

LEVERAGING DIVERSITY AT BOARD LEVEL: THE WAY FORWARD

Paris, June 15th 2011

For years, watchdogs have pushed for significant changes to the composition of corporate boards, seeking to address the relative lack of independent advice. Yet the numbers reveal that too often still the sobering reality is that despite significant corporate commitment and globalization, the boardroom is still an enclave for executive managers, shareholders, or owners, without sufficient benefit of independent advice.

The idea of increased independence is getting fresh impetus from a green paper released last spring by the European Commission, advocating the appointment of board members who are more varied in terms of gender, industry, background, age and race. The discussion around governance in the UK has resulted in increased authority for the Senior Independent Director (SID).



Following the example set by Norway - France, Netherlands and Spain have passed laws introducing minimum quotas for women on boards of publicly listed companies, to be achieved in the coming years. Other countries are considering legislation.

Greater diversity may be part of the solution to improve governance, but it is a solution that also comes with challenges of its own. At the third *INSEAD Governance Meeting* sponsored by the MEDEF, in Paris, a small group of experienced directors discussed this important and topical issue, and deliberated solutions to the diversity challenge issued by the European Commission.

Participants in the dialogue included such diverse senior directors and top INSEAD academics as **Gauthier de Biolley**, Member of the Board, EFES Breweries; **Anne-Grete Ellingsen**, Former Deputy Minister, Ministry of Oil and Energy, Norway, Member of the Board of Gallion, Chair Skeie Energy AS; **Michel Gauthier**, Vice Chairman, ADL Partner; **Gianfranco Gianfrate**, European Corporate

Engagements, Hermes Fund; **Guy Le Péchon**, Auditor at the French Senate on the question of Women Directors in French Quoted companies; **Mme Colette Lewiner**, Member of the Board, Eurotunnel, Colas, Lafarge, Bouygues, Nexans and Global Energy and Utilities Sector Leader at Cap Gemini; **Mme Christine Morin Postel**, Member of the Board, 3i Group plc, Royal Dutch Shell, British American Tobacco, and Exor; **Dr Henri-Dominique Petit**, Independent Vice Chairman of Mersen (Carbone Lorraine) and ex-Chairman of Sperian; **Hélène Ploix**, Member of the Board, BNP Paribas, Publicis Group, Lafarge, Chairwoman, Pechel Industries; **Joëlle Simon**, Director of Legal Affairs at the Medef; and **Valérie Tandeau de Marsac**, Lawyer Partner at JeantetAssociés, Founder and President of the non-profit organization Voxfemina.



INSEAD Faculty **Herminia Ibarra**, The Cora Chaired Professor of Leadership and Learning; Professor **Jean-François Manzoni**, The INSEAD Chaired Professor of Leadership and Organizational Development contributed to the debate; and open discussion amongst all participants which were facilitated by Professor **Ludo Van der Heyden**, The Mubadala Chaired Professor in Corporate Governance and Strategy; and Professor **Tim Rowley**, Visiting Professor, INSEAD, Academic Director of the Institute for Corporate Directors.

The Minority Experience: Exploration and Diagnosis

Asked how it felt to be a director with 'a diverse experience' on a prestigious board of directors, a common response was that the focus should be "**on how a diverse board can add value to the underlying business**".

One of the participants found herself to be the sole woman, and in some cases the only foreigner, on boards of companies in the CAC 40 or FTSE 100. "I

feel I am not treated differently from the other members,” she said.

“I never think of myself as a female, but as someone who brings technical experience and expertise, which are useful for the corporations I am serving,” echoed another female participant.

Yet all participants admitted that they sometimes ran into an **invisible barrier**. “If I am on a very male-dominant board, gender can become an obstacle.” reported another one.

The impediment is not easy to see from a distance. Echoing these perceptions, a non-executive female director in the engineering and construction sector explained how she felt overlooked or marginalized by her peers on one board she had served on: “I raised questions and prompted the board to take some important actions but my interventions were never quoted in the minutes of the meeting.”

