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Talent & Organization Performance II

## ***Vive la différence!***

By Walter Hagemeyer, Alexander Holst and Matthias Eden

Successful management is a team effort. And new research in Europe shows that the more diverse a company's senior management—in terms of gender, nationality and other characteristics—the better the company is likely to perform.

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Diversity is good for business.

Indeed, companies that systematically recruit their employees from the widest possible pool of talent enjoy an advantage in an increasingly competitive global economy, according to Accenture research. But it's not just a diverse workforce that helps put companies ahead. Top leadership teams drawn from across nationalities, genders and professional backgrounds also contribute measurably to performance.

As part of the Phönix Report—a comprehensive, evidence-based analysis of European companies on the path to high performance—Accenture recently investigated what constitutes successful leadership in eight European industries: telecommunications, pharmaceuticals, oil and gas, utilities, chemicals, steel, banking and insurance (see “The Phönix Report,” page 6). There were significant differences in the degree of diversity in companies across Europe (see “Regional differences,” page 4). But we found, on average, that the more diverse the company's executive board—which we define as the team of top managers who actually run the business—in terms of age, gender, nationality, education and other characteristics, the more successful the company.

Phönix research shows a significant correlation, for example, between both the gender and the international diversity of a company's executive board and stock market performance. Companies with more women among these top managers not only provided better returns to stockholders, they were also more profitable. We found, too, that companies can boost profitable growth if they strive to ensure a mix of youth and experience in their leaders, as well as a diversity of educational and professional backgrounds (see chart, page 5).

Consider Actelion, the Swiss pharmaceuticals company. Actelion takes great pride in what it calls the “innovative team of creative minds” at the core of its \$1.7 billion business—and small wonder. The team powers a highly focused R&D effort that has made the company a leading biopharmaceuticals player. The team, moreover, is strikingly diverse. Indeed, Actelion's workforce, almost half of which is female, represents nearly 50 nationalities. And the company, which also happens to be one of the top performers in the Accenture sample, recognizes diversity—including diversity in its leadership team—as a critical component of its success.

Not surprisingly, there is a substantial representation of highly experienced scientists on Actelion's 12-member senior management team. Company founder and CEO Jean-Paul Clozel and his cofounder (and wife) Martine Clozel, who is chief scientific officer, are both recipients of prestigious medical research awards. And prominent doctors occupy other key clinical positions. Case in point: Frenchman Guy Braunstein, who heads clinical development, is an MD with a specialty in respiratory medicine and holds a PhD in life science.

Braunstein, however, also boasts a wealth of pharmaceuticals industry experience, having worked for Astra, Glaxo-Wellcome and Rhône Poulenc Rorer, among other companies, before joining Actelion in 2009. Other top managers combine diverse national origins with a wide variety of industrial expertise to help drive the innovation that sustains Actelion's outstanding performance.

Chief Medical Officer Isaac Kobrin, for instance, was educated in Israel and headed the cardiovascular development group at Hoffmann-LaRoche before coming to Actelion just over 10 years ago. CFO Andrew Oakley, who holds both UK and

**It is important to ensure a balance between the graybeards and the greenhorns on the management team—and that they get along.**

Australian citizenship, contributes a background that includes stints in the finance departments of two major multinational building materials companies and several years as an equity analyst in the United States and elsewhere.

### **Complex realities**

Diversity, of course, makes sense in an increasingly complex and multi-polar world. CEOs are still the public faces of their companies, but successful leadership requires the collective efforts of the entire upper echelon of executives. And that team needs to understand, embrace and act on an amalgam of viewpoints, constantly questioning established ways of doing things and providing an antidote to the groupthink that stymies innovation.

It stands to reason that an executive board that combines diverse strengths and opinions can drive original thinking, better governance—and, ultimately, high performance. At least it can if the balance is right.

Younger newcomers, for example, often bring new ideas to the board, but the fresh thinking that fuels innovation needs to be both realistic and marketable. More experienced executives may be better placed to evaluate a new idea's potential. Hence the importance of ensuring a balance between graybeards and greenhorns on the management team—and that they get along.

It's a similar story with gender. A lone woman on the board could be viewed as a token, resented by her peers and too isolated to make an effective contribution. Better to have several women—ideally with diverse professional backgrounds. Witness Norway's Statoil, one of the highest-performing companies in our sample, where women from fields as diverse as shipping, technology and law comprise 40 percent

of the executive board (a percentage that is, in fact, mandated by law).

### **Significant variations**

The correlation between gender and higher profitability was strong right across our sample, as pertinent for pharmaceuticals players as for banks. There were, however, significant variations in the importance of other diversity factors among the eight sectors we investigated.

For oil and gas, chemicals and steel companies, for example, the correlation between international diversity and higher profitability was especially pronounced—probably because these sectors are particularly dependent on having a more global footprint. The eight-strong executive board of Swiss crop protection specialist Syngenta, for instance, includes Americans, Britons, a German and a Swiss.

