IIC Partners Discusses Moving Towards Gender Equality

By Polly Stewart

Women make up 51% of the world's population, spend $US 20 trillion globally and influence at least 80% of all the purchasing decisions. So why do women of the US Fortune 500 hold only 15.7% of publicly-listed corporate board positions? And why do women in the UK only hold 13% of FTSE 100 companies executive and non-executive board directorships?

IIC Partners members Susan Chadick and Janice Ellig, co-CEOs of New York City's Chadick Ellig, spoke with me to provide some insight on the issue of gender balance on boards.

Ellig asks: "So why is it then that the majority of boards comprised mainly of white males is acceptable?"

"Some may ask: why look for change if our predominately white male boards are functioning?" Chadick states. "Is there any need for more diversity? In fact the issue, highlighted by the recent global financial crisis in 2008, is that current corporate boards are not functioning optimally and 'group think' may be at the heart of the problem."

Michael Lewis, author of '*The Big Short*' and '*Liar's Poker*', observed: "One of the distinctive traits of the financial disaster was how little women had to do with it."

If the bottom line is what really counts, then the business case for the changing status quo has been made in a myriad of studies. McKinsey, Catalyst and others, shows a strong correlation between better financial performance when there are more women in the board room. And these numbers are significantly better. According to one study by Catalyst, on average ROE was 53% greater for companies with more women in the boardroom; and for those who had more women in the C-Suite, ROE was on average 35% greater. Furthermore, let's look at stock price increases from 2008 to 2009 among S&P 500 companies: the stocks of the 15 led by women CEOs gained 46% compared with the overall S+P 500 gaining 25%.

WHAT IS HOLDING COMPANIES BACK?

Many organizations embrace the concept of more gender diversity. Yet, what is really holding companies back from adding more women to their boards? According to Ellig, one reason is that while companies pay lip service to wanting more women, there are no teeth in the directive. Boards, CEOs and senior management need to be rewarded or penalized for the lack of diversity on their team. Diversity must be embraced at the top and through the organization as a strategic business imperative. "If it doesn't get measured, it doesn't get done!"

"The crux of the issue is that men do not see gender diversity as critical to a company's success," explains Ellig. This is depicted in Bain & Company's research, *The Great Disappearing Act: Gender Parity up the Corporate Ladder* where 84% of women said greater diversity should be a strategic objective for their companies while only 44% of men saw this as a critical issue.

Another obstacle to gender diversity is that CEOs and boards prefer, and seek out professionals that are like them, selecting sitting and retired CEOs. In the US, the pool of females sitting CEOs is currently 12 in the F500. Boards say there is not a pipeline of qualified women, and perhaps not if the pool is only in the CEO category. However, the pipeline is bulging with female talent from other sources such as entrepreneurs, academia, sciences, those in the C-Suite and those leading major P&L divisions of corporations which could be stand-alone companies. The supply is there, it is about looking outside the box to reach broader pools of talented women.

A low board turnover can act as a barrier to achieving gender diversity. In fact, during the past five years the number of board seats in the US F500 has decreased by 10%.

"Old habits die hard," Chadick states. "Those on boards want to bring on people they already know as the old boys' network is still managing to exclude women."

She explains: "The Bain & Company study also showed that while men and women agree on the advancement of women, twice the number of women as men believe that being appointed to higher positions is not as likely to happen. Men do not see that as a problem; they believe the glass ceiling has been cracked if their own company has promoted women. They are unable to look beyond their own company to see what is occurring in the wider corporate environment."

WHO IS PROMOTING DIVERSITY?

Chadick and Ellig explain how countries like Norway, France and Spain have passed legislation requiring a 40% representation of women on all boards. In the U.S., Stephanie Sonnabend, CEO of Sonnesta Hotels, has started the following initiative: 20% of female representation on U.S. public boards by 2020. Meanwhile, Helena Morrissey, Chief Executive Officer of Newton Investment Management Ltd, has started an initiative in the UK that favors an increase of women representation to 30% by 2015, without having legislating quotas. The UK statistics prompted the former UK government minister, Lord Davies, to warn British firms that they were in the "last-chance saloon". If they didn't move quickly to appoint more women to top positions, they would have to face quotas.

Organizations such as Catalyst, ION, Women Corporate Directors, The International Women's Forum, DirectWomen, C200, 85 Broads and others, are promoting their members by helping establish a talent pipeline of women to serve on corporate boards. External forces - like the Securities Exchange Commission (SEC) in the U.S. - are requiring greater transparency to describe why and how directors qualify to be on a specific corporate board. They want to know if the company has a diversity policy, and how that affects its board recruitment practices.

Organizations such as CalPERS, CalSTRS, Calvert and Pax are voting to withhold investment funds at companies who do not practice greater diversity on boards. In the past two years, the carrot and stick approach is showing positive results.

According to Ellig, "We will see this as a developing trend moving forward. And if the large index funds held by, Blackrock, Vanguard, State Street and T.Rowe Price

Janice Ellig and Susan Chadick

exert their muscle, change will occur."

PROACTIVE APPROACH

Without quotas, no single force will be responsible for ultimately changing the face of global boardrooms. Change, particularly in the U.S., will be driven through an organic, collective effort within the business community and from multiple voices continuing to advocate the bottom line benefits of leadership diversity.

CEOs need to take a public stand that diversity is a business imperative demonstrating to the boards, senior management and middle management, employees, shareholders and the public that more gender diversity means better financial performance for their organization.

On the institutional investor side, large institutional investors need to not vote for directors where it is an all male board.

Chadick and Ellig recommend that corporations and the Executive Search Industry be more proactive:

1) Educate the board and management of the positive, financial performance impact greater diversity has. Make diversity a strategic business imperative, comparable to revenue targets. The board and CEOs must penalize leaders for not meeting this. Accelerating change requires a TEAM approach - Tone, Education, Action, Metrics - that is embraced and integrated throughout the entire organization.
2) Develop an internal pipeline of talent as a feeder group for the C-Suite and for external board positions. It is not a level playing field within companies, and when women at the top leave their positions it is difficult to regain that representation. According to Bain & Company, even a 5% difference in the female attrition rate results in having half the number of women at the top after a 10 year period;
3) Widen the sources to new pools of talent in order to increase diversity at the board level, to attain a diverse slate of highly qualified, candidates. Search firms need to be more proactive with clients.
4) Board assessments need to be more rigorous, not just at the board or committee levels, but for individual directors. Dead wood does exist in virtually every boardroom and to protect shareholder value and uphold fiduciary responsibility, board members and institutional investors need to refresh the composition of the board.
5) Make a proactive plan and stick to it. Commitment at the top by boards such as Texas Instruments paid off over a 10 year period, resulting in 40% diversity and excellent financial performance.

"The optimist in me says if we keep talking about it, and if we keep writing about it, increased diversity on boards will happen naturally," Chadick states. "The realist in me says let's give this a big push to ensure diversity parity is attained."

With 54 member firm offices in 38 countries, IIC Partners is the world's 8th largest retained executive search organization, by revenue. Named one of "The World's Most Influential Headhunters" by Business Week, Chadick Ellig is a premier retained executive search firm based in New York City. Polly Stewart is IIC Partners' Chief Marketing & Communications Officer.

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