



A leadership
series paper

THE LONG GAME

Building a diverse talent pipeline

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EXECUTIVE SUMMARY

At the end of 2018 some might have concluded that we are making good progress with greater female representation in business and politics in Australia. With women board directorships at almost 30% on large public companies and representation across all parliaments at 35%, and, all done without legislated quotas, we might be excused for saying well done!

However, this would be offering premature congratulations. What these results don't tell us is that little has changed in the senior executive ranks where future directors will come from. Women holding senior business line leadership or CFO roles have remained at 12% while only 7% are CEOs in large public companies. We find the same experience in the EU where board quotas produced no uplift.

This paper seeks to take a practical approach to building a better process to ensure greater diversity gets through to build tomorrow's leaders. We have called this the 'Long Game'. We contend that not to do so is detrimental to those organisations directly and society, at large. We start by reviewing where we are today, including compelling evidence from the world's largest investment houses who invest in women led firms' [they regularly outperform by a large margin] and conclude by offering an actionable checklist to build a genuinely robust pipeline for increasing talent diversity.

Our findings include: sponsorship of talented executives needs to be a KPI for all senior leaders; transparency of the talent pipeline is needed to show management is committed to change; leaders need to recognise real meritocracies don't exist and be continually alert to any unconscious bias; and lastly, leaders need to be assisting their executives build their merit 'points' which can be 'cashed in' at times of career promotion. Furthermore, to avoid failures, diversity actions need to be 'bottom up' team driven and part of broader inclusion programs that are imbedded in the organisation's culture.

The path of deep cultural change is always long and winding. However, it needs to happen at a far greater pace, otherwise legislated quotas may well be imposed at the board and possibly at executive levels. This paper offers immediately actionable steps to get your organisation on the fast track.



Introduction

During 2018 we saw plenty of robust commentary regarding women in leadership roles. From the Federal Coalition's female MPs preselection battles to views on AMPs Board composition, along with some senior business leaders' resentment towards investor pressure for more women on boards. It is fascinating to see the real views of a pressured or rather precious 'old guard' who cannot see the need to work harder on talent diversity and inclusion. Meanwhile society is demanding broader community representation across governance levels and senior management, if not, all levels in all industries.

Why the title 'The Long Game'? This will become evident when we consider that in three years to mid 2018 female directors have increased their representation on the ASX 200 from 20% to just under 30%. ⁽¹⁾ This we might call the 'short game'. When we look at the low representation of women in senior executive line roles we can see why building a deep and long term pipeline of female leaders is going to be a long game!

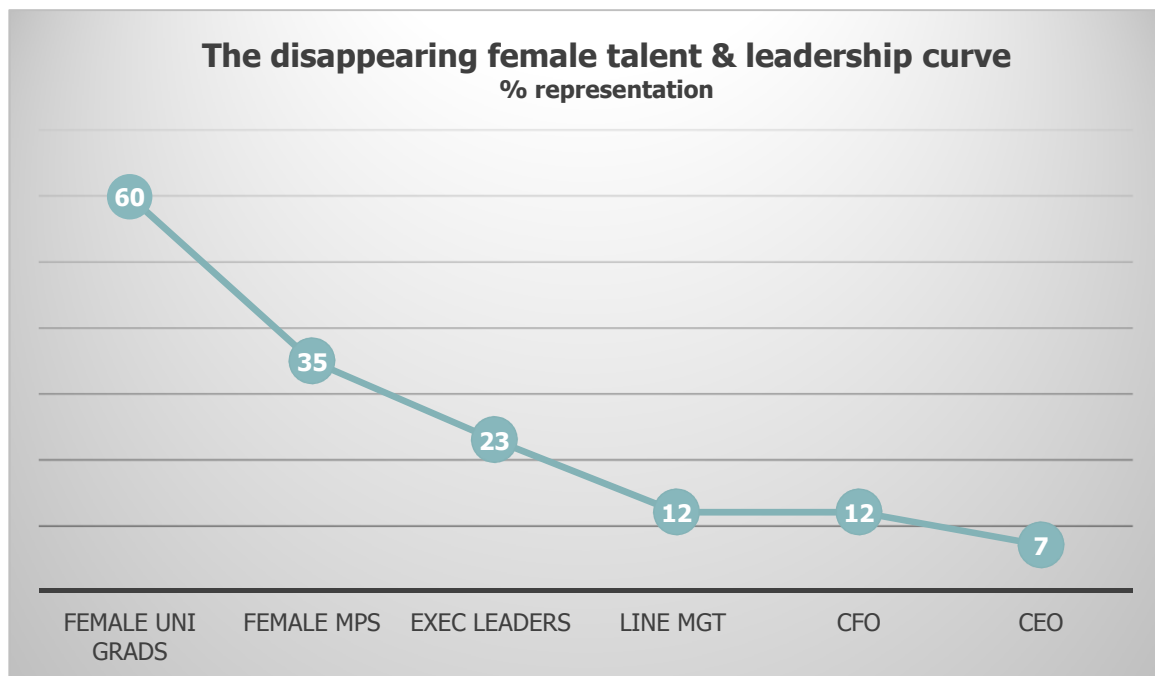
As a father of three daughters and a long term financial services executive and leadership adviser, I find it staggering the slow pace of genuine change towards a more equitable workplace that provides opportunities for the inclusion and development of all potential talent. So rather than adding to the commentary this paper will take a more practical approach.

