

HEIDRICK & STRUGGLES

CEO & BOARD PRACTICE

Getting board diversity out of the doldrums

The best nominating committees look beyond traditional pools of talent, astutely assess candidate readiness, and thoroughly prepare to defend nominees' business and cultural fit with the entire board.





In 2015, Fortune 500 companies filled 399 vacant or newly created board seats with independent directors—the largest number of such appointments since we first began tracking them seven years ago. Despite this record number of appointments, women, Hispanics, African-Americans, and Asians/Asian-Americans made little headway in boardrooms:

Women accounted for 29.8% of new directors in 2015, up only slightly from 29.2% in 2014.

The percentage of new female directors had been increasing steadily each year from 18.0% in 2009. In fact, given the rate of improvement, we had projected that women would account for half of new directors for the first time in 2024. Given the most recent data, however, the soonest we anticipate women will reach parity with men in numbers of new directors is 2026.

For the seventh consecutive year, the percentage of directors of Hispanic origin elected to Fortune 500 boards was sharply lower than the overall representation of Hispanics in the US population.

Only 16 of the incoming directors in 2015 were Hispanic—just 4.0% of the total. Over the past seven years, an average of 4.7% of new directors have been Hispanic and there has been no discernible upward trend. As the Hispanic share of the US population has grown during those years, the gap of underrepresentation in the boardroom has widened.

African-Americans accounted for 9.3% of new directors in 2015, up from 8.3% in 2014.

The percentage of new African-American directors has increased from 5.3% in 2009. African-Americans accounted for 12.4% of the US population in 2014, up slightly from 12.3% in 2010.

Asian and Asian-American directors accounted for 4.8% of board seats filled in 2015, down from 5.3% in 2014.

Directors of Asian descent have accounted for an average of 5.2% of new appointments over the past seven years, with no trend up or down. Overall, people of Asian descent accounted for 5.3% of the US population in 2014, up from 4.8% in 2010.

Despite a few hopeful signs, the sluggishness in these numbers persists. But the conclusion that should be drawn is not that worthy candidates are in short supply. Rather, it's that finding them requires persistence, focus, and genuine commitment to the goal of board diversity. Too often, boards simply give up too soon and fail to consider creative solutions. They begin by pursuing the same high-profile, well-known people—the same people who are already over-recruited and overcommitted—and when that doesn't work out they quickly conclude that the cause is hopeless.

It doesn't have to be that way. A determined nominating committee, backed by the commitment of the full board, can succeed where others fail by doing three things: persistently looking beyond traditional pools of talent, astutely assessing for candidate readiness, and thoroughly preparing to defend nominees in terms of business and cultural fit with the entire board.

Search in new and different places

You don't have to begin with the premise that the ideal director must have CEO experience. CEOs certainly bring a lot of skills to the table, but many outstanding GMs and divisional heads possess the same skills that make CEOs such attractive candidates: strategic orientation, operational ability, and P&L experience. By searching diligently, you can also find next-generation executives on the fast track to the top. As a group, they're generally more diverse than in the past and they will become tomorrow's CEOs. Large US-based companies known for best practices in talent development are a good place to start, but there are many less well-known but equally impressive businesses with up-and-coming general managers on the CEO, or similar, track whom you can and should consider.

Consider, too, top functional leaders with C-suite experience. Many boards have been reluctant to bring on executives with strictly functional depth, other than CFOs. But a director whose functional experience is relevant to a key area of your company's strategy or operations can add great value. For example, the board of one industrial company we know brought on a first-time director, who was a member of an ethnic minority, for his cybersecurity expertise. Beyond the need for bulletproof cybersecurity, the company from which he came and the company he now helps oversee share some highly relevant similarities. Both depend on similar business models and operate highly complex distribution systems—factors that helped allay the board's fears that a functional leader might be too one dimensional or redundant in the boardroom.

