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Opening boardroom doors to women

Rebalancing representation in the boardroom is painfully slow work. It's time for business to adopt more proactive techniques.

“Diverse boards make better decisions, so every board should have members with complementary and diverse skills, backgrounds and experiences,” state the US Commonsense Corporate Governance Principles.¹

Much attention has been devoted to the number of women (or lack thereof) in C-suite and director positions, especially in the context of public companies. Despite the well-known benefits of having a diverse set of decision-makers in the boardroom, women continue to hold a disproportionately low number of director positions compared to men.

Although the number of women in leadership positions is increasing slightly, women still have not come close to having equal opportunities with men. This article discusses four possible techniques for opening the doors of the boardroom to women so that they are no longer shut out from director opportunities. But first, we examine some current statistics about female directors and discuss the challenges that are holding women back.

Glass ceilings and walls

In the fifth edition of *Women In The Boardroom: A Global Perspective*, the Deloitte Global Center for Corporate Governance reported that in 2016, 15 per cent of all board seats globally were held by women. The same statistic measured at 12 per cent in 2014. An increase of three percentage points over two years is certainly progress, but the numbers remain staggeringly disproportionate.

Deloitte partially attributes the sluggish growth in diversity to the slow turnover among board seats. If companies are not

given a reason to refresh their boards and replace their current directors (such as through term limits or pressure from investors), the statistics will be unlikely to change at a more rapid pace. Another impediment to increased gender diversity is the preference for directors to be current or recently retired CEOs. Given that women hold a low number of CEO positions, they are disadvantaged when this has become, in essence, a prerequisite to holding a board seat.

In addition to being at a disadvantage with respect to the preferred experience for a board position, a large number of director seats are filled by references from other directors and CEOs (positions dominated by men) and by recruiting firms, some of which may not be diversity-minded and continue the trend of placing experienced CEOs, directors and those in their networks in open board seats. This ‘club atmosphere’ makes it exceedingly difficult for women to break into these roles.

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The challenges experienced by women often start very early in their careers, when they are still in the stage of career development. *The 2015 Global Report On Women In Business And Management* from the International Labour Organisation described the ‘glass walls’ that keep women siloed in specific management functions that do not give them access to general

management experience. Companies are more likely to have 100 per cent women or greater than 50 per cent women working in the areas of human resources, public relations and communication, and finance and administration. Other management areas, such as research and product development, sales and operations, and general management are more likely to be disproportionately male. When women are more concentrated in areas such as human resources and less in areas such as operations and general management, they are less likely to be seen as viable candidates for a more general management position later in their career.

In addition to these trends, though shareholder activist campaigns unlock value on some fronts, these campaigns may also be a setback for gender diversity in the boardroom. A recent study conducted by ISS indicated that, in the S&P 1500, there were zero female dissident nominees and directors appointed via settlements with shareholder activists in 2011, two in 2012 and three in 2013. While the study showed the rate of women who served as dissident nominees or board appointees increased slowly over time, it still lagged behind the gains made in the broader S&P 1500 index.

Another study conducted by the W.P. Carey School of Business at Arizona State University found that female CEOs are more likely to be targeted by activists. In a statement about the study published in *Fast Company*, Christine Shropshire, an associate professor of management at the school, stated: “All else held equal, female CEOs have a 27 per cent likelihood of facing activism, while their male counterparts have a near zero predicted likelihood of being targeted.” Shropshire has theorised that women are more likely to be targeted because they are perceived as ‘weaker and thus easier to



push around'. On the other hand, an article published by *Quartz at Work* titled *Activist Investors Are Making Corporate Boards Whiter And More Male* referenced a source that indicated that activists will attack the lack of diversity as a weakness when they are targeting a company with an all-male board.

While female representation globally is quite low, Spencer Stuart recently released data concerning the S&P 500 that does provide promise. According to the recruiting firm, among new S&P 500 directors, women comprised a total of 36 per cent, or 142, of incoming directors. The total number of female directors on the S&P 500 stood only at 22 per cent, up a modest one per cent in 2016.

1 Technique 1: Adopt company-specific initiatives designed to enhance female participation

In PwC's Governance Insights Center's report, *A Look At Board Composition: How Does Your Industry Stack Up*, PwC noted that mandatory retirement ages and term limits can be effective tools to 'refresh' a board. According to Spencer Stuart, 48 per cent of boards on the S&P 500 did not appoint a new director in 2017. Limiting the amount of time that a current (and possibly male-dominated board) can stay in office gives women the opportunity to break into the boardroom more quickly. The retail industry has been particularly effective in this arena. Ninety-one per cent of retail companies in the S&P 500 have mandatory retirement ages, compared to 73 per cent for the S&P 500 as a whole. Further, 18 per cent of retail companies impose term limits on their directors, as compared to four per cent of the S&P 500 as a whole.