This paper is in three parts. Firstly, a review of where we are today with greater diversity in senior leadership outside the board level. Some would say this isn't necessary, as society demands we get on with it, however the evidence is widespread and compelling so worth a review. Secondly, recommending an action plan checklist to build a genuinely robust pipeline for increasing talent diversity including a quick check into why many programs have failed. Thirdly, asking where to from here as we must improve very quickly if we don't want external targets/quotas imposed.

(1) AICD 'Board Diversity Report' Sept 2018. accessed November 2018
<https://aicd.companydirectors.com.au/advocacy/board-diversity/gender-diversity-momentum-continues-asx-200-boards>

Part 1 - So where are we now?

We need to start by recognising that the loss of so much potential female talent between career start and top level leadership is hugely wasteful. It is detrimental to the quality and outcomes of our organisations and collective social wellbeing. University graduates are 60% women ⁽²⁾ while on the ASX 200 only 23% hold executive leadership roles, 12.3% hold business unit line roles, and 12% CFOs and only 7% are CEOs. ⁽³⁾ While across all Australian federal, state and territory parliamentarians, 35% are women however Cabinet numbers vary greatly between parliaments. ⁽⁴⁾



Sources: ASX, CEW, Australian Parliamentary Library

Common-sense tells us that a business is going to make better decisions, produce better products, and serve their customers better when the staff and leadership reflect the diversity of the community it serves. In 2016, BHP Billiton set an aspirational goal for half its staff to be women by 2025 up from 17% after finding more diverse teams outperformed their peers. ⁽⁵⁾

- (2) S Martin, 'Gender gap widens as women graduates outpace men'. The Australian, 17 August 2015. Accessed August 2018 <https://www.theaustralian.com.au/higher-education/gender-gap-widens-as-women-graduates-outpace-the-men/news-story/654602edef0f1d3ee230fa82cc58a798>
- (3) Chief Executive Women, 'Senior Executive Census Report 2018' September 2018, accessed November 2018 <https://cew.org.au/wp-content/uploads/2018/09/Press-Release-2018-CEW-Census-final.pdf>
- (4) A Hough, 'Women in Australian Parliaments', Australian Parliamentary House Library Quick Guide Party Gender, Updated January 2019, accessed January 2019. https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1819/Quick_Guides/PartyGender
- (5) P Hatch, 'BHP goes for 50:50', Sydney morning Herald, 20 Oct 2016, accessed August 2018 <https://www.smh.com.au/business/companies/bhp-billiton-sets-a-5050-gender-target-for-2025-20161020-gs6eib.html>

For those that need more hard data, let's do a brief review of some key investment studies. One of the most comprehensive studies comes from a 2017 Nordea Bank study⁽⁶⁾ which researched 11,000 listed firms to find 400 companies that had a female leader. These firms had a 25% p.a. return, over double the MSCI benchmark of 11% p.a. over the study period.

A McKinsey's 2014 and follow up 2017 study⁽⁷⁾ of 1000 companies across 12 countries found gender and ethnic diversity is correlated with both profitability and value creation. The 2017 study found that top-quartile placed companies for executive-level gender diversity had a 21% likelihood of outperforming their fourth-quartile peers on EBIT. Additionally, they had a 27% likelihood of outperforming fourth-quartile peers on longer-term value creation. These results increased for ethnic and cultural diversity and for women in line executive roles vs head office staff roles. Top quartile firms had 10% women in line executive roles vs 1% in the bottom quartile companies.

