chairman of the Board and its members. Typical activities include reviewing overall Board performance, appraising individual Board member contributions, and recruiting Directors whose independence, intellect, integrity, and courage will strengthen the Board and create sustained competitive advantage.

Egon Zehnder identifies those critical competencies required of the Board as a whole, as well as its individual members, that will enable it to graduate from the traditional role of “oversight” to the more valuable role of “contribution.” An effective Board comprised of the right people, focusing on the right issues, and working in an environment of dialogue, not monologue, is a high-value corporate asset. We aim to ensure that the Board has a balanced perspective and that the collective wisdom of the directors is unleashed and utilized for the benefit of the company’s shareholders.

Diversity

Egon Zehnder is institutionally committed to the diversity goals of our clients, which is mirrored in our own values, in the composition of our own firm, and in our hiring practices (www.egonzehnder.com/commitment-to-diversity). We abide by all applicable equal employment laws and make decisions as to referring candidates for your review without regard to race, gender, ethnicity, age, disability, religion, or any other protected category.

We take a broad view of diversity because of the key benefits that diverse perspectives provide to our clients: We believe that attracting talent from a range of backgrounds has been shown to produce more creative teams, more flexible decision-making, and better business performance. As such we incorporate diversity into every aspect of the work we do. We adopt a merit-based consulting approach to executive search and talent development, whereby we assess candidates on the basis of competence, experience, and motivation. We do this in accordance with the needs of our clients and by utilizing search and assessment processes that are both fair and transparent.

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