For similar reasons, banks also benefit from an internationally diverse leadership team. All four Scandinavian nations are represented on the executive board of Sweden's Nordea, for instance, which is the largest financial services group in Scandinavia and the Baltic. At the same time, the case of Turkey's successful Akbank suggests that the broad international experience of a company's most senior managers may be as significant a contributor to performance as diversity of national origin.

With an all-Turkish executive management, the Istanbul-based bank may not look like a paradigm of diverse leadership. Yet it ranks as one of the best-performing companies in our sample. But closer inspection of the 14-strong executive board reveals that almost half have worked or studied abroad—suggesting that in the case of Akbank's top management team, diversity of experience can be as important a driver of performance as national origin.

## Regional differences

The relationship between the diversity of company leadership and better performance is strong right across the eight European industrial sectors we investigated (see story). But the degree of diversity varies widely from region to region.

Take gender. The average European company in our sample has relatively few women on its board—only 4.5 percent. But in Scandinavia, where women have long enjoyed positions of prominence in business and government, the proportion of female leaders is almost 13 percent. It's also relatively high—8 percent—in Eastern Europe, where educational opportunities for women were high even before the collapse of communism. In Spain and Portugal, however, where women have made fewer inroads, just 2.2 percent of top managers are female.

When it comes to international diversity, the findings present an equally uneven picture. Overall, the nationality of one in six board members is different from that of their company. In central Europe, however—a region encompassing Germany, Switzerland and Austria, nations in which business leaders traditionally speak several languages—fully one-quarter fall into this category, more than twice as many as in the United Kingdom and Ireland, and six times as many as in the more monolingual Iberian Peninsula.

CEO Ziya Akkurt, for instance, worked in Paris for Banque Paribas before joining Akbank in 1996. Deputy CEO Resit Toygar, who runs treasury operations, holds a master's degree from the London School of Economics. And Hakan Binbasgil, another deputy CEO, has an MBA from Louisiana State University in the United States, and worked as a management consultant in London (and later Istanbul) before coming to Akbank in 2002.

To be sure, a cosmopolitan background is essential if you lead a bank that aims to be as well known among the estimated 5 million Turks who live and work abroad as it is at home. In addition to an extensive domestic network, Akbank now has subsidiaries in Germany, the Netherlands, Dubai and Malta. Its Wings credit card, which offers a mileage awards program, claims to be "Turkey's easiest card to fly with."

And there's no sign of a lessening in Akbank's drive to become the bank of choice for itinerant Turks worldwide—to the contrary. Over the past few years, strategic partnership agreements with Citigroup and the French retail giant Carrefour have helped enhance the Turkish bank's range of commercial, retail, corporate and private banking services. Its customers can now access those services via cell phone or the Web wherever they may be located.

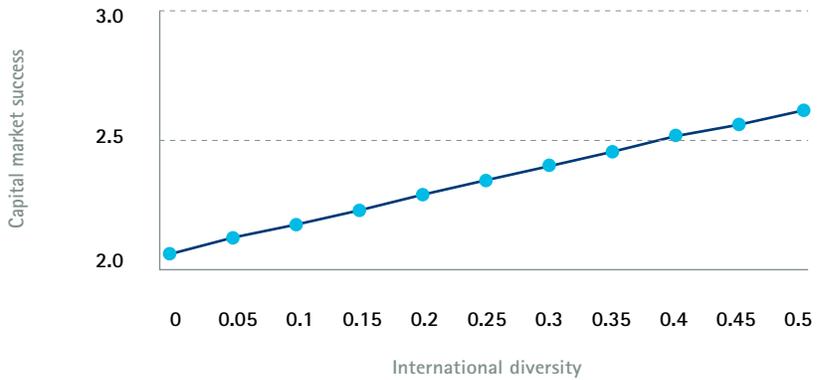
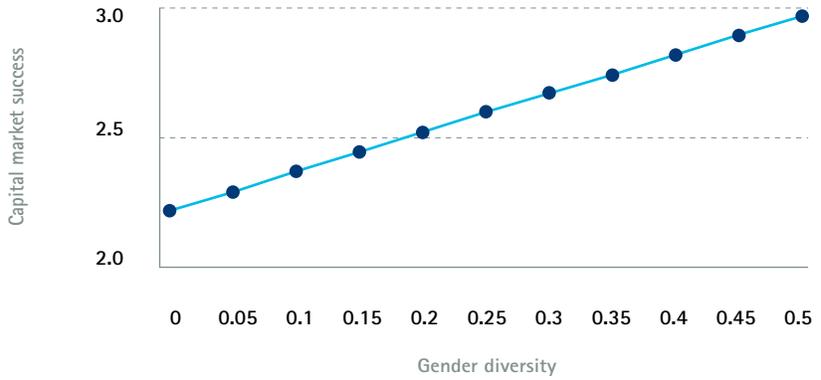
### **Dynamic and innovative**

To be sure, many banks benefit from diversity at the top. But the leadership teams of telecommunications companies are by far the most diverse, in all respects, closely followed by pharmaceuticals—a reflection, we believe, of the need to be exceptionally dynamic and innovative in such complex, global and highly regulated industries.

