

# McKinsey Quarterly

## HOW TO **ACCELERATE GENDER DIVERSITY** ON BOARDS

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# HOW TO ACCELERATE GENDER DIVERSITY ON BOARDS

*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.*



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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.

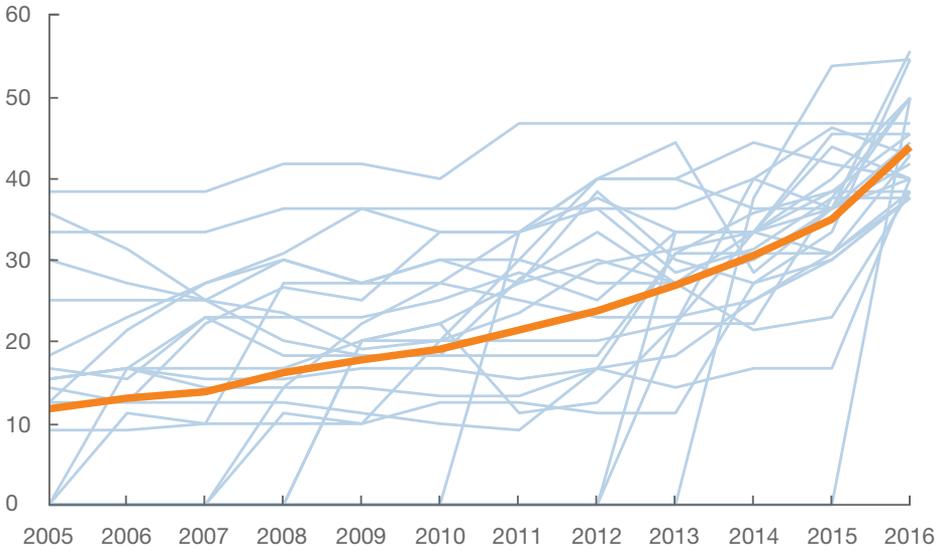
That said, some progressive companies are taking the lead, looking for female board members in new places and bringing them on board in new ways. Many feel they still have a long way to go, but their experiences are salutary for those that are lagging behind and want to better understand how to make 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). 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. 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," on page 9.) Our goal was to hear directly from them about their gender-diversity journeys—

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,<sup>1</sup> % — Average



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	

<sup>1</sup>As of August 2016.

Source: BoardEx database, 2005–16

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).

**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

Exhibit 2



## Best practices to improve gender diversity on boards

<b>Change your mind-set</b>	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)
<b>Expand your criteria</b>	Look beyond current CEOs and other members of the C-suite
	Consider candidates with the right expertise, not just those with prior board experience
<b>Maintain an active pipeline</b>	Expand your network to include more women and explicitly ask search firms for female candidates
	Cultivate long-term relationships with prospective candidates

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.” 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.”

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.

“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.”

## 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. 

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# STRAIGHT TALK ABOUT GENDER DIVERSITY IN THE BOARDROOM AND BEYOND

*In these interview excerpts, leaders describe their efforts at promoting gender equality on boards and explore the challenges that still linger.*

Much of the discussion around gender diversity on boards focuses on how far we still have to go to achieve parity in the United States. While important, this conversation can sometimes overshadow the progress that individual companies are making to drive change across their organizations. We decided that highlighting some of their experiences could prove useful for companies eager to learn how to make change happen. In the fall of 2016, we conducted an analysis of companies in the S&P 500 that had the highest percentage of women on their boards. We then spoke to leaders at some of those companies, as well as to a few European leaders who are making similar progress in their organizations. (For more on our analysis and best practices, see “How to accelerate gender diversity on boards,” on page 3.) What follows are selected commentaries from leaders at the Estée Lauder Companies, Frontier Communications, and Kering, in which they discuss everything from the benefits they’ve reaped to the remaining obstacles that must be tackled.

## Driving sustainable change



**Fabrizio Freda,**  
president and CEO,  
The Estée Lauder  
Companies



**William P. Lauder,**  
executive chairman,  
The Estée Lauder  
Companies

**William P. Lauder:** Our company was founded by my grandparents, Estée and Joseph Lauder, based on my grandmother’s vision, so the idea of women in leadership is deep in its DNA. Today, 85 percent of our employees are women, and it’s estimated that 90 percent of our consumers are women. So it’s important for us to make sure that we have very capable women executives not only at all levels of the organization but also at the board level. It took an explicit effort to make sure that we had women directors

on the board, and then from there it became a natural process, as those members advocated for more women to join them. You come to realize that it's a self-fulfilling thing when you start by setting an example. It's about putting a stake in the ground, as a leader, on something you believe in and then working hard to make sure that the organization takes it up and moves it forward.