Other possibilities for diversity candidates may be found among presidents of universities, retired career military officers, and former government officials. Yet boards sometimes understandably hesitate to consider such candidates. They may see a university president's chief skill as fund-raising. Or worry that a former military officer's lack of commercial orientation might bring a command-and-control attitude to the boardroom. Former government officials might try to dominate board discussions. But careful vetting and persistence can turn up candidates who shatter the stereotypes. Persistence can also pay off in considering professionals from fields like consulting, accounting, or law, all of which provide a window into the workings of large, complex enterprises. Some of these practitioners not only thoroughly understand such enterprises but also act as trusted advisors to the leaders of those businesses and may have executive experience in their own firms. These individuals also have finely honed influencing skills, which are welcome on boards.

And don't rule out well-run private companies or entrepreneurs who have built highly successful enterprises of \$100 million or more. Traditionally, many boards have been unwilling to look to private companies for board candidates—they see private companies as too small and too narrow to generate the scale and scope of experiences relevant for service on the board of a large, publicly traded company. But some dynamic private companies are adept at developing leadership skills and they follow public company governance models.



Assess for readiness

Often, first-time directors are seen as risky. Nominating committees should not let that discourage them from considering nontraditional candidates. Whatever risk there may be, real or imagined, can be mitigated by carefully assessing the readiness of a nontraditional candidate for board service. Again, it's a matter of persistence and focus, of probing deeply for answers to these questions:

What does the candidate's career trajectory look like?

Consider the job rotations, experiences, and roles candidates have had and whether they remained in those roles long enough to acquire real depth. Have they worked in well-run organizations, so that they know what "good" looks like? Consider, also, their potential. Are they likely to rise to the top or have they already leveled off? Have they had to present to their own board in their current or past professional capacity?

How do they fit into their current organization?

Look at the design of the candidate's organization and examine the nature of the candidate's job within it. Ideally, the candidate's responsibility requires a broad view across the organization, the opportunity to learn and grow, and frequent exposure to the top. Entrepreneurs, university presidents, and heads of not-for-profit organizations serve as CEOs and interact with demanding boards of their own. Retired military officers, former government officials, and professional-services leaders may have broad exposure to strategy and policy or the ability to work successfully with diverse and global constituencies. High-potential executives in commercial enterprises may interact frequently with the board, learning how directors think and act and experiencing the rarefied atmosphere of the boardroom.

How does the candidate's organization compare to yours?

In the case of a commercial candidate, for example, both companies may operate globally, face similar competitive dynamics, or maintain similar organizational structures and cultures. Or perhaps the candidate's company has successfully made a crucial business transition that your company needs to make, such as decommunitizing products and services. Even if the candidate comes from an outside industry, there may be relevant similarities between organizations—the military and a large multinational, for example. Beware, however, of making superficial comparisons of size. A \$300 million enterprise may be small compared to a Fortune 500 giant, but the entrepreneur or other executives who lead it may manage a great deal of complexity—in markets, channels, cross-border operations, and the like. As a result, they may be better prepared for service on some boards. Careful vetting and persistence can turn up nontraditional candidates who shatter the stereotypes.

Is their role strategic or operational?

Though in some cases a particular company or board may need a director who is immersed in operations, the ability to assess strategy is a highly desirable attribute for board members. Successful entrepreneurs can be expected to know something about strategy, especially growth strategy. And candidates from the government, the military, and not-for-profit organizations often confront strategic challenges of their own and should be assessed for their degree of competency in this indispensable area.

Be prepared, also, to redefine readiness. The board of an industrial company that has brought admirable diversity of all kinds to its boardroom has done so, in part, by committing to the development of first-time board members. New directors spend their first year on the board getting oriented, while their colleagues, in effect, teach them how to be effective board members and set expectations for their contributions. By the beginning of their second year, they are contributing fully.

Defend for fit

The nominating committee should not only be able to make a good case for the candidate's readiness but also for fit with the current board: the contributions the candidate can make to the board and how well he or she will fit with its culture.

