



CASE STUDY • APRIL 2014

Is it worth finding diverse leaders for your organization?

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In most organizations, the senior leadership is typically not diverse (ethnic minorities or women). In fact, the Fortune 500 has fewer than 10% diverse CEOs, and the number of diverse leaders in the senior most levels in most large organizations, across all industries, is also in the single digits.

As an executive recruiter who focuses on diverse leaders, I interact with senior executives across industries, typically in larger firms. One perspective that some organizations have taken is that their leadership is not diverse because there is not a need or there isn't sufficient value of adding diversity to their senior leadership ranks. This "old school view" is still pervasive. Perhaps one way to address this line of thinking is with facts, preferably from objective sources.

An extensive study "The Bottom Line: Corporate Performance and Women's Representation on Boards" was conducted of Fortune 500 companies (2001-2004) by the non-profit group Catalyst. The report concluded that, "those companies with the highest representation of women board directors attained significantly higher financial performance, on average, than those with the lowest representation of women board directors in the report." Specifically, the report highlighted the favorable financial impact of companies with a higher percentage of women on Boards versus those with the least in three important measures:

- "Return on Equity: On average, outperformed by 53%
- Return on Sales: On average, outperformed by 42%
- Return on Invested Capital (ROIC): On average, outperformed by 66%."

This broad performance can be complemented by a case study from a Fortune 500 company. Over 10 years, the company had a relatively stable stock price, flat market share and low ROIC. A new leader came in in the 7th of those ten years. Unfortunately, his improved leadership did not yield improved financial results. Then, in addition to a few key diverse leaders, they added several more diverse leaders in critical roles/functions:

SVP Operations—responsible for >80% of the company's headcount
Plant Manager (1 of 3)
Area Vice Presidents (2 of 8)
VP of Marketing (1 of 3)

This group of leaders was charged with improving the business behind the same vision and overarching strategies. The bar was not lowered for expectations or results.



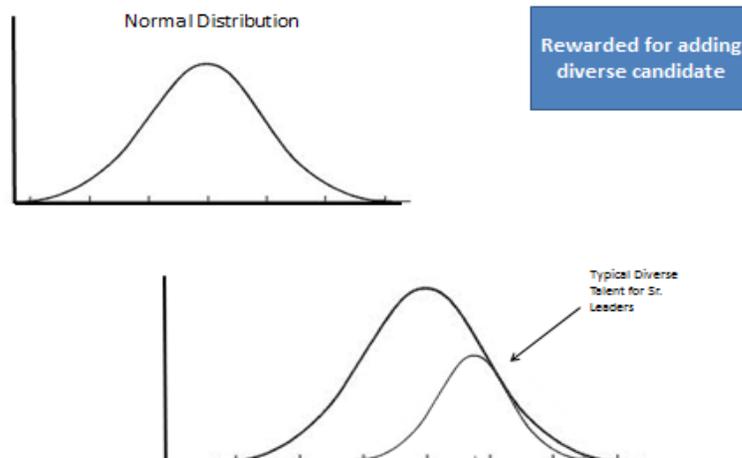
Over the next four years, the business improved across the most important metrics:

	10 year Pre-period	4 year Post-period with more diverse team
ROIC	Under 6%	Nearly 11%
Quality	Base line	90% improvement on same measures
Share	Flat to declining	Consecutive periods of growth
Stock price	\$12-18/share	\$36-42/share

Most importantly, the category was flat; there was not any significant merger or acquisition activity.

Having established that diverse leaders can and do make a difference, another hurdle that is mentioned by organizations that believe there is a value in diversity is “we can’t find them.” There is no question that the pool for diverse talent is more modest, however, it does exist and they can be found for leadership opportunities.

As a first step, when considering candidates for open leadership roles, diversity should be strongly encouraged for the candidate slate. By definition, a candidate is someone that the client will seriously consider for the open position.



Many diverse candidates for executive roles tend to have several strong characteristics and experiences that enable them to go farther in the process and many times reach the “finals”. My experience is that diverse candidates tend to reach senior levels based on performance across many dimensions and are less likely to benefit from being a “one dimensional” leader. This breadth tends to make them more appealing and has led to DHR International placing diverse candidates in 1/3 of its searches.

There is a true business case for adding diverse leaders, and, the companies that do should increase their likelihood of marketplace success.





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