Foreign board members can run up against the same diversity-related tensions on their directorship journey. Describing his experience as the only foreigner on a big US company board, one male board member confessed to **cultural differences** as another obstacle “Each country uses different references in its board practices. For instance, American Boards go to the bottom line first. As a French person, you can often feel trapped, trying to explain the ‘why’ first. It is far deeper - that difficulty of communication.”

Barriers to Diversity

Describing the findings of a research study among more than 4,000 ‘high potentials’ in North America and Europe, published in the *Harvard Business Review*, and citing other research findings, Professor Ibarra said there were three main barriers to growing the pool of director-ready women.



The first one was the available **talent pool** of women, with business line experience, that could be considered for board positions remains limited.

The second limiting factor concerned a lack of **sponsors**. Interviews and surveys alike indicated that, compared with their male peers, **high-potential women were over-mentored, under-sponsored and not advancing in their organizations**. “Without sponsorship, women not only are less likely than men to be appointed to top roles but may also be more reluctant to go for them.”

Perception was the third main barrier: Women were often viewed as competent managers, but not

visionary leaders, “who may give the impression that they don’t have the ‘right stuff’ for powerful directorships.”

Professor Manzoni outlined several hurdles faced by diverse boards, whether they related to gender, nationality, mind-set or age. “People associate certain nationalities with particular traits,” he said. “For example, research shows that Brazilians tend to interrupt conversations more often than Americans or most Nordic cultures do. An ‘average Brazilian’ could hence easily be labelled as ‘aggressive’ or ‘rude’ because s/he interrupts the speaker more often than other cultures consider appropriate.”

Lumping people with a **label** and assuming that all members of a particular group or a culture shared the same characteristics can prevent boards reaping the benefits of diversity. “The last word is often given to the most senior directors, which is not always appropriate. When **stereotypes** are negative, they constitute **prejudice**,” reckoned one chairwoman.

What are the tensions that result? “If you are in a low opportunity group, behaviour can start being different, then **productivity and morale** can suffer,” warned one participant. “Concluding that others are not willing to hear your thoughts, you end up declining to contribute during future meetings. The higher up the corporate ladder, the greater the perceived risk associated with choosing directors who are not ‘homogenous’.”

How is the boardroom's diversity related to company performance?

In Norway, the presence of more female board directors appears to have been **neutral** to the improvement of business performance. (However, one clear impact has been to internationalize Norwegian boards, in addition to making them more diverse gender-wise) For the most part, more qualified women have now replaced less qualified men. While participants admitted that the rise of the women directors on boards is too recent for much of the research on the issue to be compelling, there was a consensus that diversity effectiveness was more about the richness of the board as a whole - the contribution of a group of people with different skills and perspectives to offer.

All participants agreed on the importance of being moral, vocal, more willing to push their issues, and more relaxed, “**as long as there are enough skillsets around the table.**”

Diversity effectiveness is all about having the best talent to understand the business and take it forward. The issue is not so much how to bring minorities into companies, but how to create more successful

diverse boards, with line experiences and skillsets in the areas which matter most.



The value of boardroom diversity was also widely invoked by the participants as **a solution to 'group think'**. The more diverse the background and experiences of the members, the less likely it is that decision-making is biased, and that decisions address only part of the issue. Research has repeatedly shown that the more homogeneous a team is, the more likely its members would suffer from 'group think', and the less likely its members would be apt to challenge the dominant view by asking probing questions. This research result has immediate consequences for boards. One consequence is that the moment things start to turn sour, directors belonging to the same 'club' hold back from 'dropping a bomb' in a meeting.

"Almost invariably for the boards we sit on, we found more quality in a diverse team," confirmed a representative of the shareholders' view, reminding participants of the changed expectations by investors and the need to engage them with boards and management on how to raise the quality of board composition. The composition of a company's board also sends **a positive signal to shareholders**.

Should board diversity be made mandatory?