With all diversity candidates, the question of business contributions can be tricky. You should beware of categorizing such candidates too rigidly, considering not only diversity of gender and ethnicity, but also of geography, skill sets, industry background, and other experiences. This should enable you to look beyond CEOs and "well-rounded" directors for candidates with specific skills who can contribute directly to the strategic needs of the business. It should not be assumed that a diversity candidate can contribute only in one area. In many cases, you may be seeking the outlook of a generalist, like an entrepreneur or GM, while also desiring the benefits of diversity of thought that directors from different backgrounds can provide.

Cultural fit encompasses considerations of board culture generally and of specific boards. Will the candidate be collegial and collaborative, with the wisdom to address complex issues and the courage to speak up and be thoughtful without being confrontational? To assess for these qualities, you should check references extensively as well as conduct in-depth interviews with candidates. Your board's specific culture may need members who skew toward one end or the other of these attributes. For example, a fractious board may need a member who is highly diplomatic, collaborative, and able to bring people together. A passive board might need a more assertive member. And just about any board, no matter how well it has performed in the past, can benefit from the injection of fresh perspectives that diversity brings. We have seen cases where a nontraditional, first-time director not only sparked new ways of thinking about the company's challenges but also mentored minority executives.



None of these three steps to increasing diversity is particularly difficult to understand, but they require discipline to execute. Above all, they require the will to stay the course, to make whatever extra effort is necessary, to refuse to accept the self-fulfilling prophecy that suitable candidates can't be found. And in the long run, the diligence and the risk they involve is likely to deliver far more value to your board and the company than if you simply remain with the status quo. ■

About the authors

Ron Lumbra (rlumbra@heidrick.com) is Heidrick & Struggles' regional leader for the Americas, and a member of the CEO & Board Practice; he is based in the New York office.

Victoria Reese (vreesee@heidrick.com) is the global managing partner of Heidrick & Struggles' Legal, Risk, Compliance & Government Affairs Practice; she is based in the New York office.

A version of this article was originally published in *Directors & Boards* magazine.

CEO & Board Practice

Heidrick & Struggles' CEO & Board Practice has been built on our ability to execute top-level assignments and counsel CEOs and board members on the complex issues directly affecting their businesses.

We pride ourselves on being our clients' most trusted advisor and offer an integrated suite of services to help manage these challenges and their leadership assets. This ranges from the acquisition of talent through executive search to providing counsel in areas that include succession planning, executive and board assessment, and board effectiveness reviews.

Our CEO & Board Practice leverages our most accomplished search and leadership consulting professionals globally who understand the ever-transforming nature of leadership. This expertise, combined with in-depth industry, sector, and regional knowledge; differentiated research capabilities; and intellectual capital enables us to provide sound global coverage for our clients.

Leaders of Heidrick & Struggles' CEO & Board Practice

Global

Bonnie Gwin

New York

bgwin@heidrick.com

Jeff Sanders

New York

jsanders@heidrick.com

Asia Pacific

Fergus Kiel

Sydney

fkiel@heidrick.com

Graham Poston

Singapore

gposton@heidrick.com

Europe and Africa

Sylvain Dhenin

Zurich

sdhenin@heidrick.com

Jan Hall

London

jan@jcagroup.net

HEIDRICK & STRUGGLES

Heidrick & Struggles is a premier provider of senior-level executive search, culture shaping, and leadership consulting services. For more than 60 years we have focused on quality service and built strong relationships with clients and individuals worldwide. Today, Heidrick & Struggles' leadership experts operate from principal business centers globally.

www.heidrick.com

WE HELP OUR CLIENTS
CHANGE THE WORLD,
ONE LEADERSHIP TEAM
AT A TIME®

Copyright © 2016 Heidrick & Struggles International, Inc. All rights reserved. Reproduction without permission is prohibited. Trademarks and logos are copyrights of their respective owners.

hs-00201

Cover image: ©iStock.com/ZeroPhanToMs

