

2006 Chicago United Corporate Diversity Profile

A SURVEY OF CORPORATE DIVERSITY IN THE CHICAGO METROPOLITAN AREA



Is Chicago Ready for the Talent War?



Chicago United

Closing the gap between race and business.®

A LETTER FROM THE PRESIDENT

The 2006 *Chicago United Corporate Diversity Profile* represents a five-year benchmark study of corporate diversity in the Chicago metropolitan area. In looking at the progress of the last five years, we have reason for applause and for pause.

We have made significant progress in bringing greater diversity to our boards of directors by increasing ethnic minority representation to 16% from 11.7% five years ago. Yet when we go below the surface and look at the pipeline, we uncover unsettling information. Progress is slowing.

The business case for diversity in leadership is compelling. At the governance level, academic studies find an empirical link in a company's profitability and the diversity of a company's board. The findings of *Chicago United's Board Trend Analysis: What Happens to Corporations When Boards are Diverse?* completed in 2005 are consistent with the academic studies. Our results "...indicate that a strong relationship exists between board diversity and firm profitability." Diversity in management ranks must reflect the increasingly diverse groups of customers purchasing products and services. A diverse management team is in a better position to make strategic decisions resulting in greater sales due to increased sensitivity to the cultural issues pertinent to their customers. Finally, research indicates that by widening the scope of ideas and perspectives, a diverse team of educated and informed individuals is better equipped than a like-minded group to make complex, strategic decisions.

The business case is undeniable, so what can we do to ensure that multiracial leadership is being fully developed? I found the Hewitt research "How the Top 20 Companies Grow Great Leadership" to be compelling. The report uncovered five building blocks used to foster a sustainable pipeline of talent:

- CEOs and Boards of Directors Provide Leadership and Inspiration
- Clear Differentiation of High-Potential Talent
- The Right Programs, Done Right
- Practical Accountability
- Consistent Execution

The thread that runs through the five building blocks of leadership development is commitment from the highest level. Leadership development is purposefully managed, monitored and rewarded. Leadership development becomes part of the fabric of the organization and runs deep.

If leadership development is transparent and inclusive, the great leaders of all races and ethnicities rise to the top. The benefits are real and tangible. Chicago United is committed to supporting our Chicago area corporations in attracting and retaining the best talent through diverse and inclusive leadership development. Chicago corporations will win the talent war by growing great diverse leadership.

Sincerely,



Gloria Castillo
President
Chicago United

The Chicago United Corporate Diversity Profile Survey

CHICAGO BUILDING A LEGACY

Launched in 2001, the *Chicago United Corporate Diversity Profile Survey* was the first survey of its kind nationally to measure racial diversity specifically in the leadership ranks of large corporations. It was designed to measure racial diversity on corporate boards and in executive level management and serves as a benchmark for corporations to measure their progress in this area. The inaugural survey, published in 2001 was followed by the 2nd edition, which was published in 2002. Given the considerably slow rate of change in racial diversity in corporate leadership ranks, Chicago United made the decision to transition the survey to be done on a biannual basis and published the 3rd installation in 2004. Chicago United is now proud to present its 4th installation of the *Chicago United Corporate Diversity Profile*, a unique tool focusing on corporate diversity at the very highest levels.

WHERE WE STAND...2006

Five years into this critical research, the *2006 Corporate Diversity Profile* tells us that Chicago corporations are generally moving in the right direction. Many of our region's leading corporations are lauded by *DiversityInc* as among the best in the nation for minorities. We find in this report that our region's corporations have gained significant ground in some leadership areas. At the same time, we have cause for concern when considering the pipeline to multiracial leadership.

THE NEED TO RE-COMMIT

This report gives us a picture of how far we have come since 2001. However, a question remains as to what that progress really means. Some ask when will diversity in Chicago's corporate leadership be representative of the diversity in Chicago's population? Is our current pace of progress fast enough? If not, what is holding us back from moving faster? What will it take for our progress to catch up with our commitment?

As we examined the story behind our data and sought answers to these questions, the paucity of data was striking. The research gaps in projecting minority population growth, minority participation in the workforce, and the overall analyses of representative diversity in Chicago's corporate workforces were astonishing.