Many companies have diversity initiatives and mentoring programmes aimed at increasing gender diversity throughout the organisation. Helping women position themselves early in their career can make them even more qualified candidates for top leadership positions down the road. While the jury may still be out concerning the impact of traditional women's initiatives, Deloitte has taken a more innovative approach to these groups that, in time, could prove effective. Rather than continuing with affinity groups geared solely to women, Deloitte has replaced its women's initiative, known as WIN, with 'inclusion councils' that also provide men (including powerful men who have an ability to sponsor women for opportunities) with an ability to participate. In an article for *Bloomberg Businessweek*, Deepa Purushothaman of Deloitte said: "By having everyone in the room, you get more allies, advocates and sponsors. A lot of our leaders are still older white men and they need to be part of the conversation and advocate for women. But they're not going to do that as much if they don't hear the stories and understand what that means." »

**GENDER QUOTAS
IN THE WORKPLACE**
Policies to readdress
gender balance
in companies elicit
different reactions

» While inclusion networks may move the needle over the long-run, these likely will not present immediate positive results. In the interim, however, companies can bring more women into the fold by using tools such as mandatory retirement ages and term limits to refresh their boards.

2 Technique 2: Expand the pool of individuals recruited for board seats

In order to provide a pathway to women to obtain board seats more quickly, companies should look beyond the traditional C-Suite, which is largely comprised of men. Recruiting firms also need to be open-minded when presenting candidates to ensure their actions do not further the 'club atmosphere' and they should proactively help to drive a conversation around diversity. In *Nudging Companies to Look Beyond The C-Suite For Women Directors*, *The Wall Street Journal* recently reported that this approach is starting to gain traction, writing: "Though many boards seek current or former CEOs, CFOs or COOs, who still tend to be men, there's a growing trend to look for division managers, which opens the door for more diverse candidates. And as more women get on boards, they can also vouch for each other to limit the old boys' club cycle."

Some firms engaged in the recruiting process have demonstrated – by sharing actual data – that they are recommending female candidates for open board seats. According to the *Wall Street Journal*, J. P. Morgan Chase & Co's Director Advisory Services Group has given more than 700 director recommendations since inception, 65 per cent of which were for women candidates.

3 Technique 3: Apply the weight of institutional investors

Just before International Women's Day in 2017, in celebration of the first anniversary of its Gender Diversity Index (SHE), State Street Global Advisors made a bold statement when it installed 'Fearless Girl' across from the 'Charging Bull' in the heart of the Financial District in lower Manhattan. The bronze

statue includes a plaque that states 'Know the power of women in leadership. SHE makes a difference'. In a speech at the Weinberg Center for Corporate Governance about the arrival of Fearless Girl, Ronald P. O'Hanley, the president and CEO of State Street, stated: "She is a daring and confident girl celebrating the 'can-do spirit' of women – who are taking charge today and inspiring the next generation of leaders. She stands as a reminder to corporations across the globe that having more women in leadership positions contributes to the overall performance and strengthens our economy."

In the beginning of 2017, State Street announced that it will engage with the companies it invests in about the importance of adding female directors. For those that fail

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to do so, there will indeed be consequences, as State Street is prepared to vote against the chairs of the nominating committees of these companies.

Similarly, BlackRock announced its focus on achieving gender diversity in the boardroom in March 2017. Citing the *Commonsense Corporate Governance Principles* quoted at the beginning of this article, BlackRock expressed its intention to engage with companies on the topic of gender diversity and hold nominating and governance committees accountable for lack of progress.

4 Technique 4: Establish quotas

Given the glacial pace of change, some rejected the notion that the market will self-correct and instead have turned to mandatory quotas to balance boardrooms.

According to a *Harvard Business Review* article, *What Board Directors Really Think Of Gender Quotas*, action pertaining to quotas began more than 10 years ago when countries in Europe started adopting them. In 2004, Norway adopted a 40 per cent quota for female directors and other countries, such as France and Italy, followed suit with similar goals. Recently, *The Guardian* in the UK reported that the European Commission is taking strong action and is seeking to establish a quota for women on boards. For those companies in which the non-executive directors total more than 60 per cent men, female candidates of equal merit being considered for a post would have to be prioritised. Germany, the Netherlands and Sweden previously blocked the EU's goal of having 40 per cent of women fill the top positions in listed companies due to concerns that these proposals overstep into domestic territory. *The Guardian* has also reported that women's participation had grown to 22 per cent in 2015, up from 10 per cent in 2005, when evaluating the largest listed companies.

The US, however, has never established quotas, whether voluntary or mandatory. If pressure from institutional investors does not bring results, or does not bring results quickly enough, should the US consider adopting quotas as well?

According to the article cited above, quotas are often criticised on the basis that they will result in less qualified directors. Women in particular have also expressed concern that they will be 'second-class citizens' if they achieve their board seats through quotas. Nevertheless, others have indicated that the market is unlikely to fix the issue in the near term, with some saying that, '[w]ithout quotas, it will be a pretty long, slow journey'. Men interviewed for the article were not in favour of formal targets, stating that they "wanted qualified and strong directors first and foremost". Whether that implicitly signals that those interviewed still do not recognise the value women bring to the table is ripe for discussion. ¹

¹ www.governanceprinciples.org