

Every Other One: More Women on Corporate Boards

*An Update of a Policy Statement
by the Committee for Economic Development's
Policy & Impact Committee*

November 2014

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The Committee for Economic Development (CED) is an independent research and policy organization comprised of over 200 business and academic leaders. Since 1942, CED has offered nonpartisan, reasoned solutions to the nation's most critical issues.

Economic analyses of trade and competition focus on a country's competitive advantage. America's adaptability and diversity have been sources of strength in its economic development. Women have been integrated into the workforce in unprecedented numbers, and they should have the opportunity to succeed at the highest levels.

CED has been at the forefront of business-oriented public policy groups in advocating that U.S. corporations bring more women onto their boards. In 2011, CED formed a Women's Economic Contribution Subcommittee, composed of 18 prominent men and women from the for-profit and nonprofit sectors, to study the issue and make recommendations. In 2012, CED issued a policy statement, "Fulfilling the Promise: How More Women on Corporate Boards Would Make America and American Companies More Competitive." In "Every Other One: More Women on Corporate Boards," CED provides updates on this topic and outlines its plan for direct outreach to the nominating committees of prominent corporate boards. Given the prominence of CED's trustees and their service on many boards, CED can play a unique role in pursuing this objective.

We would like to thank the CED Trustees who served on the Subcommittee that prepared this report and the Policy and Impact Committee members who provided time and effort in its formation. We also wish to thank Michael Petro, Executive Vice President; Mindy Berry, Vice President of External Relations; Jeff Hooke, Vice President and Director of Economic Studies; Amy Morse, Associate Director of Programs; and Courtney Baird, Research Associate, for their support of this endeavor.

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Summary

Overview

Women occupy 16.9 percent of Fortune 500 corporate board seats today, according to the Catalyst 2013 Board Census. Progress has been made, but the rate of change has been slow. That percentage has grown just 3.3 percentage points (from 13.6 percent to 16.9 percent) in the last decade, despite women's proportionately larger presence in the labor force and higher education enrollment. This disparity seems inconsistent with a board's desire to utilize all sources of expertise and insight for its deliberations, as one means for a company to compete effectively in the global marketplace. The gender imbalance also raises the questions of (i) full business utilization of female human resources; (ii) potential alienation of a firm's female employee and supplier base; (iii) lack of attention to women, who make a large percentage of household purchasing decisions; (iv) missed opportunities to appeal to female retail and institutional investors; and (v) the ability of business to follow important social trends regarding gender.

The Committee for Economic Development (CED) is at the forefront of business-oriented public policy groups in advocating that U.S. corporations bring more women onto their boards. In 2011, CED formed a Subcommittee on Women's Economic Contribution, composed of 18 prominent men and women from the for-profit and nonprofit sectors, to study the issue and make recommendations. In 2012, CED issued a policy statement, "Fulfilling the Promise: How More Women on Corporate Boards Would Make America and American Companies More Competitive." In this current paper, CED provides updates on this topic and outlines its plan for direct outreach to the nominating committees of prominent corporate boards.

CED's research indicates that potential women board members face a "chicken and egg" problem. Although there is little overt bias, boards tend

to prefer candidates that are either (i) sitting (or retired) CEOs, or (ii) current directors of public companies. Women are a small minority of those two groupings today. In annual proxy statements, nominating committees profess a desire for board diversity, but tend to repeat those customary behaviors, which *ipso facto* discourage diversity. If this self-perpetuating cycle of exclusion could be broken, female c-suite executives, division presidents, law firm partners, accounting firm partners, financial service executives, entrepreneurs, foundation heads and university presidents would constitute just a partial list of the likely qualified candidates.

CED's Position

- *Voluntary Goal Setting and Disclosure*

Many corporations seek to increase diversity at the board level. This goal should be voluntary, rather than mandated by government quotas, which are in effect in several other countries. If U.S. publicly traded companies set well-defined goals and provide regular disclosure on progress, they can build a pathway toward fulfilling this objective. If prominent corporations adopt a target of recruiting women in one of every two board seat openings due to normal retirements and existing female seats are retained, CED believes that 30 percent participation would likely occur by 2018.

