# Fulfilling the Promise: How More Women on Corporate Boards Would Make America and American Companies More Competitive

CED

Statement by the Policy and Impact Committee
of The Committee for Economic Development

Includes bibliographic references

First printing in bound-book form: 2012

Printed in the United States of America

COMMITTEE FOR ECONOMIC DEVELOPMENT

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Washington, D.C., 20036

202-296-5860

www.ced.org

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# Purpose of this Statement

Successive crises touching the performance of American corporations have focused increased attention on the board of directors as a unique institution with power to effect change. Those scrutinizing corporate boards see an obvious feature: They are predominately composed of men. In 2011, women occupied just 16 percent of Fortune 500 board seats. That percentage is far below the percentages of women in the labor force, enrolled in higher education, and graduating with advanced degrees. This leaves untapped an important source of expertise and insight. If we as a society want women in the workforce – and we do – we need to provide working women with the opportunity to succeed at the highest levels. Without a serious commitment to bringing more women onto boards, U.S. corporations will find themselves falling behind international competitors that are getting the most out of an expanding pool of talented women by opening to them more opportunities for success and advancement.

Recognizing this reality, CED initiated in 2011 a Subcommittee on Women's Economic Empowerment, chaired by Beth Brooke, Global Vice Chair - Public Policy, Ernst & Young. We are grateful to Beth for her leadership and to the other CED Trustee and non-Trustee members of this Subcommittee for the time, effort, and expertise they dedicated to developing this report. We also wish to thank Elliot Schwartz, CED Vice President and Director of Economic Research, and Joe Minarik, CED's Senior Vice President and Director of Research for their support of this endeavor

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# Summary

**We urge businesses – business leaders – to make it a priority to develop the talents and advance the careers of female staff who have been identified as potential leaders. This means providing such women with the experiences and background needed to rise to the top, advocating their promotion to higher levels of responsibility, and showing visible results of these efforts. Our goal is to see more women elected to corporate boards. The strongest business case for this goal and recommendation is that successful businesses of the future will be those that attract, retain, and grow talent – which requires that more women have the opportunity to succeed at all levels of the company, including the board. If American companies fail to meet the career requirements of high-performing women, they will fall behind global competitors that do.**

European and Pacific nations and emerging market countries are taking action to ensure that their companies have diverse corporate boards. Yet, too many American companies fall short when measured by the number of women on boards of directors. This must change. American companies must use all available human talent to be globally competitive.

Since World War II, American economic growth and competitiveness have been strengthened by businesses' ability to gain value from an increasingly diverse labor force. Women today contribute in virtually all levels of work life. Women have excelled in educational attainment and have been led to expect full equality in the workplace. That expectation, and the progress built upon it, is undermined when women cannot achieve equal status on the highest rungs of the corporate ladder.

The situation for the United States is urgent, as other countries move ahead with numerous efforts to provide women with greater access to board membership and other opportunities for advancement. Despite a professed desire by many companies for greater diversity and female representation, there has been virtually no improvement in recent years. Corporate leaders must commit to show better results.

## Gender Composition of Corporate Boards Is Important for Global Competitiveness

Women now constitute a substantial portion of highly talented labor. They have caught up to and surpassed men in college attendance and attainment of bachelor's and master's degrees. Currently in the United States, more than one-third (36.8 percent) of new MBAs are earned by women. Companies that fail to fully utilize this labor talent will limit their own growth and opportunities for economic gain.

This report focuses on leadership at the top. We are well aware that the search for gender equity must proceed at all levels. As a business leadership group, CED's greatest impact is likely to be felt at the board level. We know that the board is where strategic decisions are made and that having more women on boards will have a pull effect, leveraging more women into other upper-echelon positions. Of course, board selection is complicated and must be made on merit. But the relative lack of women in leadership positions makes us, along with many others, wonder whether merit selection currently operates as it should.

## Existing Efforts Do Not Yield Enough Progress

Certainly, things are better than they used to be. In 1980, no woman was CEO of a Fortune 100 company; in 2001, 11 percent of Fortune 100 board positions were held by women. But very little has changed over the past decade. The percentage of women on all U.S. corporate boards has been stuck in the 12.1 to 12.3 percent range; in Fortune 500 companies it is only slightly better, in the 15 to 16 percent range. On current estimates, the percentage of women on boards will never even begin to approach their percentage in the population and labor force.