The world's largest investors, BlackRock and Vanguard, have both made it clear that diversity is a key part of their investment process and are pushing their investee companies to lift their game on leadership talent diversity.⁽⁸⁾

Conclusions drawn from these research studies include:

- ✓ McKinsey found that increased diversity provides a range of different viewpoints and therefore the organisation will make more considered decisions.
- ✓ Robert Naess, from Nordea suggests that women tend to be more conservative in their predictions, leaving more room for positive earnings surprises.
- ✓ He also suggests that only the very best women get to the top which means they are simply higher-calibre overall than many male CEOs.

Pension/ Superannuation fund example: Within the Australian superannuation sector, a Rainmaker SelectingSuper 2016 study, found that, on average, superannuation funds led by women or with a strong female influence across board or senior management, out-performed male dominated funds. They concluded that gender diversity in a super fund's leadership team is a strong indicator of quality. The research cited in this paper would infer that this quality comes from a better decision making process

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- (6) Nordea Bank 'Investing in female CEOs pays off', 9 August 2017. accessed August 2018 <https://www.nordea.com/en/press-and-news/news-and-press-releases/news-en/2017/investing-in-female-ceos-pays-off.html>
- (7) V. Hunt, L.Yee, S. Prince, and S. Dixon-Fyle, 'Delivering through diversity', McKinseys Report, Jan 2018, accessed August 2018. <https://www.mckinsey.com/business-functions/organization/our-insights/delivering-through-diversity>
- (8) R Vastelica, 'Passive funds aren't afraid to throw their weight around as activists'. Market Watch.com, May 1, 2017, accessed August 2018. <https://www.marketwatch.com/story/passive-funds-arent-afraid-to-throw-their-weight-around-as-activists-2017-05-01>

Part 2 - So where are we now?

We have seen from the research above that greater leadership and organisational diversity produces better results. Surely not surprising? To build a more diverse team, serious leaders will need to set targets, timeframes and implement ongoing monitoring, otherwise this is just wishful thinking. This is where strong talent driven firms and CEOs together with their human resources leaders ensure that their focus on talent is embedded into the fabric of the entire company.⁽⁹⁾

This checklist is adapted from a range of consulting papers, with special mention of the extensive work of McKinseys, and our client experiences. This should be used as part of an overall diversity and inclusion program of comprehensive policies that are embedded in the organisation's culture.

1. How diverse is our talent pipeline?

Successful firms see a talent pipeline as an integral part of their strategic planning process. The progress of women and diversity more broadly needs to be visible to all. Regular reviews become part of the ongoing management conversation. Best practice suggests that they are reported at a department or team level and made public. In Australia, while we have the Workplace Gender Equality Agency focused on large firms, however, comprehensive programs and detailed public reporting is needed more broadly. This transparency sends a message that the status quo is unacceptable.

Understanding the distribution of women's roles helps us understand some of the promotion barriers. About two-thirds of women in US Fortune 500 companies begin their careers in line roles, however, for those that make it to the senior ranks, these figures are reversed, becoming head office roles e.g. human resources and marketing.⁽¹⁰⁾

2. We need more sponsors

It is accepted that female role models and mentors make a huge difference to young women's aspirations. I sent my three daughters to a girls' high school to be surrounded by senior women leaders and to be encouraged in their careers by successful former students visiting and sharing their life stories.

(9) D Barton, D. Carey, and R. Charan, 'The talent first CEO', McKinsey Quarterly, March 2018, accessed August 2018 <https://www.mckinsey.com/business-functions/organization/our-insights/an-agenda-for-the-talent-first-ceo>

(10) L. Yee, 'Fostering-women-leaders-a-fitness-test-for-your-top-team'. McKinsey Quarterly, January 2018, accessed August 2018. <https://www.mckinsey.com/business-functions/organization/our-insights/fostering-women-leaders-a-fitness-test-for-your-top-team>

Sponsorship and mentorship are often conflated. A sponsor is more invested in the sponsee's career progress. They are required to advocate for the sponsee both within the firm and externally to ensure they gain access to additional opportunities that will build their skills and experience i.e. their 'merits'.⁽¹¹⁾

Sponsorship needs to be a KPI for senior leaders both male and female. These programs should encourage women to set higher aspirations and find ways to open doors for them. eBay has more than doubled the number of women in leadership roles since 2010 following the introduction of a comprehensive sponsorship program across senior management.⁽¹²⁾