- *Expanding the Criteria for Directors*

Board-nominating committees and executive search firms, which often work for the committees, typically have excessively narrow lists of qualifications for directors, in our judgment. Therefore, potential female candidates face artificially high barriers. As a practical business matter, CED suggests that boards expand their criteria for candidates, which will open up opportunities for women while improving the quality of boards in several ways.

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- *Source of Women Board Members*

With these expanded criteria, female c-suite executives, divisional presidents, law firm partners, accounting firm partners, financial service executives, entrepreneurs, risk management professionals, foundation heads and university presidents would provide a deep pool of likely qualified candidates.

- *Direct Contact Supplements Existing Programs*

Issue promotion, numerical monitoring, executive education, public pressure, and shareholder resolutions place gender imbalance in the corporate mindset. CED believes one-on-one dialogs among peers will accelerate progress. CED proposes to harness its trustees to arrange small group meetings with nominating committee members of prominent corporate boards. These conversations will focus on why diversity is slow and what business leaders can do to achieve progress. They will also capture best practices from those companies that are already making strides to bring women on boards.

Outreach to Board Nominating Committees

CED's past outreach included statements by its Policy and Impact Committee, which supported seminars and hosted related panels at CED's policy conferences. A key goal was to place this issue in the business community's mindset and to push for the 30 percent target by 2018.

Our new outreach will focus on one-on-one contact with nominating committee members and chairs, most of whom are male. CED's 200+ trustees, 56 of whom are women, are accomplished businesspeople who can utilize their peer-to-peer networks to explain the benefits of board diversity, and to encourage a fresh outlook about board candidates. CED will assist its trustees in the administration and implementation of this outreach, and will support supplementary seminars, luncheons, and dinners to highlight this program.

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Introduction

In recent years, an increasing number of business-oriented groups—and several organizations founded to focus on this issue, such as the 30 Percent Club, Thirty Percent Coalition, 2020 Women on Boards, Women’s Forum of New York, Catalyst, Women Corporate Directors, and Corporate Women Directors International—have called for an increase in female membership on prominent corporate boards. These efforts have attracted blue-chip corporate support and have brought increased media attention to the matter. However, success has been muted over the last ten years. A 2013 Catalyst Board Census showed that women now occupy 16.9 percent of Fortune 500 board seats,¹ up from 15.2 percent in 2008, and 13.6 percent in 2003.

This statement will consider the following aspects of this issue:

- The Business Case for More Women on Boards
- The Supply/Demand Dynamics for Women Directors
- International Progress
- CED’S Path Forward: The “Every Other One” Initiative

The Business Case for More Women on Boards

Increasing the percentage of directors who are women makes good business sense because it benefits corporations in several ways:

- Enhances performance and competitiveness
- Conveys to female managers: no “glass ceiling” and opportunity for all
- Aligns with stakeholders, affinity groups and customers
- Aligns with societal norms
- Anticipates and forestalls potentially intrusive regulation
- Responds to institutional stockholders

Other countries recognize these benefits and are pushing for more women on boards.

Enhances Performance and Competitiveness

A case can be made that board diversity correlates positively with enhanced corporate financial performance, thus indicating that female board members strengthen a company’s competitiveness. Several studies support this reasoning, and further investigation is being done. However, the history of representation of women on corporate boards is relatively short. Researchers have difficulty in “isolating the impact of a single director, or a very small group of directors, on corporate performance.”²

The paucity of female representation on corporate boards is inconsistent with the need for broadened insights for board deliberations, which help a company compete effectively in the increasingly diverse global marketplace. The incorporation of more women on boards would also combat the “group-think” problem,³ whereby a homogeneous all-male board might, at times, fail to evaluate alternative viewpoints that could promote the company’s well-being. Some scholars have attributed group-think to governance failure of major corporations like Enron and Lehman

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Brothers. Furthermore, with women making a large portion of the consumer purchasing decisions in today's economy, having female directors in board deliberations appears logical and consistent. The Committee for Economic Development (CED) believes male directors should play a role in examining this matter and engaging on the diversity issue.