Do national governments need encouragement from the EU to address the diversity issue at board level?

Participants were generally sceptical about laws setting minimum quotas for women - or for any group - on supervisory boards of publicly listed companies. "In Norway, quotas have not tackled the issue of women coming through their own organization's pipeline. The increase in the number of women board members was partly achieved through an increase in board size and by hiring international female board members," commented one of the board members present.

At the same time, participants agreed that one advantage of quotas was that they had forced nomination committees to look and think outside the box, "even if it is better to have **a voluntary [mentoring] scheme** than a law [setting quotas]."

Tapping the value of diversity

In the ensuing discussion, participants highlighted the importance of having leaders - the majority of whom are still men - take a hard look at diversity training initiatives and whether they translate into more promotions for minorities.

Some pointed out that there is a bigger challenge for minorities to enter 'the power play' in France for instance, than in Norway or the UK. They questioned the **close networks at the top** of the major industries and boards - from the same schools for instance, which made the challenge greater than it appeared. "There is widespread ignorance and denial of the problem," one participant stated. "What is needed is a sincere commitment, particularly among leaders, to the goal of diversity for the benefit of board quality."

One of the board members believed it was important for companies to first define how lack of competencies or perspectives may link to board effectiveness and ultimately to business results. Otherwise, there will be no compelling reason for leaders to focus on diversity. **"It starts with setting a clear direction."**

How fair are the nomination procedures?

Considering that each company is different, and that the quality of the individual is paramount, participants agreed on the value of **a more transparent mechanism for bringing up the right candidates**. This brought up the role of nominating committees when considering new board candidates and whether they developed a diverse slate of qualified candidates before a new position opened.

Sharing her company's practices, one of the participants said, "We first discussed with the management, what the challenges of the company were, and the competences needed for the next two to three years to help the company move in this direction. And then we went to the nomination committee, presented the results and suggested qualifications: Does the board need one extra finance person and one fewer marketing person? Or someone with experience in a banking crisis rather than in creating new growth platforms?"

What is required is a change of culture

All participants agreed on the necessity to create an environment that facilitated communication in both directions, where the new director is comfortable volunteering information and expressing dissenting views, while the board is willing to accept the newcomer's feedback and suggestions. One female participant emphasized the danger of superficial compliance, and stressed the importance of understanding the cultural differences.

In this respect, everyone agreed that **the chairperson played a pivotal role** by calling on each specialized member to comment on a particular issue, while encouraging alternative views and constructive criticism.

“The first time I brought up a concern about an investment on a UK board, I phrased my question very negatively. Immediately I was asked by the chairperson to rephrase it in a more constructive way,” recalled one participant. “I have tried to do that ever since. The chairperson had to pull together strong individuals with divergent backgrounds, and forge them into an effective team, but he made sure that they felt valued and that their contributions and perspectives were recognized.”

“Dinner and social chitchat in a neutral setting before the official board meetings can be the primary means by which directors assess the strengths and weaknesses of each other, providing insights as well as debriefings,” suggested one participant. “When boards know individuals, they are less likely to make snap judgments, or hasty assumptions. They are also more likely to question the impact of their behaviour.”

One advice at the meeting was to review the board every year on the collective knowledge needed in view of the new economic environment. “**Before things get bad**, expose the board to things they were not expecting, to test its effectiveness so that when the worst happens, people work together as a unit and deal with the problems quickly.”

Boards tended to get criticized during crises. While most participants were clearly concerned about the ‘pre-existing assumptions’ which needed to be overcome, they all emphasized the need to have authority, experience, familiarity with the rules of the game, as well as to show that what is said is based on facts. “That type of courage is what makes a good board member.”

As the meeting drew to a close, participants concluded that a good diverse board is not a board that is good at representing many particular groups, but one composed of informed and appropriate candidates.

INSEAD Corporate Governance Initiative
Tel: +33(0)1.6098 3319
Email: corporate.governance@insead.edu
www.insead.edu/governance