

How Gender Diversity impacts Board Effectiveness

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Greater diversity of people and viewpoints is now widely known to improve boardroom performance, particularly when getting to grips with complex issues. Gender diversity is an important part of this wider picture; indeed, several studies show definite correlation between higher female representation in top management and accelerated business performance.

Partly as a result of this reasoning and evidence, and partly thanks to government quotas set in some countries, more women than ever before have now seats on corporate boards. An average of 38% of new board appointments in 2018 went to

women in the seven countries included in our *Board Monitor Europe 2019* study. In the United Kingdom, the proportion of female appointments on FTSE 250 boards increased from 35% in 2017 to 42% in 2018, allowing FTSE 250 companies to reach 27.5% female representation.

The progress over a longer period is yet more evident. In 2000, just 6% of FTSE 100 board positions were held by women, compared to 32% now.

However, we are still very much in a transition period. Certain obstacles still stand in the way of full equality, or prevent women from bringing their full potential to the board table.

Gender diversity—a proven differentiator

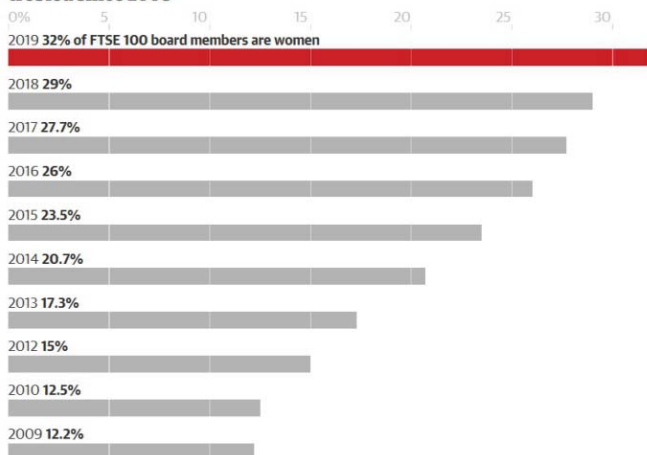
Many board chairs and nominating committees started their board's journey toward greater diversity without being entirely sure of its feasibility, or how it would improve the efficiency of boards as they seek to better represent the interests of shareholders. It's now clear that there are several reasons that the presence of women improves board effectiveness.

The most self-evident one is the direct commercial advantage of having board members who represent the voice of the customer. According to *Forbes*, due to their influence and buying power, women are responsible for 70 to 80% of consumer purchases. We think of women as the main customer in sectors such as retail, fast moving consumer goods, or automotive but in fact women are also benchmark customers for services. For example, when companies work to meet women's higher expectations for customer service, it results in an improved experience for all customers.

Women also have a profound impact on board dynamics, research and our own experience show. One important reason comes down

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The proportion of women on the boards of FTSE 100 companies has trebled since 2008



to differences in their career paths, which means that women play a critical role in challenging group think. Indeed, a recent Heidrick & Struggles survey on the board of the future revealed that when boards are seeking new members, they still heavily favour people with a CEO background. Yet only 5% of FTSE 100 CEOs are women, which means that the drive for greater gender diversity has therefore brought to boards members with different backgrounds. This new breadth of executive experience expands the range of available opinions.

Breadth of experience also fulfils another important purpose: our survey also found that board members think their boards are currently short on specific knowledge in areas that are growing in importance, such as digital transformation and talent strategy, and that this shortage needs to be urgently addressed if the board is to assume the more proactive role now considered necessary.

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Heidrick & Struggles Board Monitor Europe 2019 report shows that female appointees play an important role in bridging these gaps. Seven out of eight board members in FTSE 250 companies with experience as a Chief Human Resources Officer (CHRO) are women, for example; three out of four board members with experience as a Chief Information Officer (CIO) or Chief Technology Officer (CTO) are women; and five out of six board members with experience as a Chief Marketing Officer (CMO) are women. Considering that still less than a third of FTSE 250 board seats in the United Kingdom are occupied by women, these statistics reveal how boards are becoming more attuned to modern-day challenges thanks to the increase in female representation and their more varied career backgrounds.

Finally, gender diversity also affects board dynamics and improves board effectiveness in ways that are just down to the difference with which women tend to approach things – this is the gender DNA factor. Without using inaccurate clichés, women do have an impact on the way decisions are taken on boards, questioning once universally accepted wisdom, for example, and playing an important role in ensuring checks and balances.

Indeed, research indicates that the presence of women on boards slows the process of decision making and dissuades CEOs from taking rash decisions. This leads to more prudent acquisition and investment decisions and less unnecessary risk-taking. One male chair of a FTSE 100 board we interviewed recently explained what he thinks lies behind this dynamic: “With women on boards, you get more considered behavior from men because they are not competing,” he said. “Boards spend longer debating as a result of having more women, and are less prone to agree quickly on the first idea aired.”