Women now constitute a substantial portion of highly talented labor. That proportion is projected to grow. Female enrollment and degree awards surpass those of males at the undergraduate and graduate level, and in the United States, women represent 35 percent of MBA enrollment.⁴ As the consultancy McKinsey has pointed out, the inclusion of more women in corporate leadership roles expands the supply of skilled and motivated talent, which leads to potential performance gains.

If the most prominent U.S. corporations fail to sufficiently integrate women into the workforce, U.S. competitiveness will be hurt by not utilizing the full potential of the labor pool. As the old sports maxim says, "You can't win the game, if you leave half your players on the bench." U.S. businesses may not be optimizing their human capital resources.

Conveys to Female Managers: No "Glass Ceiling" and Opportunity for All

By including more women as directors, corporations signal to their female employees that opportunities are available to them at the highest levels. The "glass ceiling"—i.e., the invisible barriers that prevent women from reaching top jobs despite their qualifications—is then weakened. By example and action, female directors are positive role models for aspiring female managers. Finally, the pull from the top can have a powerful effect throughout the various levels of a company. Diverse boards lead to a diverse senior management and diverse workforce. A recent study (2013) indicated that companies with more female directors tend to have more women in corporate offices.⁵

Aligns with Stakeholders, Affinity Groups and Customers

With women representing over half of the U.S. labor force, many corporations have female stakeholders as consumers, suppliers, and distributors. They make decisions that ultimately affect a company's profit, share price, and overall image. Given their shared experiences with these managers, women directors should be more in tune than male directors with the decision-making processes of these corporate constituents.

Correspondingly, female stakeholders may have an affinity for companies that show a willingness to engage women as directors. These stakeholders might direct purchase orders, referrals, and investment recommendations toward such companies, thus contributing to corporate success. CED believes certain businesses recognize this possibility and highlight women-director initiatives through their marketing and public relations functions. Promoting board diversity for its own sake may thus enhance a corporation's reputation and boost returns.

Enterprises specializing in the consumer market note that women make approximately two-thirds of the buying decisions in the typical American household.⁶ By including women on boards, consumer-oriented firms can focus on this critical demographic at a strategic level.

Aligns with Societal Norms

As one researcher noted, "Arguments abound for an increase in diversity in every profession including legal practice, medicine, academic, law enforcement, firefighting, and more."⁷ Moreover, formerly male-oriented pastimes, such as country clubs, city clubs, and similar organizations are, in many cases, expanding access to include women. In 2012, for example, Augusta National Golf Club, site of the prestigious Masters Tournament, admitted its first two female members, after many years of defending its exclusionary practices. The prior restrictive membership policies of these organizations had the effect of excluding women from informal business

networking that sometimes took place therein, and denying them the elevated status that accompanied such membership. By virtue of its prominence, a Fortune 500 board is perhaps the ultimate association in American business, yet, as this paper has noted, statistically such boards are behind the female inclusion trends evident in other sectors of the economy and society.

In fact, in 2014, 8 percent of Fortune 500 boards have no women, 28 percent have one woman, and 64 percent have two or more women, according to Heidrick & Struggles. These figures are consistent with Catalyst's 2013 data.

CED and others believe that female-inclusive boards help companies engage better with the societies in which they operate, and help restore public trust in them as socially responsive institutions. In this sense, CED advances a broader view of the corporation, i.e., that corporations have certain responsibilities beyond maximizing operating profits and shareholder returns. This expansive view of corporate roles has been widely accepted by business executives, free-enterprise scholars, and courts.

Anticipates and Forestalls Potentially Intrusive Regulation

Prominent businesspeople tend to think that U.S. public companies are overregulated, and that overregulation hurts global competitiveness. Taking action to limit regulation is, therefore, desirable. Voluntary efforts regarding women on boards may reduce the need for potentially intrusive government mandates. Also, quotas lead to directors who are appointed to fulfill one requirement, and that notion leads to the impression of a two-tier board.

