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How to accelerate gender diversity on boards

By Celia Huber and Sara O'Rourke

Slow progress in adding more women to boards has dominated the conversation. But tips from standout companies are more likely to inspire others to take firmer action.

The tone of much public discourse on the issue of women's representation on boards has been pessimistic of late, and understandably so, given the crawl toward gender parity in the United States. Women currently hold 19 percent of board positions there, while in European countries such as France, Norway, and Sweden, where legislative or voluntary targets are in place, they hold more than 30 percent.

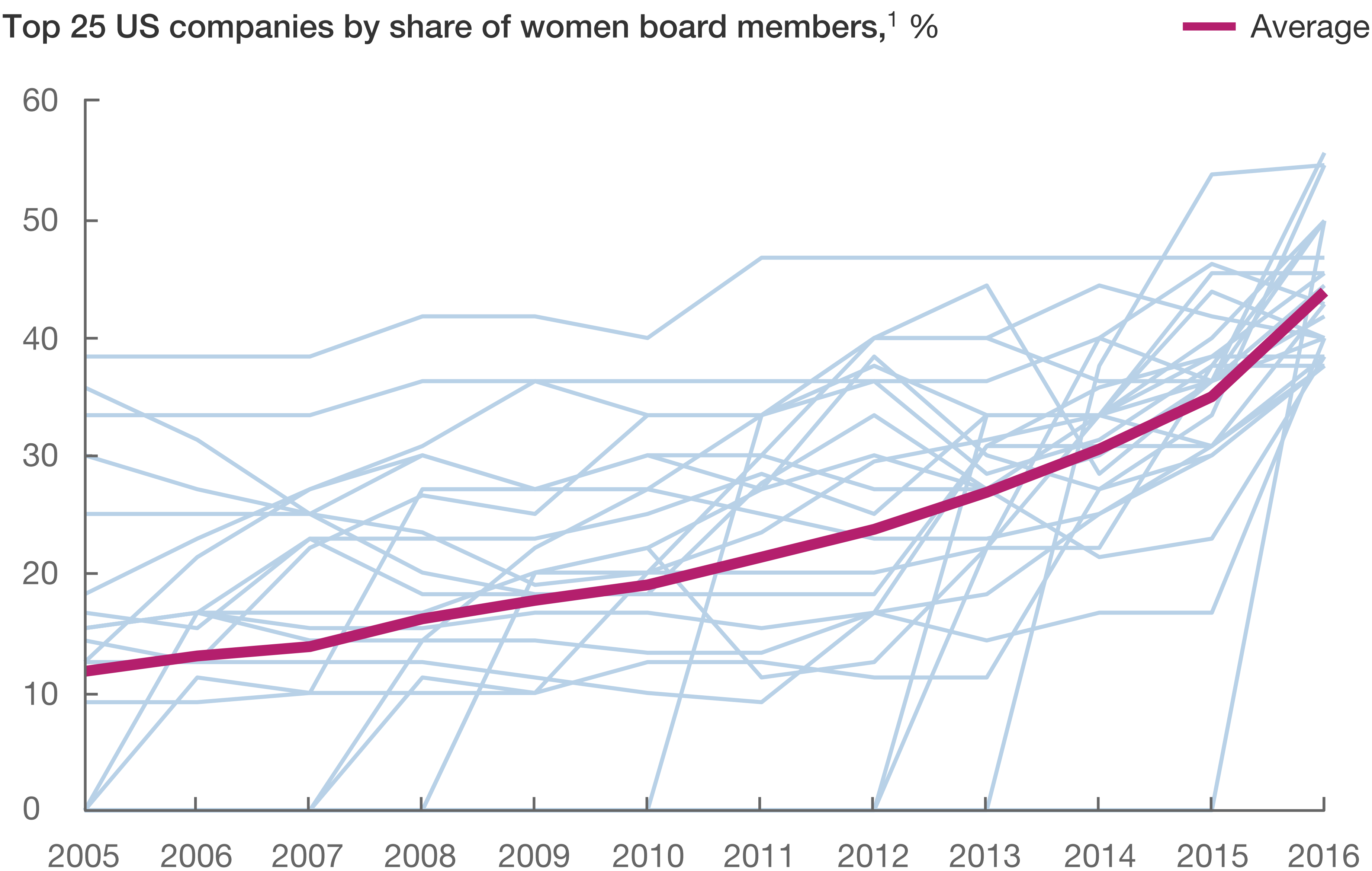
That said, some progressive companies are taking the lead, looking for female board members in new places and bringing them on board in new ways. Many feel they still have a long way to go, but their experiences are salutary for those that are lagging behind and want to better understand how to make change happen.

