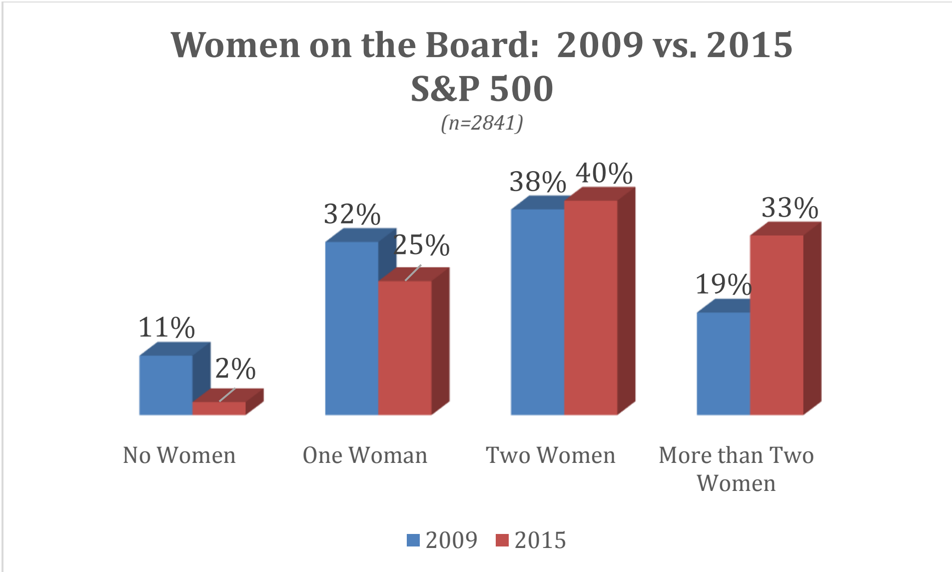
Women on Corporate Boards: The US Approach

By Annalisa Barrett, Clinical Professor of Finance, University of San Diego and Senior Advisor, ValueEdge Advisors, and Brittan Trozzi, MBA[1]

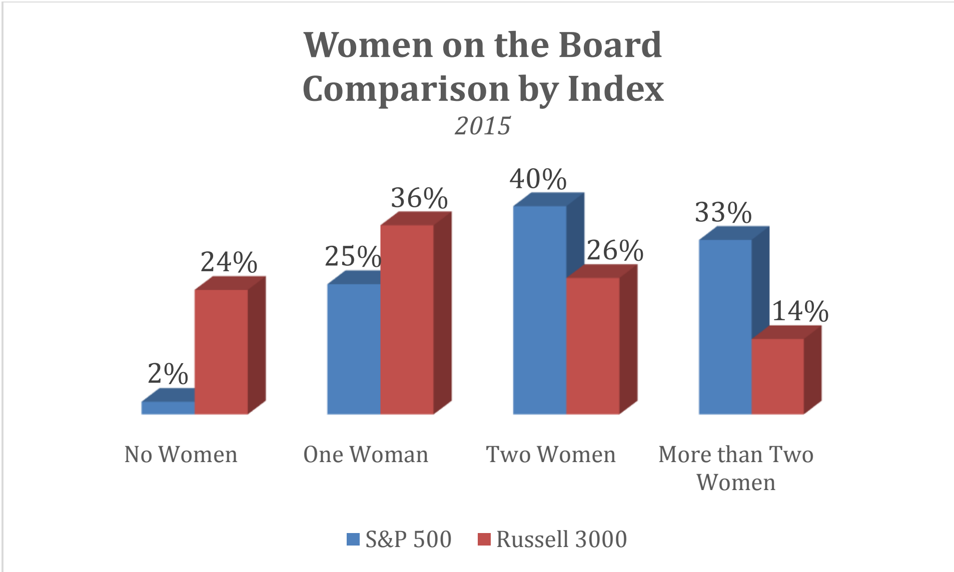
Gender diversity on US corporate boards has garnered a great deal of attention recently. As is often the case with governance practices at US companies, increased disclosure regarding the topic elevated the discussion several years ago. Beginning with the 2010 proxy season, the Securities and Exchange Commission (SEC) required disclosure of "[t]he consideration of diversity in the process by which candidates for director are considered for nomination."[2] This enhanced disclosure supported the growing focus within the investment community to weigh a broader range of perspectives and backgrounds when selecting corporate board members. And, in response, many companies made changes.

