

# Getting from a good to a great board

By Janice Reals Ellig

22 directors & boards I'd love to put qualified women on our board," asserted the CEO of a major corporation. "We just can't find them." It's a common complaint, and it's conceivably a key reason behind the virtual stagnation in the number of women directors in corporate America — an average increase of only one half of one percentage point per year since 1995. It's also a puzzling assertion. After all, women are half of everything — employees, investors, customers, the global community. Women make or influence 80% of consumer decisions and hold more than 50% of managerial and professional positions. Yet women can still claim only a toehold in the C-suite of corporate America, with fewer than 3% of the Fortune 500 CEO positions and fewer than 16% of corporate officer slots. Since the C-suite is a primary source from which director vacancies are typically filled, there is a need to dig wider and deeper in order to tap into a rich well of female talent. Recent research from Catalyst, the leading nonprofit corporate membership organization working to advance women and business, supports the view that the search is worth the effort. The study examined the correlation between the number of women on the board of directors and corporate financial performance. The results spoke volumes: on average, Fortune 500 companies with more women directors had significantly higher measures of financial performance than those with the least: 53% higher return on equity, 42% higher return on sales, 66% higher return on invested capital. And companies with three or more women directors performed even better! This mirrored other Catalyst research on women corporate officers and financial performance: more women in the C-suite, on average, correlated to 35% and 34% improvement in return on equity and return on sales, respectively. So it is perhaps not surprising that a new Catalyst study reveals a strong relationship between the two dynamics: more women on the board predicts more women corporate officers five years later. Bottom line? Appointing more women to corporate boards correlates, on average, with significantly improved financial returns and more women in the C-suite. A very appealing win/win. So how have some CEOs/boards been able to successfully catapult over the supply hurdle to find qualified women for their boards? The answer rests with the leadership: the board's commitment to expand gender diversity, careful planning, and a willingness to broaden their vision and widen their search. That's what it takes to elevate a good board into a great board. How can your board do the same? We've identified five practical steps: 1. Analyze the tone at the top Getting from good to great starts, as always, at the top. That's where the tone is established and the

example set. So step 1 is to analyze the diversity at the top of your organization. Since it's a board's task to evaluate the company's strategy Getting from a good to a great board You can do it through gender diversity. The qualified woman candidate for your board is out there — if you look for her in the right places and with the right process. By Janice Reals Ellig and Ilene H. Lang Janice Reals Ellig (right) is co-CEO of Chadick Ellig, an executive search firm based in New York City ([www.chadickellig.com](http://www.chadickellig.com)). With 20 years of senior-level corporate experience and working with CEOs and boards, she has co-authored two books, *Driving the Career Highway: 20 Road Signs You Can't Afford to Miss* (2007) and *What Every Successful Woman Knows: 12 Breakthrough Strategies to Get the Power and Ignite Your Career* (2001). Ilene H. Lang is president of Catalyst, the leading research and advisory organization working with businesses and the professions to build inclusive workplaces and expand opportunities for women and business ([www.catalyst.org](http://www.catalyst.org)). She is recognized as a pioneering female high-tech/Internet executive and has advised CEOs and entrepreneurs as a board member, coach, and investor in women-led technology businesses. Photo: Michael Benabib

LEAdERSHIp fourth quarter 2008 23 'Focus on your return on diversity, a new measure of corporate success for the 21st century.' — Ilene Lang (left) and Janice Reals Ellig

BoaRd ComposItIon 24 directors & boards and the effectiveness of the CEO, a prevailing sameness in the backgrounds, gender, expertise, experiences, and alma maters of board members may also foster a one-note consensus on those key measures. It's a signal that this board is potentially losing out on the benefits of challenging dialogues, independent thinking, and the sheer churn of creativity inherent in a more diverse board. By contrast, gender diversity at the top communicates to shareholders, management, employees, and customers that their perspectives are valued. In an era when rating agencies, regulatory bodies, and investors see gender diversity and stakeholder representation as measures of good governance and managerial strength, diversity at the top reflects a company positioned to lead in a global economy. Where such diversity is not seen, regulators and rating agencies may assume outmoded cultural stereotypes and willful indifference to the marketplace. The potential dangers of that perception are many, including reputational risk.

2. Assess competency needs What are the gaps on your board? Which skills, talents, demographics are needed to build a team better positioned for the future? What about the less obvious qualitative performance gaps, such as a director's interest and time commitment? If your board routinely self-evaluates and/or enforces term limits, it's likely that openings will occur. Take these opportunities to refresh the board by identifying missing skills and competencies that will strengthen the board and provide a roadmap for the future.