As executive search firm Spencer Stuart pointed out in its 2013 survey, 54 percent of the S&P 500 board respondents said they were looking for women directors, but the actual percentage of new female directors was far lower.⁸ Although companies express interest in expanding board diversity, their interest is not translating into results. Similar slow progress has prompted national governments in a number

of major economies to authorize quotas for female directors on the boards of publicly held companies. CED believes that diversity goals should be *achieved voluntarily, rather than through government-mandated quotas*. It is possible that the United States federal government could approve intrusive regulations if U.S. businesses fail to address perceptions that they lag behind their international counterparts.

Currently, the U.S. Securities and Exchange Commission (SEC) requires “disclosure of whether, and if so how, a nominating committee considers diversity in identifying nominees for direction.”⁹ This disclosure is far from a legal requirement to appoint female directors, but it compels publicly traded firms to acknowledge diversity in a formal and highly legalistic manner. The latest empirical analysis of Fortune 50 proxy diversity disclosures (2012), however, concluded that over half of diversity disclosures “fail to fully comply” with these requirements.¹⁰

Absent meaningful progress, if U.S. companies continue to ignore gender balance in the boardroom, the SEC rule could be a first step toward mandates. CED views mandates as unlikely, but burdensome regulations could damage U.S. competitiveness, and could force rigid behavior rather than good-faith exercise of judgment. What was intended to be a floor under female representation could instead become a new glass—or even a steel—ceiling above it. Thus, U.S. companies should comply with the spirit of the disclosure, and the diversity objectives behind it, because this tactic makes business sense.

Responsive to Institutional Stockholders

The boards of publicly traded corporations are ultimately accountable to the owners, i.e., stockholders. For the largest publicly owned corporations, ownership is diffused—spread among many institutions and individual stockholders, with the largest owner representing a tiny fraction of the equity. Nonetheless, if a number of sizeable shareholders combine efforts, they can have influence on issues of corporate governance.

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In 2012 and 2013, for example, a group of public employee state pension funds, led by CalPERS (the California Public Employee Retirement System), worked with the 30 Percent Coalition (and several private money managers) to send letters to 137 Russell 1000 companies that lacked female directors (the year before, similar letters were sent to 41 of the S&P 500 without women directors). The letters encouraged board diversity, and the investors tried to engage in dialog with the firms. As a follow up, the institutional investors filed shareholder resolutions with over 20 of the companies for a vote at their annual meetings (most resolutions were eventually withdrawn). Subsequently, 14 of the 168 companies appointed a woman to their boards,¹¹ which suggests that shareholder pressure had a positive impact. “Corporate America doesn’t change overnight,” said an institutional investor who participated in the effort.

During the entire 2013 proxy season, shareholder resolutions on board diversity were filed with 26 companies, and 22 were withdrawn by mutual agreement.¹² Three proposals went to a vote, and one won majority support (CF Industries).¹³ For the 2014 proxy season, activity on the board diversity front was similar to 2013. There were 26 resolutions, of which 18 were withdrawn. Three proposals went to a vote with an average shareholder support level of 31 percent. Three proposals are still pending, and two resolutions were filed at companies that cancelled their meetings.

The shareholder resolution is a useful tool for proactive institutional stockholders because it provides leverage with boards, who generally try to limit annual meeting votes to a handful of items, such as director re-election and executive compensation. In exchange for the investor withdrawing the resolution, the board might agree to revisit the concept of appointing a female director.

CED believes that strong voluntary efforts to include women would limit the filing of resolutions and would demonstrate corporate responsiveness to those stockholders that are concerned about gender imbalance in the boardroom.

The Supply/Demand Dynamics for Women Directors

Supply Dynamics

As noted, board chairmen, CEOs and board nominating committees express an interest in diversity, but they often say the small number of women on boards is due to the limited number of qualified female candidates. Our research suggests that the nominating committees (and the executive search firms working for the committees) have an excessively narrow list of director qualifications, so potential female candidates face an artificially high barrier. Prerequisite qualifications for directors typically include:

- Sitting CEO of a publicly traded company
- Retired CEO of a publicly traded company
- Existing board service on a publicly traded company
- Personal acquaintance with a current board member

Because women are underrepresented in all four categories, they face a classic “chicken and egg” problem. Boards thus rationalize falling back into customary behaviors that favor male nominees.

