Women Gain Ground In Boardroom, But Not Minorities

December 15, 2016 – Female representation among new directors rose to 32 percent in 2016, from 31 percent in 2015 and 21 percent in 2011, according to the latest Spencer Stuart Board Index. This is the highest rate of female representation since 1998 when the search firm began tracking S&P 500 data.

According to the analysis, new female independent directors are more likely than their male counterparts to be line and functional leaders; 20 percent of women are in line or functional roles, compared with six percent of male directors. Another 18 percent of female directors are division or subsidiary presidents, versus 10 percent of male directors. By contrast, male directors are significantly more likely than female directors to be active or retired CEOs and other top leaders: 47 percent versus 18 percent.

Female representation on boards now make up 21 percent of all S&P 500 directors. Female representation has increased from 15 percent a decade ago. On average, boards have 2.3 female directors, compared with 1.6 in 2006.

But there is still a lot of work to be done to strengthen and expand female board representation. Six S&P 500 boards (one percent) have no women directors, a noteworthy decline from 2006, when 52 boards (11 percent) included no female members. More than three quarters of boards (76 percent) include two or more women, a significant increase from 51 percent a decade ago and 58 percent five years ago. One quarter of boards have three women directors, compared with just 12 percent of boards in 2011.

Twenty four S&P 500 companies (4.8 percent) had a woman serving as CEO as of the May 15, 2016, proxy cut-off date that Spencer Stuart examined, an increase from three percent five years ago. Since then, one female CEO (Lauralee E. Martin) stepped down in 2016 and three announced plans to retire or step down in 2017 (Susan M. Cameron, Gracia C. Martore and Ursula Burns); and five women were named CEOs: Shira Goodman at Staples, Debra Crew at Reynolds American, Tricia Griffith at Progressive Corporation, Vicki Hollub at Occidental Petroleum and Pat Kampling at Alliant Energy.

Companies led by women tend to have more female board directors than those led by men: 31 percent of directors on boards of companies with a female CEO are women, versus 21 percent for companies with a male CEO. When the female CEO is excluded, however, the gap narrows: 24 percent of the remaining directors are women.

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Fewer Minorities Join Boards

Fewer minority directors (defined as African-American, Hispanic/Latino and Asian) were appointed to S&P 500 boards over the past year than the prior year. Fifteen percent of the 345 new independent directors are minorities, a decrease from 18 percent in 2015. Minority directors filled 53 vacant board seats. Eight percent of new directors are African-American, five are Hispanic/Latino, and two percent are of Asian descent.

New minority directors are more likely than non-minority directors to be line and functional leaders or division/subsidiary presidents, 41 percent versus 20 percent, and less likely to be active or retired senior leaders (such as CEO, chair, president or COO), 24 percent versus 41 percent.

Among the boards of the top 200 S&P 500 companies, the total number of minority directors has held steady at 15 percent since 2011, and the number of the top 200 companies with at least one minority director remains unchanged at 88 percent.

Despite increased attention to the topic of board diversity, representation of minority directors at the top 200 S&P 500 companies has not significantly changed over the past five to 10 years.

•8.2 percent of directors are African-American, compared with 9.5 percent in 2011 and 9.2 in 2006. Seventy five percent of boards have at least one African-American director, a decline from 78 percent in 2011 and 80 percent in 2006.

•4.8 percent of directors are Hispanic/Latino, up from 4.4 in 2011 and 3.6 in 2006. Forty seven percent of boards today have at least one Hispanic/Latino director, up from 45 percent in 2011 and 35 percent in 2006.

•1.8 percent of directors are Asian (non-Indian), versus 1.4 percent in 2011 and 0.7 percent in 2006. Eighteen percent of boards have one or more Asian directors, up from 16 percent in 2011 and seven percent in 2006.

Nine (five percent) of the top 200 S&P companies are led by African-American, Hispanic/Latino or Asian CEOs, three more than in 2015. In 2011, only five of the top 200 companies were led by minority CEOs.

Similar to the pattern seen among companies led by women, companies led by minority CEOs have more minority directors than other companies. Twenty four percent of the directors for the nine companies with minority CEOs are minorities, compared with 14 percent of directors of companies with a non-minority CEO. However, minority representation drops to 17 percent when the CEO is excluded.

Importance of Diversity On Boards

According to PwC's 2016 'Annual Corporate Directors' report, nearly all directors (96 percent) agree that diversity is important. But how important it is and how much it helps depends on whom you ask. Female directors have a much stronger opinion about the benefits of board diversity than male directors.

One issue in the debate is disagreement about whether there are qualified diverse board candidates to tap for director service. Virtually all female directors say there are sufficient numbers of such people, while only about two thirds of male directors say the same. A contributing factor cited by some is a lack of diversity in the C-suite, where many boards look for potential director candidates. So some boards are using public databases, many of which can highlight diverse candidates, in their search for new board members.

One of the main difficulties in adding diversity to corporate boards is that many boards look to current or former CEOs as potential director candidates. But only four percent of S&P 500 CEOs are female, according to a poll by Catalyst, and only one percent of the Fortune 500 CEOs are African-American.

So where can boards find qualified diverse candidates? The PwC suggests that first the pool of potential director candidates needs to expand. And then boards will have to look in different places. There are often many untapped, highly qualified, and diverse candidates a few steps below the C-suite — people who drive strategies, run large segments of the business, and function like CEOs.

But female directors think there are far more qualified diverse potential directors out there than male directors do. Still, boards are starting to use public databases in their talent search — an indication that they may be looking for diverse qualities in those new candidates.

Long Way to Go

“There is no doubt that a gender-balanced and diverse board can add real value to operational and financial performance,” said Alicia Yi, managing director, board & CEO services at Korn Ferry. “We have a long way to go when it comes to fully embracing diversity. Thus, a stronger push is needed to bring corporate boards to the next level.”

“There’s a clear link between diversity of thought at the decision-making table and those companies that outperform,” said Fergus Kiel, a partner in the CEO & board practice of Heidrick & Struggles in Sydney. Gender diversity is acknowledged in playing a key role in the process of expanding that diversity of thought, he said. “In our experience, chairs want experienced senior executives on their boards, and we believe the only way to get parity sought is to ensure there is a continued effort to ensure a healthy pipeline of diversity in front-line executive positions.”

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