

A KINK IN THE PIPELINE?

BOARD DIVERSITY IN 2018 AND BEYOND ...



“The longer I sit on a board, the more I think that a rich and varied career experience is a prerequisite to being an effective director”

TODAY'S REALITY

The business case for gender diversity on boards is now largely accepted— setting aside the fundamental issue of equity, studies show a critical mass of female directors can correlate with better economic performance.

The Australian Institute of Company Directors is pushing with some success towards its target of 30% female board representation on ASX 200 boards by the end of 2018. But sadly, beneath the accolades and rhetoric lies the problem of the pipeline that supplies women to board-level. Research shows women are still a long way from reaching the 30% tipping point at executive committee level, and are particularly missing from the line roles that represent the most significant pipeline for the ASX200 CEOs of the future.

A 2017 Senior Executive Census by Chief Executive Women shows that in ASX 200 companies, women hold just 12% of the line roles that “directly drive key commercial outcomes in a business and usually involve profit and loss accountability”.

Independent research by specialist executive search and leadership advisory Glencairn, shows this situation is even more acute in the Financial Services and Real Estate sectors with women holding only 8% of P&L leadership roles across the ASX top 50 companies.

With this apparent disconnect in mind, Glencairn set out to find whether women’s relative low level of involvement in P&L management was going to prove a “kink in the pipeline” for their portfolio career aspirations and for corporate Australia’s enthusiasm to diversify the boardroom.

Glencairn turned to a pool of top directors and NEDs to canvass opinion on the importance of P&L experience relative to the other leadership skills women (and future NEDs more broadly) need to acquire to successfully map a career path to the boardroom.

A passionate supporter of gender-diversity, 42% of Glencairn’s placements in the Funds and Wealth Management, Real Estate and Infrastructure sectors over the past 10 years have been female. Founding Partner Lynn Muirhead feels in light of the current boardroom gender agenda, it is vital to identify the key experiences relied on by directors to feel confident in their boardroom contributions. Only armed with this information will organisations be able to provide women with the support and career experience required.

Glencairn’s fundamental belief is that we want to see women transitioning not just adequately, but successfully. We set out to see how today’s employers could actively participate in the process to make sure we are future-proofed with a significant pool of proven, accomplished and boardroom-ready women to ensure we do not find ourselves having the same conversation in ten years’ time.

EXECUTIVE TO BOARD – WHAT DOES IT TAKE?

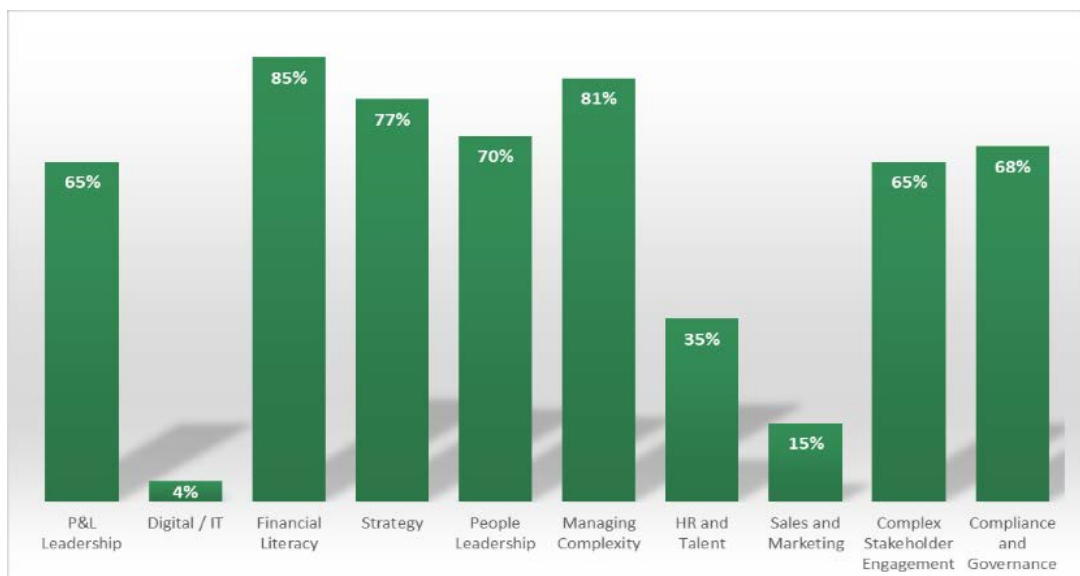
As we look to an increasingly transparent and accountable future where diverse boards will need more than ever to be comprised of a strong combination of accomplished and credentialed directors, we at Glencairn believe it is important to understand the key career experiences that board directors have relied on in their transition to a portfolio career.