In Australia, the successful 'Pathway to your Potential' program is run by Dr. Jess Murphy, in partnership with Mercer Australia. Leading Australian companies including CBUS and KPMG have implemented the program to build their pipeline of emerging female leaders and build capability for their senior leaders to be more inclusive of difference. As at March 2018, the impact of the program has seen KPMG improve their women partners' representation from 16 to 24% over four years.⁽¹³⁾

3. Being aware of our unconscious bias

Talent driven companies work hard to make unconscious biases more conscious and eliminate them so that they don't affect the broader culture. Actions here include training, insight surveys, and policies that create a more level playing field. A few of the more interesting practices include:

- ✓ Avoiding 'mini me' bias, which is common in many promotion decisions, will drive better shortlists. Managers can take the lead here via ensuring at least two different candidates come to each promotion review.⁽¹⁴⁾
- ✓ Visibility - ensure all promotions, hiring, and challenging projects are visible and openly contested by a diverse range of executives. Leaders may have to push executives to apply for challenging sideways moves that builds their experience 'merit'.

(11) 'Supporting careers: Mentoring or sponsorship?' Workplace Gender Equality Agency, 2016. accessed August 2018. https://www.wgea.gov.au/sites/default/files/documents/2014-03-04_PP_Mentoring_or_sponsorship.pdf

(12) M. Angier and B. Axelrod, 'Realizing the power of talented women', McKinsey Quarterly, September 2014, accessed August 2018. <https://www.mckinsey.com/business-functions/organization/our-insights/realizing-the-power-of-talented-women>

(13) Achieving Gender equity at KPMG. Accessed March 2019. <https://home.kpmg/au/en/home/insights/2018/03/leadership-development-program-gender-equity-at-kpmg.html>

(14) G. Halvorson, 'Lessons from a veteran diversity advocate', McKinsey Quarterly, March 2015, accessed August 2018 <https://www.mckinsey.com/business-functions/organization/our-insights/lessons-from-a-veteran-diversity-advocate>

- ✓ Male and female interim short lists – this ensures greater female representation on the final short list and helps to overcome some of the merit inequities discussed earlier. This might be a small step towards 'blind' selection. ⁽¹⁵⁾

4. What skills are needed?

McKinsey found in a 2012 study of 250 high-ranking women executives that they thought the top attributes of their own success were resilience and confidence, which ranked higher than other factors, such as a “results orientation.” They found that perseverance gained from dealing with challenging circumstances shaped their ability to lead.

Criticism has been leveled at women executives and directors, of too much emphasis being placed on networking and perhaps not enough on developing a broader range of business skills and senior executive experience. Again these merits can only be accrued if women are given the opportunities to work their way through their career levels in challenging line roles.

5. Making great policies work

We could ask how did we get here? Plenty of research tells us that ingrained social attitudes, inflexible work practices and old school assumptions got us here. Offering flexible work policies and better parental leave programs are great, but without setting targets and measuring the take up of these policies, they may serve to make a firm attractive without improving overall talent pipeline progress. Only by turning these policies into common practice where male leaders set an example by using these programs will some entrenched attitudes improve.

Diversity as a measure of Inclusion

While this paper is focussing on building a more diverse talent pipeline, focusing only on diversity can create the fundamental problem of labelling and grouping people, which can create dysfunctional divisions. Best practice advocates that diversity should be seen as an outcome measure of an overall set of Inclusion policies.

Organisations may promise to increase diversity by focusing on hiring or promoting “diverse candidates” but then these executives may find an environment that is unwelcoming. In the extreme, a backlash can occur from those that may feel threatened by this change. Of course, this all impacts negatively on the ability to attract and retain talent, decreases productivity, and organisational performance. This is one of the many reasons companies fail to succeed on diversity measures.

(15) J. Lublin, “Bringing hidden biases into the light”, Wall Street Journal, January 9, 2014, accessed August 2018. <https://www.wsj.com/articles/bringing-hidden-biases-into-the-light-1389311814>

Avoiding the diversity programs failures

Before we get too excited about this five step program, we must understand why many diversity programs fail. A 2016 joint Harvard and Tel Aviv University research team ⁽¹⁶⁾ reviewed a wide range of published programs across training, hiring tests and performance ranking systems. They found the programs mostly failed and often led to diversity decreasing.