Diversity on Corporate Boards

► THE NATIONAL SCENE

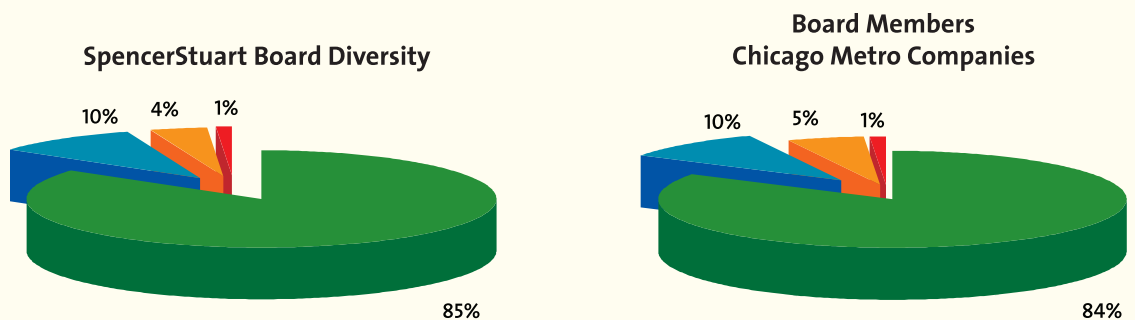
Since the 1990s, U.S. corporations have been extolling the virtues of diversity in their workforces and their leadership. In a 1999 study conducted by the Conference Board, major corporations including Pitney Bowes, ABB, PepsiCo, Texaco, Bank of America, Sara Lee Corporation, Motorola, and Tribune Company came together to stress the business imperative for diversity in their boards of directors.¹ In 2006, it is rare to find a publicly traded company that does not have a robust diversity initiative and does not explicitly state its desire and/or commitment to diversifying its leadership among its board of directors and its executive ranks.

This vocal and focused commitment by large corporations to increase diversity on their boards of directors has met with results. SpencerStuart, in its 2006 Board Diversity Report, examined diversity on the boards of the top 200 companies in the S&P 200. Minorities (African Americans, Hispanics and Asians) comprise over 30% of the U.S. workforce today, and account for about 15% of the directors on the boards of the top 200 companies in the S&P 200. While impressive, it is important to note that 10% of these companies still have no minority directors included on their boards.

► Chicago and the Nation

To provide a comparative view of the data presented in the *Chicago United Corporate Diversity Profile* we looked at the SpencerStuart study as a national benchmark. The results of the Chicago United study are consistent with the national picture at the senior-most levels.

The *SpencerStuart 2006 Board Diversity Report* surveyed the Standard & Poors 200 and found that “...as a group, minorities (including African Americans, Hispanics and Asians) account for 15% of directors.” The 2006 *Chicago United Corporate Diversity Profile* is consistent with the national trend with 16% minority directors.



Some studies do not report management diversity in tiers but are illuminating nonetheless. In June of 2006, the U.S. Government Accountability Office study on the financial services industry reviewed EEO-1 data. The concern of the study is the low advancement rate of women and minorities in the financial services industry. It found, in that segment of the economy, minorities represented 15% of all managers and officials. We can surmise that the highest levels of management fall well below this percentage. Regardless of the management strata, this represents surprisingly slow change in the financial services industry. According to the study, management level representation increased from 11.1% in 1993 to 15.5% in 2006.

¹ Brancato, Carolyn Kay and D. Jeanne Patterson. Board Diversity in U.S. Corporations: Best Practices for Broadening the Profile of Corporate Boards. The Conference Board New York. January 1999.