To best understand the career experiences that directors leverage in the execution of their board responsibilities, Glencairn conducted a targeted survey of directors (male and female and of both listed and unlisted boards) as to the executive career experiences they most rely on in the execution of their board roles. Our key motivation was to discover whether the fulfilment of an executive P&L leadership role was deemed a vital prerequisite for transitioning to a NED career.

We found that 70% of survey respondents described themselves as having owned a P&L during their executive career, which contrasts starkly against the under-representation of women in P&L leadership roles and begs the question, how will boards face the challenge of sourcing female directors if the pool of women with P&L leadership is so shallow?

Interestingly, despite having such a breadth of experience in the area, only 30% of survey respondents deemed P&L leadership to be the single most important executive experience that a director should bring to their board portfolio. However, 65% did deem it to be in their top three ranking of skills that directors rely on in the execution of their board responsibilities.

The graph below highlights which competencies our respondents ranked in their top three criteria vital to success as a director.



Not surprisingly, respondents commented that boards which were fully populated by former CEO's would be much more likely to be dysfunctional and that a composite set of skills and experience was more likely to deliver decisions which were balanced and considered.

Further questioned regarding the importance of various areas of expertise in the execution of their board responsibilities, 85% of respondents put *Financial Literacy* in their top three list of "must haves" and 81% viewed *Managing Complexity* as a top three skill. Experience in managing *Strategy* and broad *People Leadership* skills were highly valued, with *Compliance and Governance* capability also rating strongly. Relatively, *P&L Leadership* sat some way behind these preferred attributes.

Significantly, while *Financial Literacy* was a top three criteria with 85% of respondents, 56% viewed it as the single most important criteria for success in transitioning to the boardroom.

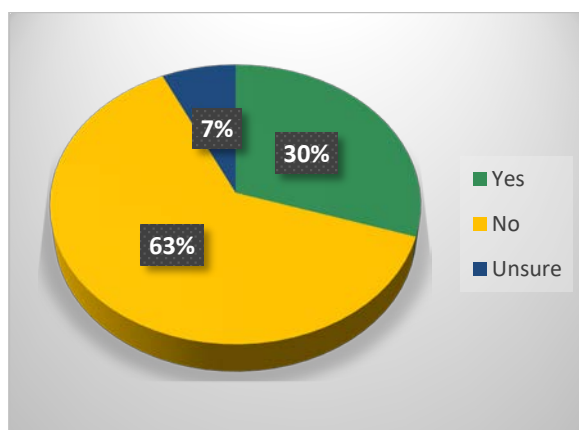
THE P&L QUESTION

The positive news to glean from our targeted survey is that while there is a glaring disparity between the number of women currently in P&L roles and corporate aspirations for female board representation, this will not necessarily prove an insurmountable stumbling block for women aspiring to the boardroom.

With 63% of respondents believing firmly that P&L experience does not need to be a mandatory experience for board directors (regardless of gender), the pool of female candidates is therefore not limited to those who have fulfilled P&L roles. Though clearly, there are a number of women successfully fulfilling P&L leadership roles outside of the ASX top 50 which further adds to the pool of accomplished and credentialed future directors.

That said, with financial literacy posing as such a key determining criteria, it is incumbent on future directors – male or female - to take steps to make sure they have the requisite ability to really see through the numbers.

Is P&L experience at the executive level a requirement for board directors?



While respondents felt that some P&L expertise is preferred, they did not see it as mandatory for every director and believed a board with diversity in skills, experience and perspectives could produce better outcomes. Likewise, some points of view suggested that while there were benefits to having some directors in touch with P&L management, they may not necessarily have had to fully own the P&L.

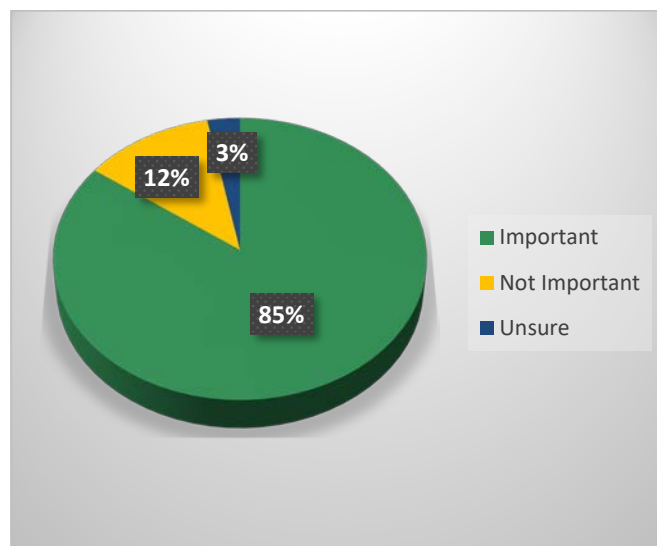
Some felt that even roles outside the internal structure could bring a valuable business perspective; for example, consulting roles which often entail standing behind CEOs and their direct reports.