The researchers found a number of reasons for failures which included: a heavy handed, 'top down' legal compliance approach e.g. compulsory vs voluntary training and interestingly, that managers felt blamed for the lack of diversity and react negatively. The poor results, they believed were often due to a management backlash with blame often placed on those the programs are aiming to help.

So what does work? A 'bottom-up' driven approach as per any successful long term change programs. Their recommendations were: having managers mentoring underrepresented groups; using the 'mere exposure effect', whereby staff are 'exposed' to different groups e.g. working together in self-managing teams; and, to improve their social accountability for change, the researchers reinforced the need for department level reporting on the diversity pipeline.

Overall, they recommended that the top leadership make it clear that they care enough to pay personal attention to the issue of diversity. They also found firms that set up departmental level, diversity taskforce teams that solved their own diversity and inclusion issues were more successful than specialist diversity managers.

A meritocracy – it's a myth!

Talent driven CEOs and organisations don't use slogans like "We are a meritocracy so the best candidates will win out." This is more often a feel good slogan. We assume that a merit based system means fairness. It doesn't. A meritocracy 'discriminates' on the basis of how much 'merit' i.e. skills, experience, ongoing development, that a person is perceived to have accumulated over their career. To this definition we can add in the subjectivity of assessment of how these past merits will apply to future performance.

(16) F.Dobbin and A Kalev, 'Why diversity program fail', Harvard Business Review, July 2016. accessed December 2018. <https://hbr.org/2016/07/why-diversity-programs-fail>

Two problems arise with the merit argument. Firstly, it assumes everyone has equal access to acquire perceived qualities we loosely label as merit. The playing field isn't level as equally qualified women are entering corporates but not arriving in numbers at the senior ranks. They are being denied the managerial opportunities of their male counterparts to build their merit.

Secondly, executives must be assessed only on criteria relevant to the role that predicts future performance; however, these criteria are difficult to quantify and assess. We can end up with inaccurate perceptions of merit and often include unconscious gender bias perceptions that aren't performance predictive. ⁽¹⁷⁾

Furthermore, a UN Women Australia report in 2015 stated that "Australian businesses are functioning under the pretense of a false meritocracy and missing opportunities to improve their performance through capitalising on the full talent pool available". ⁽¹⁸⁾

Q. What do merit and frequent flyer programs have in common? A. Plenty. Building merit could be seen as analogous to a frequent flyer program. If our executive is to build merit points that can be used later, she will need to have the opportunity to earn skills (points) via a wide range of career experiences (flights) with the competency level assessed (status credits). Without access to a diverse range of career opportunities that allow an executive to build their skill set and competency levels, merit cannot be accumulated. Don't expect to have women rising through the ranks if you haven't ensured they have the opportunities to earn the merit points.

(17) J. Whelan, Melbourne Business School. 'The myth of merit and unconscious bias', The Conversation, October 16, 2013. accessed August 2018. <https://theconversation.com/the-myth-of-merit-and-unconscious-bias-18876>

(18) Rethinking Merit – why merit is failing Australian businesses, UN Women National Committee Australia, November 2015, accessed February 2019. <https://unwomen.org.au/wp-content/uploads/2015/11/Rethinking-Merit-Whitepaper.pdf>

Part 3 – Where to next?

We haven't touched the sides yet

Many EU countries have much more onerous legal obligations on companies to meet a wide range of diversity measures and reporting across race, economic inclusion, sexual persuasion and more. For example, Iceland passed legislation in 2018 to make any gender paygap illegal. ⁽¹⁹⁾

Some will call this political correctness gone mad. Others will say that all need to be given equal access to economic inclusion and career mobility. Again others will say this is simply getting to grips with the diverse globalised society we live in. While commercially, as the research shows, it makes sense that our teams match the diversity of the customer base, bringing their unique insights and making better decisions accordingly. So we need stronger processes and real measurable practices to thereby achieve greater 'merit equity'.

Do quotas work?

Interestingly, The Economist⁽²⁰⁾ highlighted recently that despite quotas for up to 40% female board director representation over the last 10 years in the EU, little has changed for female representation within the corporate hierarchy. Studies across the EU found board quotas had no effect on the representation of women in senior management and the only beneficiaries of the gender pay gap were the new directors. In Norway, just 7% of major firms have female CEOs; in France, only 2% compared with a slightly better 5% in the quota-free USA. Furthermore, few women are in the pipeline, holding less than 20% of senior management roles, a number which has hardly changed over this time frame.

