Where Women *Are* On Board; Perspectives from Gender Diverse U.S. Boardrooms

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Introduction

Interest in, and momentum toward, greater diversity in the boardrooms of U.S. publicly traded companies is increasing. We believe this is due to a combination of international developments, workplace trends and investor sentiment.

Although all aspects of diversity are meaningful topics, this article is solely focused on gender diversity. Currently, females represent approximately 15% of outside board member seats in the S&P 1500 and about 18% of the S&P 500 seats. This equates to a median of 1-2 female board members in a group of 9-11 board members.

While the overall statistics for U.S. companies are regularly reported, relatively little has been written about those U.S. public company boards that have moved farther down the path of gender diversity. For the purpose of our review, we define “gender diverse” at 30% female directors or more, using a standard typical in countries who have enacted legislation. ***Assuming more companies will want to reach a 30%+ level of gender diversity over the next decade, we wanted to study companies that have already achieved this level.*** We wanted to identify any specific similar characteristics that can be found at these companies and to learn more through selected interviews about the paths to a gender diverse board.

Context for Change

- There have been several studies released in the past few years indicating better performance at companies with gender diverse boards [(1)]
- The topic of board gender diversity (and overall diversity) is increasingly part of proxy advisor and institutional investor guidelines
- Germany made headlines as the latest country to mandate 30% female representation on large corporate boards
- Most articles on this topic mention the U.S. is seen to be lagging Europe

A Snapshot on the International Trends

Many countries have enacted legislation to increase the percentage of female board members. Norway did so first in 2003, requiring 40% female board members by 2008, and they have achieved that goal. Other countries have followed suit in passing legislation mandating gender diversity on public company boards, including Belgium, Finland, France, India, Italy, the Netherlands, Spain, the and Belgium. Earlier this year, Germany passed a law requiring 30% of board seats to be filled by women by 2016. In most countries, the “target” or “quota” was set somewhere between 30% and 40%.

"Gender Diverse" Boards in the S&P 500

For this study, we define "gender diverse" as having 30% or more female outside (non-officer) directors. If we use the S&P 500 as our sample, 27 of the S&P 500 companies (5.4%) are gender diverse. We originally identified these companies using 2013 proxy information, and then updated our diversity calculations for these same companies using the most currently reported information.

Of those with gender diverse boards, the range for numbers of directors is 3 to 7 female directors, with a median of 4. In terms of percentages, these boards have a range of 33% to 64% female, with a median of 38%.

Gender diverse boards span a wide range of sectors, with financial services having the highest representation:

Industry	# of Companies
Financial Services	6
Consumer Products/Food & Beverage	3
Beauty/Fragrances	3
Apparel/Retail	3
Technology	2
Other	10

Within the "Other" group, there are some unexpected sectors represented, including Aerospace/Defense and Mining.

While we did not see any pattern in terms of sector or geographic location, we did find that the companies with gender diverse boards have a higher prevalence of female CEOs. Although most companies (20) have male CEOs, 7 of the 27 companies (26%) have female CEOs [(2)], versus 4.6% overall for the S&P 500. Upon further review of those 7 companies, board gender diversity generally increased after the female CEO was appointed. That change suggests the appointment of a female CEO had a positive change on future board diversity. It is also possible that a positive experience with a female CEO (and willingness to/interest in hiring a female CEO) is indicative of a board that is more focused on gender diversity.

Themes from Gender Diverse Boardrooms

We conducted interviews with members of gender diverse boards to understand better the path to greater board member diversity and the impact it has had on the board and the company. We spoke with a number of directors, including: Cathy Halligan, Chairman of the Compensation Committee of ULTA Beauty (44% female), Fred Hubbell, Lead Director of VOYA Financial (43% female), Ann Korologos, Lead Director of Harman International (33% female) and Chairman of the Compensation Policy Committee of Host Hotels and Resorts (38% female), and Liz Tallett, Lead Director of Principal Financial (33% female). Here are some of the key themes from those interviews:

1. **These companies had board gender diversity as a top near-term priority.** Frequently, given the typical corporate demographics, a male CEO or male leadership team first determines that having more women on the board is critically important. The gender diverse companies proactively executed on a priority that the board should reflect the customer, employee and shareholder base – the constituents the board represents.