## Supply Challenges

Board nominating committees often say that the small number of women on boards is due to the small number of perceived candidates in the pipeline, although our own review of the many organizations that maintain lists of qualified female board candidates casts substantial doubt on the validity of that perception. (See Appendix 2.) The organization WomenCorporateDirectors, for example, has over 1350 members serving on over 1500 boards worldwide. It may be that nominating committees set criteria for board membership too narrowly, thus filtering out female candidates who might be qualified were it not for the lack of a CEO credential. Nevertheless, the supply of candidates might be less than it could be because women are under-represented in senior corporate management, from which directors often are chosen. The willingness and availability of women to serve in senior leadership roles is also affected by their own motivations and choices. Seeing few female board members might be a deterrent to stepping forward. And an important set of choices for many women revolves around motherhood – if and when to have children; how much, if any, time to take off for childcare; etc.

## Nominating Committees Do Not Do Enough to Demand Women Candidates

Although researchers have found little evidence of overt bias in selection for board positions, many observers have commented on cultural factors and the tendency of individuals to associate with people like themselves or with similar backgrounds and points of view, which may help explain why boards appear so homogeneous and why change is so difficult. Many board nominating committees employ search firms. And many boards and their search firms have professed commitment to recruiting women to achieve board diversity. Nevertheless, results are poor. In our view, nominating committees and search firms need to look harder and show better results.

## Supply and Demand Problems Will Not Fix Themselves; Active Solutions Are Needed

The lack of women directors reflects problems in both sides of the market. In normally operating markets, demand and supply imbalances are automatically corrected as buyers and sellers adjust to prevailing prices. The market for board directors, in particular female directors, may not fully fit the standard economic model, and normal self-correcting mechanisms of a market may not be very effective. Thus, we need to examine policy solutions – primarily private-sector solutions – that could be effective at correcting the gender imbalance.

## CED Recommendations: A Business Approach to Expand Supply and Increase Demand by Advocating for Talented Women

Although many corporations are actively interested in programs and policies to expand opportunities for women, there has been too little progress. A report that addresses gender representation in U.K. companies, the Davies Report, recommends several actions to improve gender balance on corporate boards. Unlike some other European nations, they do not opt for quotas. Nor do we. We do, however, agree with the spirit of the Davies Report, which embraces softer forms of targeting, goal setting, and disclosure. Businesses operate more effectively when they have well-defined goals with accountability for reaching targets. We encourage U.S. businesses to consider adopting and voluntarily reporting on stretch targets for the nomination and election of women to their boards.

**We have one fundamental recommendation: Businesses – business leaders – must make it a priority to develop the talents and advance the careers of female staff who have been identified as potential leaders. This means providing such women with the experiences and backgrounds needed to rise to the top, and advocating their promotion to higher levels of responsibility.** The development of talent within an organization is critical to long-term competitiveness. Businesses that can provide talented women with developmental opportunities and integrate them into their workforce are much more likely to succeed in competition with those that fail to do so.

Dissatisfaction with weak results from traditional mentoring programs has contributed to interest

in more aggressive "sponsorship" programs that go further to identify women with high potential and connect them with sponsors who will help promote their career development. Sponsorship is intended to be "a long-term, hands-on commitment to encouraging, fighting for and creating advancement opportunities for high-potential individuals." We would take sponsorship programs to another level by challenging senior executives, men in particular, to take responsibility for developing, grooming, and advocating for talented women within their companies. This means giving such women the experiences necessary to become effective board members.

Another approach, particularly for nominating committees, is to work with executive search companies to ensure full consideration of a talent pool that includes women. Many top search firms have stated a desire to be inclusive and search widely for potential female candidates for senior executive and board positions. Many have pledged to do so in other countries, and they should affirm that pledge in the U.S. market. Nominating committees are in the position to insist that search firms make the desire for gender balance a reality by demanding to interview female candidates. They can, for example, ask their search firms to examine established lists of potential women directors from organizations such as WomenCorporateDirectors (WCD) and Governance Metrics (GMI).

## Conclusion

Economic analyses of trade and competition focus on a country's sources of strength – its "comparative advantage." America's adaptability and cultural diversity have historically been sources of significant strength in its economic development. Compared to many other countries, particularly in Europe and Asia, the United States has gained from its ability to integrate culturally diverse groups into positions where they could contribute significantly to economic growth and development. Women, too, have been integrated into the workforce in unprecedented numbers. Despite these gains, the potential is much greater. The United States is not now a global leader in creating opportunities for women; it has ample room for improvement.