Additionally, from January 1, California will be the first state in the USA, to mandate all publicly listed companies headquartered there to have at least one woman on the board within 12 months and for companies with six or more directors they must have a minimum of three women within two years. ⁽²¹⁾ California is often the first mover in ESG laws in the US so we should expect other states to follow.

(19) J Henley, 'Iceland equal pay won't happen by itself' The Guardian, 20 February 2018, accessed November 2018, <https://www.theguardian.com/world/2018/feb/20/iceland-equal-pay-law-gender-gap-women-jobs-equality>

(20) 'The old girls network - Ten years on from Norway's quotas for women on corporate boards', The Economist, 17 Feb 2018, accessed November 2018. <https://www.economist.com/business/2018/02/17/ten-years-on-from-norways-quota-for-women-on-corporate-boards>

(21) Z. Warmbrodt, 'California mandates women on corporate boards', Politico, 1 January 2019, accessed January 2019. <https://www.politico.com/story/2019/01/01/house-democrats-corporate-diversity-1040900>

However, while quotas have not been the disaster nor the disrupter that some executives had feared, do they work? Perhaps more time is needed. "At least ten more years" is required argues Francesco Starace, boss of Enel, an Italian energy giant. The UK's 30% Club is pushing for this target across senior management roles along with its current focus on board directors. So while some will say quotas have not proved their worth as yet, they will remain in the EU.

Beyond business, let's briefly return to politics to review quotas as this is where social inclusion needs to lead the way. One of the arguments against political quotas, is that if they're introduced, inferior female candidates would appear on ballots, but the evidence refutes this. Globally, gender quotas are in more than 100 countries around the world. Some are voluntary and some are legal requirements. For example, in Ireland, women must make up 30% of a party's candidates and public funding can be withdrawn if targets are not met.⁽²²⁾ France has had a parity law since 2000 and a 2010 study found the number of female politicians had almost doubled and "that women are as effective...as men."⁽²³⁾

In Australia progress has been one sided. The Australian Labour Party has achieved female representation of 45% with a target quota of 50% up from 35% in 1994. The conservative parties have achieved 24%⁽²⁴⁾ with an aspirational target of 50%. Clearly merit alone, if it exists at all in the political selection process, doesn't win out. There has been no evidence of poor performance from setting quotas. The advocates of quotas argue that the need to meet targets forces a more rigorous process to find otherwise undiscovered high performing candidates vs inferior candidates making up the numbers. The EU experience in politics and business appears to confirm this more positive view.

(22) C Urquhart, 'A plea for gender quotas in Australian politics' News.com.au 22 Sept 2018, accessed November 2018, <https://www.news.com.au/national/politics/a-plea-for-gender-quotas-in-australian-politics-time-to-give-a-fair-go-to-everyone/news-story/31614f523a5eeaa4887c359c3c27340a>

(23) R Murray, 'Second Among Unequals? A Study of Whether France's "Quota Women" are up to the Job' Politics and Gender vol. 6, issue 1, March 2010, pp.93-118, accessed November 2018. <https://www.cambridge.org/core/journals/politics-and-gender/article/second-among-unequals-a-study-of-whether-frances-quota-women-are-up-to-the-job/91FA7B3D678ECBAC5472C8C58E650BA6>

(24) A Hough, 'Women in Australian Parliaments', Australian Parliamentary House Library Quick Guide Party Gender, Updated January 2019., accessed January 2019. https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1819/Quick_Guides/PartyGender

Financial services and greater diversity

It has always seemed strange to me why financial services and, super funds, in particular, would not have, at least, their customer facing teams matching the age and backgrounds of their superannuants and pensioners. Who better to know their customers than those who are living their customers' lives? So yes, let's get more pensioners into customer services having better, deeper conversations with their peers, the fund's members. Age diversity measures offer a range of coaching opportunities and workplace flexibility options. We may have to invest in training but watch employee experience and, in turn, the customer experience soar.

Conclusion – yes it's a long game so lets get a hurry on

These programs need to become part of the regular senior management conversation, which will lead to new ways of working and improve inclusion resulting in greater diversity in an organisation's talent pipeline. The rewards will produce a workforce that accesses the widest available talent across society thereby allowing it to better understand all its customers, make better decisions and be more resilient and sustainable.

Cultural change is a long game and much more work needs to be done on building the diverse talent pipeline to develop our future senior leaders. Otherwise calls for quotas and greater regulation will continue as the present slow rates of progress will not continue to be tolerated - certainly not by my daughters or anyone else's!



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