We recently conducted an analysis of companies in the S&P 500 to identify top performers in board diversity, defined as those with the highest percentage of women on their boards as of August 2016 (see Exhibit 1 for the top 25 and footnote 1 for the full top 60).[1] It showed that women occupied at least 33 percent of board seats among the top 50 companies (up to nearly 60 percent for the highest percentage). In all, female representation on those boards has increased on average by 24 percentage points since 2005.

Exhibit 1

Among the top 25 US companies, representation of women on boards is steadily converging toward parity.

Top 25 US companies by share of women board members,[1] %



Accenture	General Motors	Signet Jewelers
Alaska Airlines	Hewlett-Packard	Tegna
Alliant Energy	Hologic	Texas Instruments
American Water Works	IPG	Ulta
Ameriprise Financial	Kellogg	Viacom
Best Buy	Macy's	Wells Fargo
Dollar General	Michael Kors	Williams Companies
Dr Pepper Snapple	Navient	
Estée Lauder Companies	Patterson Companies	

[1]As of August 2016.

McKinsey&Company | Source: BoardEx database, 2005–16

We then conducted a series of interviews with the CEOs and board chairs from a number of those standout companies, as well as some European businesses that have made similar progress. (For in-depth insights from executives at some of these companies, see "Straight talk about gender diversity in the boardroom and beyond.") Our goal was to hear directly from them about their gender-diversity journeys—the challenges they've faced, the best practices they've adopted, and the benefits that they continue to reap from increased representation of women, as well as other minorities, on their boards. What follows is a set of best practices, although by no means an exhaustive one (Exhibit 2).

Exhibit 2

Best practices to improve gender diversity on boards

Change your mind-set	Make a visible commitment to diversity with sustained action throughout the organization
	Set new principles for decision making (eg, include women on every candidate slate)
Expand your criteria	Look beyond current CEOs and other members of the C-suite
	Consider candidates with the right expertise, not just those with prior board experience
Maintain an active pipeline	Expand your network to include more women and explicitly ask search firms for female candidates
	Cultivate long-term relationships with prospective candidates

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Change the mind-set

Even laggards acknowledge that increasing the percentage of women in the workforce and on boards is the right thing to do. But general conviction isn't sufficient. What's too often missing, says Fabrizio Freda, president and CEO of the Estée Lauder Companies, is a sense of urgency: "People believe we are going to get there eventually. But that is not enough; it's too slow. The real obstacle is the lack of urgency." (For more on Freda's efforts at Estée Lauder, see “Straight talk about gender diversity in the boardroom and beyond.”) Freda was one of many executives we interviewed who insisted that meaningful change will come only when executives make fewer excuses and work together quickly. What’s needed are purpose and intention—a set of goals and motivations that will underpin decision making. For some, that has meant establishing a target number of board positions for women, while others take care to ensure that the list of candidates is diverse from the beginning, without adherence to a static quota. As Mary Dillon, CEO of Ulta, explains, “To maintain or expand diversity on our board, we continue to make an active effort to make sure that the slate is diverse. Just the act of being cognizant, and having it top of mind that every slate has to have diversity, will drive action.” Leaders at both Genpact and Microsoft underscored the importance of flexibility, recounting how their searches to fill one board seat yielded two highly qualified women, so they just decided to bring both of them on board.

Expand your criteria

Despite their best efforts, some companies cite the small pool of female executives as a continuing challenge. And they add that specific criteria for expertise in areas such as digital technology narrows the field even further.

Overcoming this reality of unequal numbers requires openness to creative solutions. One is to move beyond the standard practice of focusing a search on executives with prior board experience. Dan McCarthy, president and CEO of Frontier Communications, notes that many of the women on his board were first-time directors. “We were willing to take risks on individuals—we look for someone who has the ability to move from the tactical to the strategic—and it has turned out to be great.” (For more on McCarthy’s experiences, see “Straight talk about gender diversity in the boardroom and beyond.”)