3. Commit to an action plan Creating an action plan and committing resources to it are the essential next steps. Set a goal of at least three female board members. That might mean filling one or both of the next two vacancies

with (or creating new vacancies for) qualified women whose skills and competencies fit the board's identified needs. Catalyst data show that major corporations, including Aetna, Avon Products, Northeast Utilities, PepsiCo, Texas Instruments (see sidebar), and WellPoint Health Networks, dramatically changed the gender mix of their boards over a 10-year period. "Their vision of gender diversity and the competitive advantages that it might bring remained strong," says Deborah M. Soon, Catalyst vice president, Executive Leadership Initiatives. "It required effort, but each and every board can change its board composition and reap the benefits, if it so wishes." 4. Demand a diverse candidate slate, then search smarter Demanding a slate that includes both women and men with those key competencies is a good start. But where to find them? Begin by looking beyond the obvious universe of sources. Women aren't in hiding, but you have to start looking in the right places. CEOs and board nominating chairs must break out of that easy comfort zone — targeting only the usual cast of current and former CEOs — and take a more creative approach, expand their scope, and do some legwork. Here are just a few places where the search can begin:

- Regional networks of senior women in business, science, finance, and law.
- Referral services from Catalyst ([www.catalyst.org](http://www.catalyst.org)), the AI-

How do some companies do it? When Tom Engibous began his tenure on the Texas Instruments (TI) board in 1996, only one of the 10 directors was female. During his 10 years as chair, there was a deliberate effort to expand the diversity of the directors by seeking women with key industry experiences and skills to increase the company's competitive advantage. In the selection and recruitment process, the board decided to broaden the pool of qualified candidates by looking at EVP-level women with corporate CEO potential in a wide variety of privately held companies, academia, and government, instead of just the traditional CEO in a publicly traded company. Also, the CEO and governance committee chair made all contact with candidates directly to assess the talent and find the right fit. As a result of these efforts, 40% of the TI directors today are female. TI has benefited from this diversity as the board helped navigate the transformation of the company into one of the best performing and most admired semiconductor companies. While not 100% as a result of board diversification, TI's financial performance increased almost five times during the time Engibous served on the TI board. He retired as chairman in April 2008. — Janice Reals Ellig and Ilene H. Lang Focus yields results at TI

The Texas Instruments Board

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Chairman and CEO Kimberly-Clark Corp. Ruth J. Simmons President Brown University Christine Todd Whitman President The Whitman Strategy Group Board Composition fourth quarter 2008 25 Alliance for Board Diversity, and the American Bar Association's Direct Women Institute ([www.abanet.org](http://www.abanet.org)). • The International Women's Forum and its affiliates in major cities ([www.iwforum.org](http://www.iwforum.org)). • The Committee of 200, or C200 ([www.c200.org](http://www.c200.org)). • Women Corporate Directors ([www.womencorporatedirectors.com](http://www.womencorporatedirectors.com)). A good executive search consultant has access to these and a plethora of other resources. In addition, the creative search consultant should be able to target the often overlooked high-potential women who will be promoted to the C-suite in the next two-plus years; smart organizations catch such women as they are on the rise. Also worth a look are qualified women who attend board director summits and boot camps, many of whom are presenting to and working with their companies' boards on issues of good corporate governance. A committed board will challenge its chosen search firm to cast a broad net, eschewing the requirement that female candidates be sitting or former CEOs of publicly listed companies. Such a board will also accept that finding the right qualified women takes time. As we like to say, and many people have heard us say, "It takes digging, seeking, and pushing back." 5. Stay the course Achieving the goal for female representation on the board also means working to build a pipeline for upcoming board retirements. We've all heard the tales of board directors rejecting candidates they don't know or requesting only trophy names they think will confer prestige — women who are typically unavailable or already "boarded up." That's why the commitment to getting from a good board to a great one needs to be consistently reinforced by the chairman, the CEO, and all board members — for, admittedly, board composition doesn't change overnight. By its very nature, the process is slow. Only the team at the top can speed up this glacial pace — and the ultimate responsibility lies with the board to do so. And here's the point: It can be done. Many companies are doing it, to the clear benefit of their financial performance and capabilities for future success. Moreover, the pool of qualified women candidates exists, brimming with talent and ambition. It spans the globe, which is why each and every board search should do the same. The qualified woman candidate for your board is out there — if you look for her in the right places. She can be a valued and valuable addition to a board's return on diversity — ROD, a new measure of corporate success for the 21st century. With so much at stake and so much to gain, why not? ■ The authors can be contacted at [ellig@chadickellig.com](mailto:ellig@chadickellig.com) and [ilenelang@catalyst.org](mailto:ilenelang@catalyst.org). A committed board will challenge its chosen search firm to cast a wide net. Significantly, women board directors had a greater impact on the growth of women corporate officers in line positions — those making or selling the company's products or services and thus responsible for profit — than on the growth of women corporate officers in staff positions. (Line functions include

manufacturing, production, marketing, and sales; staff functions, which support the business operations, include human resources, corporate affairs, legal, and finance.) This is critical because line experience is a de facto requirement for CEO and other top leadership appointments. Consider a company in 2001 with 12.2% women board directors, the average percentage for that year.\* If 10% of this company's line officers were women and 10% of its staff officers were women, our analysis indicated that in 2006, 13.1% of this company's line officers would be women and 12.1% of its staff officers would be women. In other words, the percentage of women officers in line positions would increase by 31%, while the percentage of women officers in staff positions would increase by a lesser 21%. Women board directors predict more women in line officer positions

Year	WCO Line	WCO Staff
2001	10%	10%
2006	13.1%	12.1%

Percentage of women corporate officers 0% 3 5% 10%10%10% 13.1% 12.1% 12 15%

20012006 WCO Line WCO Staff \* This is the average for the 359 companies we analyzed, all of which were in the Fortune 500 in 2000, 2001, and 2006. Source: "Advancing Women Leaders: The Connection Between Women Board Directors and Women Corporate Officers," Catalyst study, 2008. (A copy of the study is available on the organization's Web site, [www.catalyst.org](http://www.catalyst.org).)