To remedy this situation, CED believes that nominating committees should expand their criteria slightly, to include female:

- C-suite executives
- Divisional presidents
- Retired senior law firm attorneys
- Retired accounting firm partners
- Investment bankers and money managers
- Entrepreneurs
- Risk management, compliance and governance officers
- Management consultants
- Nonprofit, academic and public sector executives

One institutional investor told CED, “Boards have to take a chance on a first-time woman director.”¹⁴ CED recognizes that prominent boards often prefer the “tried and true” in corporate governance matters, and that risk-taking in this area is frowned upon by CEOs. Indeed, one director told CED, “Boards exercise a lot of caution, since the new board member may serve 10 years or more. They don’t want anyone who is disruptive, male or female.” Nonetheless, CED believes there are a sizeable number of seasoned managers in these ten categories. Finding a reasonable grouping of qualified female candidates should not require excessive “vetting” or “heavy lifting” by the nominating committee, but these candidates may fall out of the existing directors’ networks.

Demand Dynamics

It is unlikely that the demand for new Fortune 500 directors—either men or women—will increase in the short run. Most sitting directors are re-nominated, and many remain on their boards for long periods of time. An Ernst & Young (EY) report indicated that 45 percent of board seats are held by directors with tenure of 10 years or more,¹⁵ and that the turnover rate is dropping.

The median turnover rate for board members of prominent U.S. firms is seven percent per year, and the average number of board seats is 10.8 (about 5,400 seats in the Fortune 500), so a grouping of 100 board members will only see seven vacancies in a given year.¹⁶ However, about one percent of the seven percent reflects senior insider appointments (like a new CEO), of which women are underrepresented. This leaves just six percent, or 324 seats per year, available for new and independent directors (2013 was slightly below average with 298 independent seats¹⁷). In other words there is less than one new independent director for each company per year.

The average annual rate of increase in women directors has been approximately 0.4 percent, or roughly 22 additional seats per year. On this basis, the 16.9 percent in 2013 would climb to 30 percent of Fortune 500 directors in 33 years (by 2046).¹⁸ The math is as follows: 30 percent minus 16.9 percent (or 13.1 percent) divided by 0.4 percent (per year) equals 33 years.

If the average rate of increase doubles from 22 seats per year to 44 seats per year, the 30 percent goal is reached in 2029, or 16 years. Clearly, a more focused effort is required to accelerate progress.

If the Fortune 500 adopts CED’s “Every Other One” initiative, 30 percent is achieved in four years. CED’s calculation assumes (i) all existing female board seats are retained; and (ii) the 2014 percentage is 17.3 percent (16.9 percent in 2013 plus 0.4 percent equals 17.3 percent in 2014), or 934 seats. CED’s goal suggests 162 new women board seats per year ($50 \text{ percent} \times 324 = 162$), which is added to the presumed 2014 total of 934 seats. Reaching the goal of 30 percent (or 1,620 seats) thus requires four years. The math is as follows: 1,620 seats minus 934 existing seats equals 686 new seats needed for women to occupy 30 percent. 686 new seats divided by 162 new seats per year equals approximately four years.

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International Progress

Public Company and Board Statistics

Across the globe, there are tens of thousands of publicly traded companies, most of which are small compared to big U.S. firms. The MSCI ACWI All Cap Index consists of 9,000 large, medium, and small capitalization corporation segments in 46 developed and emerging markets. Forbes publishes an annual ranking of the top 2,000 public companies in the world. The Fortune Global 200 is another listing of blue-chip international firms. The Fortune 500 reflects only U.S.-based firms (which, of course, generally have international operations). To compare size, the median equity market value of the Fortune 500 is \$35 billion as of July 2014. The median equity value of the CAC 40 (the 40-firm French stock index) is \$15 billion, and that of the Norwegian stock index (25 firms) is \$4 billion.¹⁹