This approach can be particularly helpful for small- and mid-cap companies that struggle to compete with large corporations for high-profile candidates. Genpact president and CEO Tiger Tyagarajan observes that “some people may prefer to join the board of a mid-cap company, where they can actually be more engaged and have an impact on the company’s strategy, versus a large company, where more time may be spent on general governance issues.” Leaders also tell us that looking beyond current or former CEOs and C-suite executives for candidates in other spheres such as law, academia, and the social sector can be rewarding as well, creating a rich balance of perspectives at the table. Ultimately, it’s about defining what is nonnegotiable, such as digital or finance expertise, and then seeing what is flexible so as to deliver on gender-diversity goals and to meet specific challenges.

Maintain an active pipeline

Effectively creating and cultivating an active pipeline of female candidates is arguably the single most important element of a successful board-inclusion effort. When conducting a search, this means relying on both personal networks and search firms to identify candidates. Relying only on the former, particularly where a board is composed primarily of men, risks perpetuating the candidate slates from the old-boys' network of yore; relying solely on search firms can produce highly qualified candidates who are not particularly suited to the personal dynamics of the board. A little patience may also be necessary. As John Thompson, chairman of Microsoft, points out, some of the best candidates may take two or three years to cultivate. By taking the trouble to get to know potential candidates, even those who may not be available for some time, companies will establish foundations for the long term. Companies that are open about their quest for diversity, meanwhile, will also benefit in the long run. Michael Roth, chairman and CEO of IPG, told us his reputation as a male champion for diversity had prompted a search firm to send him a qualified female board candidate proactively, even though he hadn't initiated a search engagement with them.

Make the case

The leaders we interviewed had long since crossed the bridge of understanding the benefits of gender diversity, but their experiences provide a useful checklist for those still trying to convince the skeptics:

- *Board diversity helps to draw in and motivate talented employees.* As Genpact's Tiger Tyagarajan explains, "To attract the best talent into the company, you need to appeal to 100 percent of the top talent, not 50 percent. To do that, you need strong female role models."

- *Boards that represent the customer base have better intuition.* For retailers in particular, the reality is that women make up more than half of global purchasers. Board diversity is simply better business.

- *A diverse board boosts decision-making quality.* As Scott Anderson, chairman, president, and CEO of Patterson Companies, states, "The quality of discussions goes up dramatically when you have a more diverse group in the boardroom."

> Rodney McMullen, chairman and CEO of Kroger, adds that “you get questions from perspectives that you hadn’t thought of before, and I think this helps you avoid more blind spots.”

Several of our interviewees emphasized that getting more women on boards isn’t the end of the story. For starters, board diversity is not just about gender. As McMullen explains, “I always think diversity of background is important, but also diversity of experiences, thinking, and career paths.” Marc Lautenbach, president and CEO of Pitney Bowes, puts it this way: “While we don’t have a specific number in mind, we do have an appreciation for the value that diversity can bring. To my mind, it’s a little bit like assembling an orchestra. I know I need a bunch of different instruments; whether I have three of one and two of the other, or three of one and three of the other—that misses the point. It’s about how all of the instruments blend together.”

It’s important to recognize, of course, that broader gender inclusion at all levels of the company is critical. Companies can drive board inclusion by preparing their own female executives for future board participation: placing them in roles with profit-and-loss responsibility, ensuring they have committed mentors and sponsors, and equipping them with the knowledge and skills needed to confront the governance and strategy issues that boards typically face. This can create a virtuous cycle that speeds progress on board diversity and counteracts cynicism with success stories such as those in our survey.

1. The top 60 companies are as follows: Abbott Laboratories; Accenture; Aetna; Alaska Airlines; Alliant Energy; American Water Works; Ameriprise Financial; Ametek; Becton, Dickinson and Company; Best Buy; Boston Scientific; Campbell Soup; Cardinal Health; Celgene; CenturyLink; Citigroup; CMS Energy; Coach; Dollar General; Dr Pepper Snapple; Entergy; Estée Lauder Companies; Frontier Communications; General Motors; The Hartford Financial Services; Hasbro; Hewlett-Packard; Hologic; HP; Ingersoll-Rand; Intuit; IPG; Kellogg; Kroger; Lockheed Martin; Macy’s; Marriott International; McKesson; MetLife; Michael Kors; Navient; Netflix; Omnicom; Patterson Companies; Pitney Bowes; Principal Financial; Procter & Gamble; Signet Jewelers; Smucker; Synchrony Financial; Target; Tegna; Texas Instruments; Ulta; Valero Energy; Vertex Pharmaceuticals; Viacom; Wells Fargo; Williams Companies; Xerox.

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