The Chicago Scene: Reasons for Applause and Pause

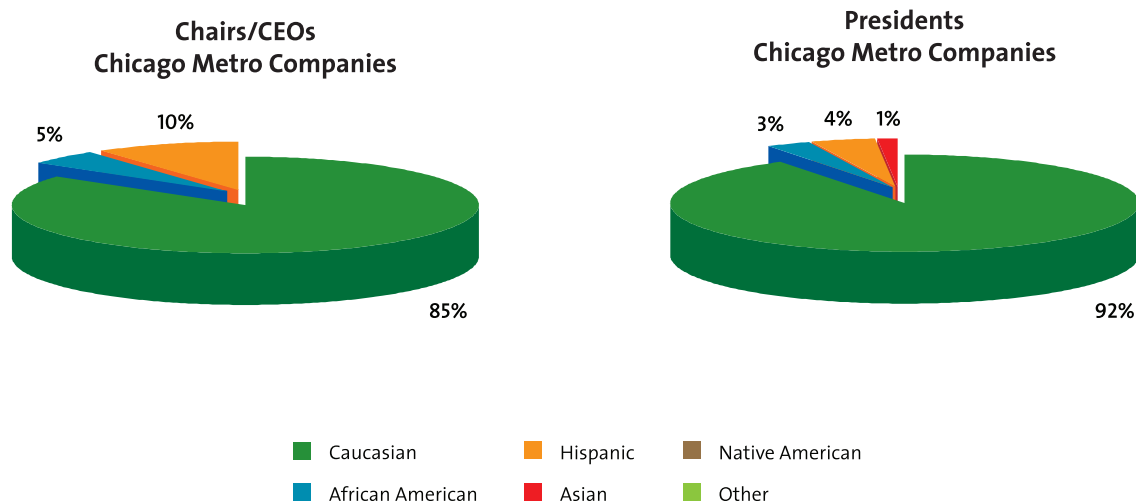
► DIVERSITY ON CORPORATE BOARDS

Yes, there has been progress with racial diversity on Chicago's corporate boards of directors. In the 2001 *Corporate Diversity Profile*, 11.7% of directors on corporate boards were racially diverse. That has increased 4.3% over the last five years to 16%. Many of those minority directors serve on several boards. Because our survey offers strict confidentiality, we cannot disclose where there is a true increase in the number of minority directors compared to where the same director has been elected to additional boards. We know that minority directors serve on 3.7 boards in comparison to their majority counterparts who serve on 3.1 boards.² With the new realities of board governance which impose limitations on board service, exploring a diverse pool of talent becomes an imperative in the near term.

DIVERSITY AMONG CHIEF EXECUTIVE OFFICERS AND PRESIDENTS

In the 2001 *Corporate Diversity Profile*, 3% of chief executive officers were racially diverse. That has increased 12.79% over the last five years to 15.79%. This tremendous increase is indeed reason for applause. At the same time we realize that with the small numbers of people in these ranks, an addition of one or two CEOs can alter the percentages dramatically. Whether the CEO ranks are populated from the parent company management or in the sub-entities, we are buoyed by the progress.

The progress with presidents has been much slower than that made with the CEOs and presents the time for pause. Between 2001 and 2006, racial diversity among presidents in large corporations increased by less than 1% when it increased from 8% in 2001 to 8.82% in 2006. With less than a 1% increase in five years, this reveals an area in need of immediate and critical attention. Progress is good, but focused diligence on this issue is paramount if our progress is to catch up to our commitment.



² Hembrock Daum, Julie, Tom Neff, and Julie Cohen Norris. "Spencer Stuart 2006 Board Diversity Report." February 2006
<<http://www.spencerstuart.com/research/boards/955/>>

The Crisis of Diversity in the Pipeline

THE LEVEL OF COMMITMENT FOR DIVERSITY ON CORPORATE BOARDS is at an all time high in Chicago and across the U.S. What is in question is the progress in filling the leadership pipeline with diverse talent. Studies such as the Spencer Stuart study mentioned, the Alliance for Board Diversity study in 2005 entitled *Women and Minorities on Fortune 100 Boards*, and Calvert Group's analysis of diversity in publicly traded companies indicate a widespread concern with the low representation of women and minorities on a national scale.



Two main reasons stated by corporations for the slow pace of progress are:

1. The supply of minority executives currently in the pool of individuals qualified for director positions is low; and
2. This high-profile group of minority individuals is oversubscribed, on average serving on almost four boards in comparison to three board appointments for majority counterparts. Since these individuals are virtually at capacity, there are limitations to increasing the number of boards in which this group can be asked to serve.