According to the European Commission (EC), in 2013 the average share of women on boards of the largest publicly listed companies—segmented by the largest in each of the 28 member states—was 17.8 percent, a rise of 3.3 percent over the prior three years (the U.S. Fortune 500 was 16.9 percent). In five countries—Finland (29.8 percent), France (29.7 percent), Latvia (28.6 percent), Sweden (26.5 percent), and the Netherlands (25.1 percent)—women accounted for at least a quarter of board members.²⁰ In the United Kingdom (U.K.), women occupy 20.7 percent of FTSE 100 board seats, versus 12.5 percent three years ago.²¹ Norway is not an EC member, but women hold 40 percent of public board seats, a percentage mandated by a 2003 law.

In June 2014, Corporate Women Directors International (CWDI) published its annual study, which showed that the percentage of female board directors is now 17.3 percent among the Fortune Global 200 companies, compared to 10.4 percent in 2004. This gain has been attributed to government-mandated quotas in several countries, rather than gradual, voluntary measures.²²

These data support the claim that women are representing an increasingly larger portion of corporate boards globally.

Legal Mandates

Belgium, France, Iceland, Italy, the Netherlands, Norway, and Spain currently have government-mandated quotas. Additionally, a number of other developed economies, such as Australia, Germany, Sweden, and the United Kingdom, have “comply or explain” arrangements. Comply or explain” regulations fall short of mandates, but they require public disclosure of why government-suggested approaches were not followed. Among sizeable emerging markets, India and Malaysia have quotas. The European Parliament passed a quota proposal in November 2013, and the Council of the European Union is reviewing it. Germany, the largest EU economy, has recently contemplated quota proposals, but has not passed one into law.

CED's Path Forward

The adaptability and cultural diversity of the American economy have contributed to its past economic development, and now are critical to increase its global competitiveness. Women have successfully integrated into the workforce and have contributed significantly to economic activity. A heightened presence of women in board rooms will continue this progression and enhance our nation's ability to match up against international rivals.

CED believes there is no self-correcting mechanism to resolve the gender imbalance, and therefore the problem will not fix itself. Business leaders must be proactive toward the problem, with a vision toward avoiding intrusive government quotas or mandates.

Publicizing the issue, monitoring numerical advances, educating stakeholders, applying public pressure, and introducing shareholder resolutions have "moved the needle" over the last 10 years. Many organizations have acted, particularly in the last few years, and women now represent 16.9 percent of Fortune 500 board seats, versus 13.6 percent ten years ago. Accelerating this headway requires these tactics and more.

As part of its singular efforts, CED intends to mobilize its 200+ trustees to begin dialogs with nominating committees and their respective chairmen through small group meetings. At present, CED trustees occupy seats on 66 Fortune 500 boards, and their business colleagues represent inroads to many other boards. Our goal is to meet with 25 representatives of nominating committees per year for the next three years. The conversations will focus on why diversity is slow and what business leaders can do to achieve progress. After the first year, CED proposes to publish a paper, without attribution, on nominating committee concerns. CED intends to partner with other public policy groups and business-sector organizations as needed.

CED's trustee experience in the boardroom suggests that the fastest way to achieve change is for a peer to have a face-to-face meeting with a nominating committee chair. Privately, the business case can be presented for women directors, opposing points of view can be debated, and a diversity request can be made. One executive search consultant told CED, "There are just two degrees of separation between every pair of Fortune 500 directors." If that is the reality, the leveraging of CED's trustees will enable CED to reach inside the nominating committees of multiple Fortune 500 companies within a reasonable period of time.

Ultimately, CED hopes that these prominent firms will consider nominating women for at least half of their newly open board seats, i.e., where the incumbent is not being re-nominated. If companies follow this guideline of "Every Other One," the Fortune 500 should have a 30 percent female board representation by 2018, just four years from now.

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22. Corporate Women Directors International (2014, June). Women Board Directors in the Fortune Global 200: 2004 – 2014.

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*An Update of a Policy Statement
by the Committee for Economic Development's
Policy & Impact Committee*

Includes bibliographical references.
First printing in bound-book form: 2014
Printed in the United States of America



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