An examination of the current state of gender diversity in US boardrooms, shown in the graphs below, reflects these changes; however, there is still progress to be made. When the large US companies included in the S&P 500 index are analyzed, we see that very few (only 2%) currently have no women serving on their boards. When compared to the findings from a study conducted by The Corporate Library in 2010,[3] this shows real progress toward moving away from all-male boards. However, research has shown that having more than one woman in the boardroom increases board effectiveness and more than a quarter (27%) of S&P 500 companies have not yet made the leap to having more than one female board member.



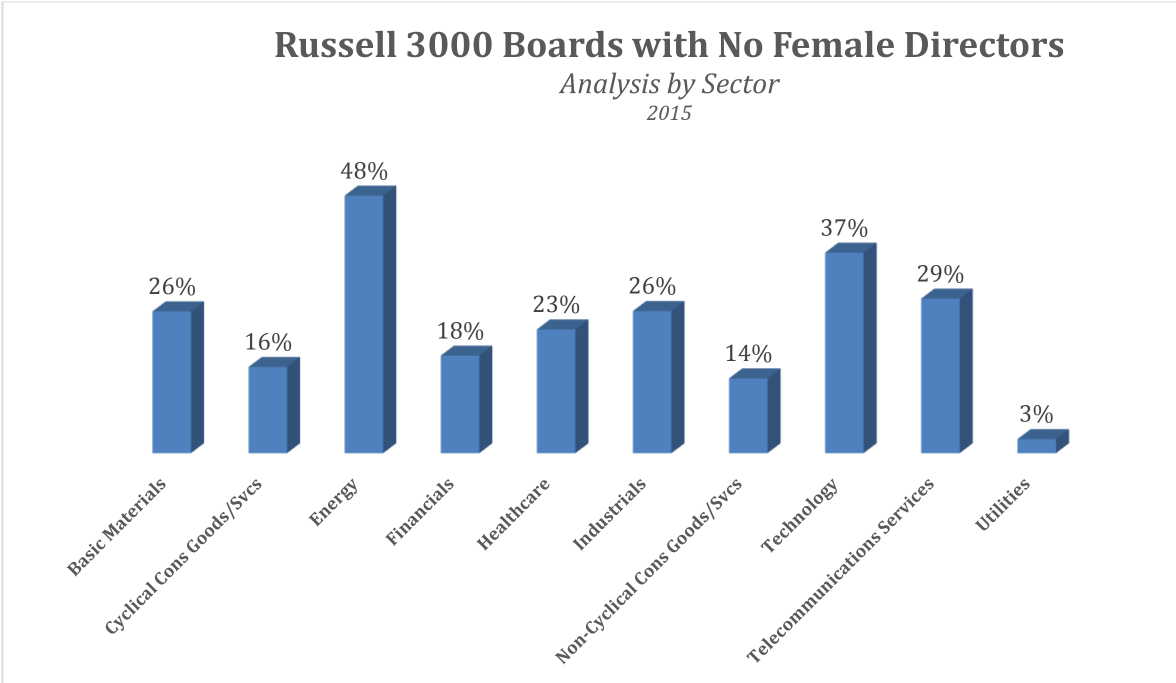
Sources: GMI Analyst (from MSCI ESG Research) for 2015 data and The Corporate Library for 2009 data

While larger US companies have made some progress, smaller companies are still slow to respond. This is a commonly-observed pattern in the adoption of "best practices" in corporate governance, possibly due to the fact that the larger companies come under more scrutiny by investors. When it comes to adding women to boards, another factor may be the fact that, in general, smaller companies have fewer directors serving on their boards and therefore fewer board seats are available. Whatever the reason, it is clear that smaller companies are lagging behind the larger companies in meeting the challenge to increase gender diversity in the boardroom. The chart below compares the presence of women on the boards of the larger S&P 500 companies with those on the boards of companies in the Russell 3000 index. By expanding the analysis to include smaller companies, we see that a much higher percentage – nearly a quarter (24%) – still have no female directors.