Given these two impediments to progress the solution becomes clear. Expanding the pool of minorities available to corporations as potential candidates for their boards of directors is imperative. Though easier said than done, this solution can be implemented through two strategies:

1. Look beyond the traditional sources for talented minority individuals who possess the skills to serve on corporate boards. This is a strategy that has been undertaken by many search firms and advocacy organizations (including Chicago United through its *Business Leaders of Color* publication) who strive to connect talented minorities with corporations seeking directors. This strategy, in and of itself, is not enough.
2. Expand the number of minorities who are being developed into executive leaders in corporations so that the traditional pipeline of executives ready to serve as directors has multiracial representation.

As the advocate for multiracial leadership in Chicago's corporations, Chicago United is leading the charge in challenging corporations to not only look beyond the traditional sources for possible minority directors but also to take a hard look at internal leadership pipelines and commit to increasing multiracial representation in these critical ranks. If Chicago's corporations don't fully mine the valuable talent that lies beneath the surface of our own region, how will we compete for talent globally?

Are you ready for the talent war?

► Over the next 20 years the most important corporate resource will be talent.

Over the next two decades, corporate America will experience a growing demand for talent while the supply continues to diminish, according to recent studies by McKinsey & Company.

Within 15-20 years, there will be 15% fewer Americans in the 35-45 year-old age range. Over the same period, the U.S. economy is expected to grow at 3-4% per year. This will set the stage for an expected 25% increase in demand for talent while the supply continues to decrease.

The widespread “zero sum game” of continuously “going outside” for talent is costly. It results in companies recycling talent by taking people from other organizations. Ultimately, this approach hinders the creation of a strong pipeline of future executives and does not benefit corporate America over the long term.

Therefore, while ever more imaginative recruiting strategies must be identified, it will be of greater importance for companies to strive to develop, promote and retain their best people.

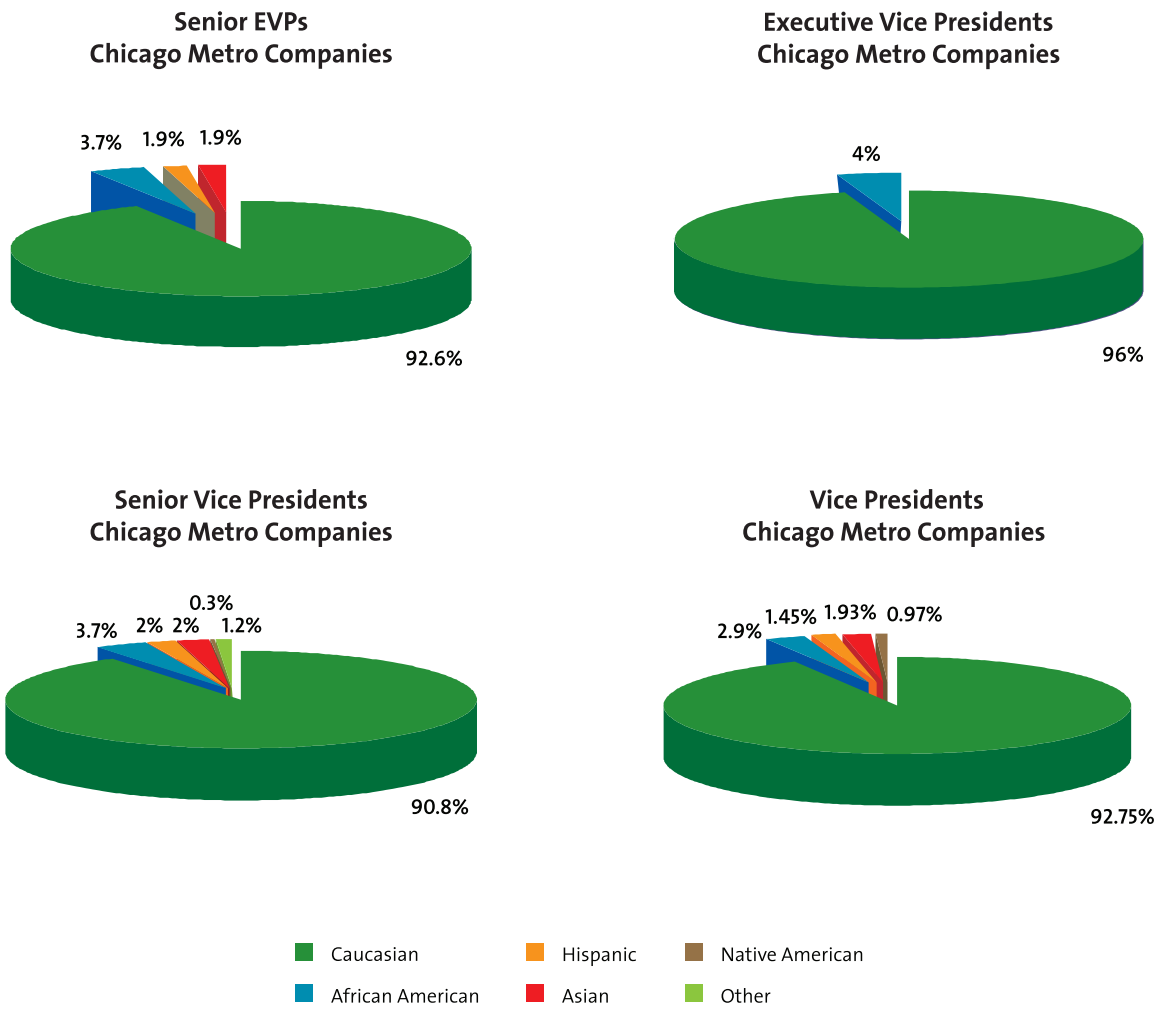
McKinsey & Company recommends the following steps to execute this strategy³:

1. Ensure a “strong bench.” Instill the “talent” mindset at all levels in the organization, holding managers accountable for ensuring development and retention of the talent pool at all levels.
2. Offer positions that are demanding and meaningful and propose stretch opportunities.
3. Acknowledge excellent contributions with attractive compensation.
4. Reinforce a company culture that combines strong performance with openness, trust, and respect.
5. Recruit great talent, develop people to their full potential, make room for your talent to grow, and focus on retention of high performers.

If the Chicago corporate community is to step out ahead, then it must take stock of its own talent pool and ensure that sufficient talent is available for current and future COO, CFO, CEO, and board positions.

AS THE DATA IN THE 2006 CORPORATE DIVERSITY PROFILE SUGGESTS, the slow progress in developing multiracial representation in Chicago’s corporate leadership pipelines should be a concern for current corporate leaders. Since 2001, the diversity among senior executive vice presidents and executive vice presidents has increased 4.42% rising from 6% to 10.42%.

Similarly, since 2001, the diversity among senior vice presidents and vice presidents has increased 6.44%, budding from 10.2% to 16.64%.



Racial diversity in the pipeline to the highest executive ranks and boards of directors is not only necessary for achieving diversity at all levels, but a slow pace of progress in the pipeline exacerbates the challenges of diversifying C-suites and boards. A renewed commitment to diversity at all levels is urgently needed.

2006 Chicago United Corporate Diversity Profile

SURVEY METHODOLOGY

The *2006 Chicago United Corporate Diversity Profile* is based on a survey of the 100 largest public corporations in Chicago as determined by Crain's Chicago Business (2005). The surveys were distributed to the companies in the sample in January 2006 with data collection ending in May 2006. The response rate was approximately 16%. Although we acknowledge that this response rate is smaller than we had both hoped for and expected⁴, it is a statistically significant sample, and the results are comparable to results in national analyses conducted by Spencer Stuart, *DiversityInc*, and the Alliance for Board Diversity.