The impact of female board members, furthermore, is not limited to the boardroom itself. Studies indicate that greater diversity at board and leadership levels helps to attract the best people to join all levels of the company. Younger applicants, in particular, are more likely to say that a diverse and inclusive workplace is an important factor when they look for a new job. It has also been shown that greater

gender diversity is linked to lower levels of employee turnover.

The remaining hurdles

It's clear that greater gender diversity on boards is not just an obvious evolution of the business world, it also brings a significant [boost](#) to financial performance. So what are the remaining obstacles to achieving better female representation on boards?

First, there are still barriers to female board appointments.

Especially during times of uncertainty, boards are still showing a strong preference for appointing individuals with CEO or CFO experience. Of the appointments in 2018 to FTSE 250 boards, 43% were current and former CEOs, and 18% are current or former CFOs.

Fundamental social and cultural factors are in turn impeding women's progress to the executive positions from which board members are still mostly sourced. Women are getting lost on the way up the ladder, to some extent due to the inflexibility of the corporate culture in allowing for ambitious women to combine work and family, and to some extent through a shortage of female role models and mentors in senior positions with whom it may be easier to form relationships and who can more easily help to facilitate women's career progress. Indeed, research indicates women start losing their confidence in reaching a leadership role right at the beginning of their careers, as early as the first two years of their jobs – and that significantly narrows down the female pipeline from the outset.

Once women do get appointed to a board, furthermore, there are also factors that inhibit female participation in board settings, with their talents and different perspectives not always fully utilised. Boards can still appear intimidating and foreign to newly appointed women, and few female chairs are at hand to help them integrate smoothly and overcome any reticence. (Indeed, another Heidrick study showed that there were only 30 female chairs among the Fortune 500 and FTSE 100 companies combined at the end of 2018, a proportion of just 5%.) Cressida Hogg, chair of UK-based Landsec, a property-management company, recently explained the dynamic to us: “How, as a woman, do you voice a strong opinion or insist on a point without being thought shrill?” she asked. Taking the reins also requires the self-confidence to overcome any lingering “impostor syndrome” that keeps some women from fully appreciating their own qualifications. “You have to step through the self-doubt,” said Hogg, “and take on any leadership role on the board you can.”

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Routes to progress

If the boardroom is to exploit the full value of gender diversity in the future, companies need to consider three separate avenues to progress.

First, boards need to re-examine long-held views on what constitutes the ideal candidate and question whether their overwhelming preference for those with experience in the male-dominated roles of CEO and CFO is still necessarily the right way to

go. This viewpoint does seem to be gradually changing, with a greater emphasis on other backgrounds such as digital, talent management, and marketing as boards pinpoint what is needed for their future growth strategy. We have already seen how women with other types of C-level experience are adding significant experiential and perspective differences to boards. Any further widening of the net for appointments will further facilitate more women entering the boardroom.

Second, companies must ensure that more women rise to senior executive positions, making them more eligible for board selection in the first place. "There needs to be a drive towards achieving a larger female executive talent pool, and encouragement for women to step up and take up those senior roles," another FTSE100 Chair told us. "It's hard to change the makeup of non-executive directors if not enough women are coming through the executive pipeline."

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More use of female role models, mentors, and coaches will help organisations along this path. A gradual, self-perpetuating change towards more gender diversity will surely continue as a consequence of more women taking on more senior roles, further challenging a male-dominated culture and hence the deep-rooted perception of what makes a good leader. For this to happen, of course, an often unconscious bias towards men has to be acknowledged, identified and alleviated as part of building an inclusive culture for all employees throughout the organisation.

Third, it is necessary to build an inclusive culture at board level in which everyone is encouraged to contribute to the maximum of their ability and be listened to by their peers. The onus is on chairs to encourage discussion from all members and not allow meetings be dominated by a voluble few. "If you do have a diverse board you need to bring people into it in different ways," says one FTSE 100 chair. "Encouraging the quieter subject matter experts is essential. People contribute in different ways. Keeping the dialogue flowing is an art."

Here, too, as we move further in the transition to greater female involvement, the environment will become more amendable to women. Research suggests that women make a more effective contribution when there are other women present, and they are viewed less as a token outsider. More female chairs, who may be more attuned to getting the best out of other women, will surely help as well.

Companies have made great strides in recent years in moving towards greater diversity in the boardroom and seizing the many benefits it brings. We are likely to see a natural acceleration of this process as companies adapt the makeup of their boards of directors to meet the demands of their future growth strategy. However, companies should not become complacent. The ratio of female appointments on FTSE boards has slowed down (at best, stabilized)

and the number of women chairs is stagnating at a staggering 5% at FTSE 100 and 6% at Fortune 500 companies.

There is still much more to do at board level and below. The leaders of today and tomorrow need to take a hard look at how the organisational design and culture of their organisations encourage nurturing and promoting women and diversity throughout their hierarchy.

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