Source: GMI Analyst (from MSCI ESG Research)

Studies show that not only size but industry also matters. Women tend not to have the STEM (science, technology, engineering, mathematics) background needed to bring a female perspective to male-dominated industries such as energy and technology. Instead, female leadership is concentrated in service industries and consumer goods.[4] The chart below, based on current data from GMI Analyst *(from MSCI ESG Research)*, generally supports these findings. Among the 2,341 Russell 3000 companies in GMI Analyst *(from MSCI ESG Research)*, the companies in the Energy and Technology sectors are still most likely to have no female directors. The companies least likely to have an all-male boardroom are in the Cyclical and Non-Cyclical Consumer Goods and Services sectors, as well as the Utilities sector.



Source: GMI Analyst (from MSCI ESG Research)

Numerous studies have emerged showing that bringing women into the boardroom has a positive effect on corporate value. Some contributing factors for the impact of women's influence on corporate boards include the introduction of new or different perspectives and experiences, as well as differences in leadership style and approaches to problem solving. For example, studies have shown that the presence of women can influence male directors to have better attendance behavior. Additionally, women have an impact on board governance, risk management, and "hold[ing] CEOs accountable for poor stock price performance."[5] Diversity of thought and background can give the company a competitive advantage in the marketplace and in innovation – research shows that leveraging women's innovative potential improves the likelihood of success by 144 percent and can be the inroad to the $20 trillion "power of the purse" held by women.[6] Additionally, a 2012 study conducted by professors at University of

California Berkeley shows that companies with more women on their boards of directors are more likely to "create a sustainable future" through measures that include: proactively addressing environmental risks inherent to financing decisions, protecting their "license to operate" for underserved populations in developed markets, and instituting strong governance structures with a high level of transparency.[7]

Factors that could be characterized as specific to the female gender can be difficult to prove through analyses of board performance. What can be shown, however, is value creation, through the lens of stock performance and other financial measures. An international study, published by Credit Suisse in 2014, found that corporations with at least one woman on the board of directors demonstrated an average Return on Equity (ROE) of 12.2 percent, compared to 10.1 percent for companies with no female representation on the board. Additionally, the price-to-book value of these firms was greater for those companies with women on their boards: 2.4 times the value in comparison to 1.8 times the value for zero-women boards. [8]

If investors are demanding gender diversity within corporate leadership, and inclusion has shown a greater corporate value, plus exposure to new markets and ideas through female-centered thought leadership, why hasn't the corporate world made greater strides to balance their respective boards? A 2014 study by PwC found that, while investors and directors both agree that diversity on the board is important to the future of the company, the two parties differ on the priorities of qualifications, and there are obstacles in the way of fulfilling the diversity matrix.[9] From the directors' point of view, gender diversity ranks seventh out of ten qualities to look for in ideal candidates, with factors such as financial, operational, and industry experiences outranking gender. Additionally, only 14 percent of directors believe significant obstacles exist in recruiting and electing qualified female directors. These hindrances often center on the perception that qualified candidates don't exist for the seats available.

One way to overcome this problem is to provide companies ample choices of diverse director candidates. Several initiatives have been developed in recent years to do just that. The Diverse Directors DataSource was launched in 2012 as a "clearinghouse for potential corporate director candidates with a special emphasis on a more diverse range of backgrounds, perspectives, skills and experience"[10] In 2015, another industry-specific database called BoardList was launched, focused on providing diverse board candidates for privately-funded technology companies.[11]

While other countries have implemented, or are contemplating, quotas to address the issue of gender diversity in the corporate boardroom, the US has been reluctant to do so. However, a few US states have taken on the issue -- encouraged by groups such as 2020 Women on Boards, which is "a national campaign to increase the percentage of women on U.S. company boards to 20% or greater by the year 2020" [12] -- by passing resolutions calling on the companies in their state to set the standard for women on boards.