The strong and consistent point of view from survey respondents was that while some directors on a board should bring P&L experience, it need not be mandatory or ubiquitous.

TECHNICAL OR SECTOR EXPERTISE?

Another key question to be addressed was around the requirement for board directors to present with sector or technical competence, in particular in relation to the Financial Services and Real Estate industries. The response was strongly in favour of directors bringing specific industry expertise and understanding. Some 85% of respondents believed relevant sector or technical competence was important with only 12% believing it to be unimportant.

How important is sector or technical competence in the execution of directors' responsibilities (particularly within Financial Services or Real Estate)?



THE VIEW FROM THE TOP

We asked our canvassed pool of directors to use the benefit of hindsight to help us identify the key experiences and opportunities that had been beneficial to them in becoming an effective board member and certain themes were echoed again and again in their responses:

- Boards need a range of skills, while not everyone needs to have managed a P&L, everyone does need to have a key area of expertise and be enquiring and curious.
- Board members need the ability to think critically and independently; to synthesise lots of information; to connect the dots between various issues; to network to better understand issues and have the capacity to resolve conflict and understand governance issues.
- Diversity can be about more than just gender and can embrace, for example, regionality, ethnicity, international experience, executive level experience and different industry experience.

“The most important skill is to understand the importance of culture within the business and how this can drive business profitability (however expressed). So EI is equally important as IQ in achieving an effective board.”

- Take advantage of opportunities that will help you achieve your board aspirations: Identify where you will best fit into the skills matrix of a board and develop these skills.
- Seek leadership experience; volunteer to a sizable charity and gain real board experience; make the most of frequent and in-depth interactions with your board - both in a formal context and individually one-on-one to gain first-hand experience of their thinking style/questioning processes and; practice speaking before a board to get presentation ready.
- Start early and try to amass a broad range of critical experiences across various functional roles.

At an organisational level, our respondents recommended giving board aspirants business operational leadership experience as early as possible in their career and offering mentorship from NEDs both inside and outside the organisation. Another suggestion was to give aspirants opportunities in areas or projects well outside their comfort zone, but with plenty of support to ensure success and growth in confidence.

“It is evident that aspiring board directors, whether they be male or female, should be given diverse and broad leadership opportunities, but they need to understand that opportunities and setbacks are not simply a matter of gender. Thinking that they are sets up a victim mentality which has real potential to block further growth and development.”

THE BOTTOM LINE

Drawing together all the thoughts of our canvassed respondents, one word simply stands out – *experience*.

One of our respondents encapsulated what many others discussed: “Experience is critical. The role is not an academic role that can be learnt out of a book. Every decision has a risk/reward decision within it. Most decisions are grey and not black or white which requires significant judgement and this requires experience.”

Experience can come from a wide range of previous roles and corporate life encounters – almost any of which have the potential to be beneficial when thrown into the mix of a modern board and the myriad challenges it will face.

Bearing this in mind, companies need to focus on “the importance of valuing difference of opinion and the power of collective skills at the board table”.

“A board focussed on growth requires a diversity of experience and perspective around the table so that the sum is greater than the parts.”

Experience can be bolstered by networking, targeted courses and inside glimpses into the secret machinations of the top table, but there is no substitute for broad-scale exposure.

Whilst it is clear that having owned P&L at some point is desirable, diversity of experience is more important. Undoubtedly some depth of P&L experience is required on every board, but not every director needs to present as a former CEO or P&L leader. Financial literacy, strategy, being able to manage complexity, compliance, governance and people leadership are all critical and fundamental skills that must be represented across the board as a whole. It would also appear that there is a strong preference for technical and sector experience, specifically within the Financial Services or Real Estate sectors.

“Provide serious P&L business opportunities, provide the right amount of support - make it a management KPI for good talent to succeed”

And this key factor of experience puts the pressure on board aspirants – whether they be male or female – and their employers.

While it may not necessarily be in the immediate interest of employers to take ownership of giving their executive the experience and scope to position them for a future portfolio career, it will only be through taking action now that we will ensure a pipeline of talent to achieve functional and effective board diversity for generations to come. Tomorrow’s diverse boards need to be notching up skills and experience today – there is no time to waste.

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