**Fabrizio Freda:** It really is about intentionality of leadership—continuing to drive diversity across the company, even if you have already achieved many of your objectives. You can't take progress for granted. Leaders must make sure that everyone understands the benefits to the organization, the results these decisions bring, and the power of talented women and all that they have achieved for the company. This will ensure that a model is sustainable in the long term, independent from the company's value system and the strategic priority to represent consumers.

We expect leadership initiative and participation from every person in the company, what I call "leadership from every chair." For example, in a practical sense, this means we require managers to have a slate of candidates for any new position that's 50-50 men and women at the start. Broadly speaking, it's about making inclusion a job for everyone at the company. Sometimes I meet CEOs who believe they need to convince their direct reports to exercise inclusion. I believe they need to first convince the people who entered the company yesterday, because that's how you make sure it permeates the culture. Often young people will be most active if you give them the responsibility to drive change.

For example, we decided that our senior leaders, both men and women, were not familiar enough with the big transformation of the consumer-engagement model via social media and the new digital landscape. So our company has taken the most talented young women in the organization and matched them with a senior leader on my executive team. They become a reverse mentor to that executive, teaching my team and me the latest trends and innovation in the social-media landscape today—in short, keeping us modern.

As a result, my senior leadership group has better ideas on how to modernize certain aspects of the business. Further, our millennial women around the world are growing their skills at the speed of light, because they feel that senior managers look at them as leaders and not just junior employees. We have many women who participate in the program; today, it's an important element of our company culture.

## Benefits go both ways between management and the board



**Dan McCarthy,**  
president and  
CEO, Frontier  
Communications

I've seen the benefits firsthand of having a more diverse board tackling tough issues. Here's an example: At one point, we were reviewing a strategic direction around opportunities for products to bring to market. The management was in favor of moving in a direction that would have been not completely off strategy, but more like a near-adjacent technology for us.

Even though the strategy had been vetted and moved forward, the board, as they discussed it, really challenged management. Had they thought through these different risks and opportunities? The women on the board challenged management the most by drawing on their understanding of how more than half of the country would feel about these new products. It really changed the entire direction of the discussion. Having previous experience with a board that was not very diverse in any way, I think that we would have wound up in a very different place. Ultimately, we scrapped that idea and didn't move forward with it.

The benefits really go both ways between the boardroom and the management side. I would say that in the beginning, management evolved a little quicker on diversity and in doing so had a very positive influence on the board. About seven or eight years ago, we started a unique program where we pair a top senior executive with a board member. The board member gets a much more intimate understanding of the industry, the business, and its challenges; the senior leader gets a mentor who can advise them on their relationship with the board and how they could be a more effective leader. When I look at the board, I can see that they are totally engaged when we do succession planning; they understand the individuals and their needs and desires. When I talk to my team about what they're getting from the mentorship, it's everything from opportunities to join a board at a different company to a sounding board for ideas on their career. It's created a kind of symbiosis between both sides.

## It takes more than a nudge



**François-Henri Pinault**, CEO and chairman, Kering

Every company has a social responsibility beyond the economic sphere, as a part of society. When I transformed our company to the luxury group that it is today, I wanted to make a commitment to women that was consistent with the changing profile of our company, where roughly 60 percent of our workforce and 75 to 80 percent of our customers are women.

My first move was to establish the Kering Foundation to combat violence against women. Thanks to my wife, I became aware of the reality of the situation in our country and throughout the world. This was, as we call it, our commitment to the external world. Around the same time, we decided to work on the internal dimension—including equal representation, remuneration, and career-path development for women across the group.

I wanted to show our determination early on through quick action and chose to set an example with our board. I was not forced to do it at the time. Of course, now we have a law in France requiring us to have at least 40 percent women at the board level. We anticipated that and went even further; 64 percent of our board is now women. The law in France created a lot of debate on quotas, with even some women being against the idea. But pragmatically speaking, if you don't ignite the process through that constraint, nothing will ever happen. Recommendations are not enough. Even if the consequences for not complying are not all that terrible, it increases visibility on where companies stand and forces many to move in that direction.

The board is more of a symbol than a catalyst for change. The real work begins at the executive level and below, as you try to understand and diagnose very precisely the many reasons why change doesn't happen. For example, corporate policies (or a lack thereof) on maternity and paternity leave continue to create unfair situations for women, often resulting in a loss of talented women in the pipeline. Ideally, they should have a free choice to make that doesn't require a personal or professional sacrifice, but most of the time there is no choice—companies have to start allowing men more flexibility in their working schedules to contribute. In a country like the United States, one of the least advanced countries in the world on this issue, the consequence is that gender parity at the executive level is very difficult to reach. 

These commentaries are adapted from interviews conducted by **Celia Huber**, a senior partner in McKinsey's Silicon Valley office; **Holly Lawson**, a member of McKinsey Publishing who is based in the Chicago office; and **Sara O'Rourke**, a consultant in the Washington, DC, office.