In 2013, the California Legislature passed a resolution (CA SCR-62) calling for female representation on the boards of publicly traded companies in the state. The following is an excerpt of the text of the resolution:

> *"This measure would encourage equitable and diverse gender representation on corporate boards, and urge that, within a 3-year period from January 2014 to December 2016, inclusive, every publicly held corporation in California with 9 or more director seats have a minimum of 3 women on its board, every publicly held corporation in California with 5 to 8 director seats have a minimum of 2 women on*

its board, and every publicly held corporation in California with fewer than 5 director seats have a minimum of one woman on its board." [13]

It is important to note that CA SCR-62 is a resolution, not a law; therefore companies in the state face no legal ramifications if they do not fulfill the resolution's challenge to add women to their boards. However, California did set a precedent which other states are following. In 2015, the House of Representatives in Illinois passed HR 0439[14] and the Senate of the Commonwealth of Massachusetts passed S1007[15], both of which are resolutions closely mirroring the California resolution.

Although these state resolutions are bringing more attention to the efforts to increase gender diversity in the boardroom, achieving the standards they set will require drastic change. If the approach taken by the resolutions in these states were extrapolated to all US companies, less than one in five (17%) of the 952 Russell 3000 companies in GMI Analyst *(from MSCI ESG Research)* with a board size between five and eight directors are currently in compliance with this goal (having two or more women on their boards). Similarly, of the 1,376 Russell 3000 companies in the GMI Analyst *(from MSCI ESG Research)* with nine or more directors, less than a quarter (23%) are in compliance, with three or more female directors. Clearly, there is more to be done if US boards are to meet the challenges set forth by state legislatures.

In general, investors, directors, and management all agree that diversity, especially gender diversity, is an important factor to consider when composing an effective corporate board. While progress is being made among US companies, all of these groups will have to work together to increase gender diversity in boardrooms across America.

Endnotes and References

[1] This essay draws significantly from a graduate research project prepared in December 2014 by Brittan Trozzi, MBA, entitled *Gender Parity and Corporate Leadership – Is Balance Possible?* Ms. Trozzi is now the Assistant Director of Alumni Relations for the School of Business Administration at the University of San Diego.

[2] SEC Approves Enhanced Disclosure About Risk, Compensation and Corporate Governance (Press Release: ; 2009-268; Dec. 16, 2009) http://www.sec.gov/news/press/2009/2009-268.htm

[3] Barrett, A., (2010). *Uneven Progress: Female Directors in the Russell 3000.* The Corporate Library.

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[8] Dawson, J., Kersley, R., & Natella, S. Credit Suisse Research Institute, (2014). *The CS Gender 3000: Women in senior management*. Retrieved from Credit Suisse AG website: https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=8128F3C0-99BC-22E6-838E2A5B1E4366DF

[9] PwC Center for Board Governance, (2014).*BoardroomDirect: What matters in the boardroom? Director and investor views on trends shaping governance and the board of the future*. Retrieved from PwC Investor Resource Institute website: http://www.pwc.com/en_US/us/corporate-governance/publications/assets/pwc-what-matters-in-the-boardroom-director-investor-views.pdf

[10] More information about the Diverse Directors DataSource can be found here: http://www.gmi3d.com/home

[11] More information about BoardList can be found here: https://choosepossibility.com/

[12] More information about 2020 Women on Boards can be found here: http://www.2020wob.com/

[13] Jackson, H.B., Corbett, E., Evans, N., Hancock, L., Liu, C., Pavley, F., Skinner, N., Garcia, C., & Lowenthal, B. Senate of the State of California, (2013). *Senate concurrent resolution no. 62—relative to women on corporate boards.* (SCR 62).

[14] Mussman, M., House of Representatives of the State of Illinois. House Resolution 0439 *URGE CORPS-WOMEN ON BOARDS* (HR 0349)

[15] Spilka, K, Senate of the Commonwealth of Massachusetts (2015). Senate Resolution No. 1007 *Resolutions encouraging equitable and diverse gender representation on the boards of companies in the commonwealth. (S1007)*