To ensure confidentiality in the data gathering and analysis processes, Chicago United retained the services of The Athens Group to distribute the surveys, conduct necessary follow-up, collect the surveys, and provide an initial prescreening process for survey intake. Chicago United also retained the services of Survey Research Laboratory of the University of Illinois to conduct all data entry and analysis. All individual survey data was kept completely confidential and only aggregate data, as presented in this report, was shared with Chicago United by either The Athens Group or Survey Research Laboratory.

RESPONDENTS

The companies listed below are those from the 100 largest public corporations in Chicago as determined by Crain's Chicago Business (2005) that completed the *2006 Chicago United Corporate Diversity Profile*.

Allstate Corporation
Baxter International
Blue Cross Blue Shield of Illinois
CDW Corporation
Exelon Corporation
Hewitt Associates
Kraft Foods Inc.
Lawson Products, Inc.
McDonald's Corporation
Nuveen Investments
Peoples Energy Corporation
Walgreen Company
Tribune Company
R.R Donnelley & Sons
UAL Corporation
USG Corporation



⁴ In order to provide a larger sample in the *2008 Corporate Diversity Profile*, Chicago United will be transitioning from its current individual corporate survey protocol to an examination of publicly available EEO-1 data for the 100 largest public corporations in the Chicagoland area. By shifting from a voluntary submission of data format to a review of publicly available data format, we will address the issue of small sample sizes and provide a broader discussion of diversity in corporate workforces and leadership.



Closing the gap between race and business.®

CHICAGO UNITED is an advocacy organization that enriches the economic fabric of our region by building sustainable diversity in business leadership.

Chicago United is a corporate member organization whose active participants are the most senior level officers of each enterprise. Corporate CEOs work together with minority enterprise CEOs to explore key issues in the business environment that enhance the value of diversity and inclusion in their own organizations and generate a positive impact on the local social and financial structures in which their businesses operate and thrive. As the thought leaders that develop the advocacy positions and programs of Chicago United, our members focus on sustaining diversity in the business community as a way to improve the economic fabric of the Chicago region and our nation.

THE WORK OF CHICAGO UNITED IS MADE POSSIBLE BY THE SUPPORT OF OUR MEMBERS:

Abbott Laboratories, Inc
Advocate Health Care
Aon Corporation
Arias Information Solutions, LLC
Ariel Capital Management, LLC
Azteca Foods, Inc.
Baxter International, Inc.
Blue Cross and Blue Shield of Illinois
Bonaparte Corporation
BP
Burris, Wright, Slaughter & Tom, LLC
Cabrera Capital Markets, Inc.
Carrington & Carrington, Ltd.
Chicago State University
Chicago Symphony Orchestra
Chicago Tribune Company
Chicago Urban League
Citibank F.S.B.
City Colleges of Chicago
Commonwealth Edison Company
Crain's Chicago Business
Creative Printing Services
Cub Foods
Endow, Inc.
Ernst & Young

Federal Reserve Bank of Chicago
Harris
Hewitt Associates
Hill, Taylor LLC
Hispanic Alliance for Career Enhancement (HACE)
Hispanic Housing Development Corporation
Hollins Group
Jewel-Osco
LaSalle Bank
LifeSource
Loop Capital Markets, LLC
Macy's
Mayer, Brown, Rowe & Maw
McDonald's USA
Mesirow Financial
National City Bank Illinois
Neal & Leroy, LLC
NJW & Associates
Northern Trust
Northwestern Memorial Hospital
Northwestern Mutual Financial Network – The Effner Financial Group
Nuveen Investments

Odell Hicks & Company
Peoples Energy
Prado & Renteria
PricewaterhouseCoopers
Primera Engineers, Ltd.
Pugh, Jones, Johnson & Quandt, P.C.
Ralph G. Moore & Associates
Rush University Medical Center
Sanchez Daniels & Hoffman LLP
Sara Lee Corporation
Seaway National Bank
ShoreBank Corporation
Sidley, Austin, Brown & Wood, LLP
Smith Wiley & Company
Synch-Solutions
TeamWerks
United Airlines, Inc.
United Building Maintenance, Inc.
University of Chicago Hospitals
Urban Retail Properties Co.
USG Corporation
Washington, Pittman & McKeever, LLC
Weber Shandwick
Winston Strawn