(Continued on page 6)

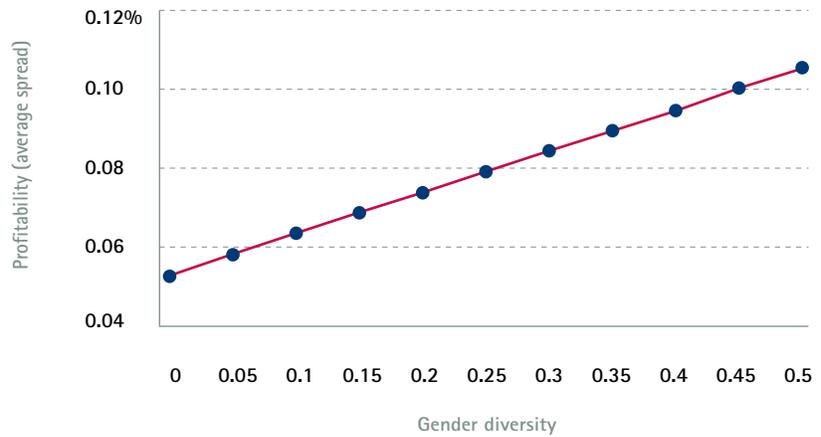
# The diversity payoff

There is a clear statistical correlation between European companies' capital markets success and both the gender and international diversity of their executive boards...



International and gender diversity: from 0 (no diversity) to 0.5 (maximum diversity). Capital markets success: average market-to-book ratio, 2004–2006. Source: Accenture analysis

...and between profitability and gender diversity.



Profitability: Average spread 2004–2008. Gender diversity from 0 (no diversity) to 0.5 (maximum diversity) Source: Accenture analysis

# The Phoenix Report

There were 358 publicly listed European companies from 24 countries in our peer set—the largest (in terms of revenues) in each of eight industries: telecommunications, pharmaceuticals, oil and gas, utilities, chemicals, steel, banking and insurance. Accenture chose these sectors because we wanted to examine the relationship between leadership and diversity across as representative a spread of European industries as possible. Oil and gas, utilities, chemicals and steel constitute an asset-intensive industrial cluster; pharmaceuticals is R&D-intensive; and telecommunications, banking and insurance are service-oriented.

For the purposes of this article, we define “leadership” as the top management team, also known as the executive board. This definition excludes the non-executive or independent directors, because their role is essentially supervisory and they are not responsible for day-to-day business.

Our criteria for success were: stock market performance, as measured by each company's market-to-book ratio over three years; profitability, as measured by ROIC-WACC over five years; and growth, as measured by CAGR of revenues over five years. Our measures of diversity were: gender diversity, as measured by the percentage of females on the executive board; international diversity, as measured by the percentage of executives with a nationality different from that of the company; and diversity of both academic background and professional experience.

We used regression analysis of the available financial data to determine the relationship between these measures of diversity and performance.

## For further reading

For diversity on company boards, see “A matter of focus,” *Outlook*, February 2010

(Continued from page 4)

As a group, for example, telecommunications companies' leadership teams have more female members than any other industry in our sample (an average of 7.3 percent compared with an overall average of 4.3 percent). They also tend to have slightly younger boards (an average age of 48 compared with 51 overall). And they exhibit more international diversity (an average of 27 percent compared with an overall average of 17 percent). Case in point: the executive board of Russia's second-largest cell phone operator, VimpelCom.

CEO Boris Nemsic heads a team that combines diversity of gender and nationality with a wide array of backgrounds. Elena Shmatova, the company's CFO, for example, is a woman with more than 10 years' experience as a finance executive for telecommunications companies. So is its Russian-born but overseas-edu-

cated head of HR, Juliya Pylypenko, who joined VimpelCom in May 2009 after working for big international companies in Ukraine and Central and Eastern Europe. VimpelCom's head of strategy, Mattias Hertzman, was educated at Uppsala University in Sweden and worked in telecommunications consulting before joining the company in 2005. And both its general counsel and head of sales and marketing are Americans.

Plainly, such diverse connections have served the company well: It's the second-best-performing telecommunications player in our sample. But VimpelCom has long understood the value of global reach in such a complex and competitive industry. In 1996, it was the first post-Soviet Russian company to list on the New York Stock Exchange.

Since then, as VimpelCom sought market share in the former Soviet republics of Central Asia and beyond,

the distinctive, black-and-yellow logo of its Beeline brand has become as familiar in Tashkent and Hanoi as it is in Moscow. Today, a company founded by former military scientists in the wake of the Soviet Union's collapse has a potential market of some 340 million people.

Companies like VimpelCom are exceptions, however. Many of those seeking to embrace diversity in their top management teams struggle to overcome the frictions

that opposing points of view and perspectives can create.

But most haven't even bothered to try: Three out of every four of the companies we investigated still have exclusively male executive boards. This despite the fact that successful diversifiers are rewarded by higher stock prices and profitability. The link between diversity and high performance is clear—and in a multi-polar world is likely to grow even stronger.

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