2. **There are necessary steps in the path to successful board diversity.**

    a. **Gender diverse boards value a broad range of experience beyond CEO experience.** A criterion for many traditional director searches is CEO experience. Given that only about 5% of U.S. public companies have a female CEO, if a board wants primarily current and retired CEOs on the board, the likely case is that the board will be primarily male. The gender diverse boards involve CEO experience but also value expertise in specific areas including finance, legal, customer segmentation, technology and human capital experience.

    b. **Presenting very diverse slates to the Board is important in finding qualified candidates.** A number of the Boards represented in our interviews used external recruiters. In communicating with their recruiters, they insisted on seeing many qualified female candidates on the slate, not just a choice of one. Once a truly diverse slate is presented, these boards did not find it difficult to find qualified candidates.

        "Some organizations may want to "tick the box"…we made it clear we wanted half of the candidates on the slate to be women"

        "A good recruiter will provide critical support to the candidate spec, making sure that the desired candidate is a good fit for the board, including filling talent/experience gaps and addressing diversity…if female candidates are not presented, rethink your choice of recruiter"

    c. **Success on female diversity breeds success.** If the first female board member is well qualified and a good fit with the Board, this better enables increasing gender diversity in the future. Our interviewees indicated their female board members were selected based on qualifications and were "the best qualified candidates", and were not selected to meet any diversity targets.

    d. **Boards must be willing to give first timers a chance.** Previous board experience is a common criteria for both men and women, making it hard to get the first board assignment. However, given the paucity of female board members in the U.S., if more companies want to achieve gender diversity, they will need to give a woman her first board spot since there is an insufficient pool of experienced female board members.

3. **Gender diversity on the board has proven to be valuable.**

    a. **There is a customer imperative for gender diversity.** Women make the decisions for many household purchases, including financial investment decisions (which may be why financial services had the largest number of gender diverse boards in the S&P 500). While not every consumer necessarily looks at board composition in making a decision, for a board to provide effective leadership and counsel it should be able to understand and represent the customer.

        "We looked where the money was…two-thirds of our customers and employees are women and we wanted the board to reflect the customer and employee base"

    b. **Having gender diversity improves the quality of boardroom dialogue and decision making.** There was consensus that diversity made the quality of the conversation better, more professional and more effective.

"Women are good at asking questions and can be inclusive—both of which lead to more thoughtful, quality conversations"

"Women are more about engagement than process. While process is necessary, engagement is the real goal"

4. **Legislation is not the solution to enhancing board gender diversity.**

   a. **Voluntary change or shareholder pressure to enact change would be more effective in the U.S. than specific, generic one-size fits all legislation to increase gender diversity at the board level.** U.S. business has generally not been in favor of legislating change, and the area of board diversity is no different. Our interviewees told us that the better path was for companies to voluntarily diversify their boards or for shareholders to put pressure on them to do so. Pay Governance research indicates that shareholder proposals related to board gender diversity policies have been gaining ground receiving, on average, 30% shareholder support, suggesting shareholder pressure on this topic will continue to increase.

   "It is very legitimate for shareholders to think about whether performance is benefitted by more gender diversity and communicate to companies if they want to see changes made"

   b. **Ultimately, shareholders decide where to put their money and their votes.** Research has shown that gender diversity is related to company performance, which may drive shareholders to push for more diversity. There have been a number of quantitative studies on the relationship between gender diversity and its financial imperatives.

   In a research article written by Corrine Post and Kris Byron in late 2014, they "found that female board representation is positively related to profitability and market performance in countries with stringent shareholder protections," including the United States.

   A recent Thomson Reuters study shows companies with greater board gender diversity have lower volatility in stock price—and have similar or better gains in stock price across more than 4,000 companies traded globally.

Conclusion

Board gender diversity is likely to increase given international trends and shareholder interest. As companies look to fill director vacancies, we expect an increasing number of qualified female candidates will be presented, which will result in an increase in the percentage of female directors on public company boards. However, our interviews suggest that gender diversity does not happen on its own: it will require a reconsideration of experience requirements and the recruiting process.

Questions about this Viewpoint can be directed to Diane Lerner or Christine Oberholzer Skizas by email at diane.lerner@paygovernance.com or christine.skizas@paygovernance.com.

(1) Credit Suisse Research Institute report on Gender diversity and corporate performance, and Catalyst's The Bottom Line, Corporate Performance and Women's Representation on Boards
(2) One of the 7 female CEOs has recently transitioned to Chair but her company's data is used in our analysis