This is not a problem that will fix itself. America's business leaders should understand that they need to use all available talent to succeed in today's global competitive markets, and such talent increasingly will come from women. Business leaders should be at the forefront of efforts to improve the gender balance at the top of corporate leadership. In other countries, such as the United Kingdom and Australia, male business leaders have taken a leading role in promoting better gender balance on boards. We challenge U.S. companies and their leaders to examine their practices against the best in class; they should ask what they will do to advance women, and they should be transparent in setting targets and measuring results.

# Women on Corporate Boards Would Make America and American Companies More Competitive

For years – decades – advocates have been making the case for corporations to have more women on their boards of directors. Catalyst, one of the leading organizations promoting women in the workplace, has been tracking the number of women on corporate boards since 1977. For most advocates, the business case for women on boards has revolved around the benefits of diversity and, specifically, the measurable economic gains that accrue to companies with female directors. Studies by Catalyst and McKinsey, among others, have shown that companies with more women directors rank higher on various performance measures than other boards.[1] Data analyzed by Catalyst, for example, show that between 2004 and 2008, companies in the top quartile based on the highest average percentage of women directors outperformed companies in the bottom quartile by 26 percent measured by return on invested capital (9.1 percent return versus 7.2 percent).[2]

The value of such data on business performance has been questioned by many. The researchers themselves openly state that these statistically significant correlations do not prove causality.[3] Others have noted that while there are many well-established benefits to gender-diverse boards, "the overall impact…of diversity on corporate performance has yet to be established."[4] Some are simply skeptical or unconvinced. In any event, out-sized performance gains are likely to be worn away over time as competitors copy market leaders.

We do not want to dwell on the question of whether women on boards *create* higher profits. In our view, there is a stronger and more salient business case to be made for women corporate directors based on both the competition for talent and the need for boards to be more attuned to consumers, suppliers and other stakeholders: *Successful businesses of the future will be those that attract, retain, and grow talent in ways that provide more women the opportunity to succeed at all levels of the company, including the board; success also will increasingly depend on a company's ability to reach a more diverse group of stakeholders, who, more and more, are composed of women.*

## American Companies Are Being Challenged to Compete

America and American companies are being challenged around the globe. To many observers the United States is in danger of losing its competitive edge to countries such as Brazil, Russia, India, China (BRICs) and other emerging markets. Companies based in advanced European and Asian countries continue to challenge U.S. companies globally. In such an environment, U.S. companies cannot afford to overlook any available resource. Specifically, they need to do a better job of tapping into the full national talent pool. We are concerned that at the highest level of corporate leadership – the corporate board – too many companies fail to utilize talents of the female half of the population. This must change.

The basic facts of women's representation on corporate boards are not in dispute. Surveys show that women held only 16.1 percent of board seats at *Fortune* 500 companies in 2011, and 12.2 percent of seats in a larger sample of 1,754 companies.[5] This, of course, runs counter to expectations based on the virtually equal gender composition of the overall population and the labor force. It is particularly disturbing because of the repercussions felt down the line.

In many respects, post-World War II economic growth (especially since the 1970s) has been built on the expansion of the labor force and its inclusion of women. Women today are found at virtually all levels of work life, and highly educated and trained women are entering the labor force in greater numbers than men. The promise of full equality in the workplace, including the potential for advancement, is a foundation stone of this trend. It has been critical to the success of individual companies and to the economy as a whole. True equality, however, cannot be achieved while women are consigned to minority

status in the boards of American corporations. Many women, knowing that the top rungs of the ladder are unavailable to them, will be discouraged from striving for success and upward advancement, which harms not only them but all of us. Companies that fail to attract, develop, and promote high-performing women will fall behind competitors that do.

The situation is more urgent than many of our corporate leaders realize. Countries and companies have better economic and social outcomes when women have greater access to economic opportunities and decision-making and leadership roles. A complacent attitude of benign neglect has been the dominant response. Many take solace in the important gains that have taken place over the past 30 to 40 years. But these gains have hit a plateau. Many companies profess their desire for change; but without concerted action and demonstrated commitment to change, we foresee virtually no improvement in women's representation on corporate boards, which will have real economic consequences for all concerned. As with any business challenge, corporate leaders must commit to a plan of action *and show results*. Excuses and dismissive arguments no longer will suffice.

## Women on Boards are Critical to the Competitiveness Agenda

The United States is not alone in confronting the issue of gender diversity in corporate boards. As other countries have tackled these same problems, some have opted for quotas that require a certain percentage of board positions be reserved for women. Quotas are now being used or are under consideration in Norway, Spain, France, Italy, Iceland, Belgium, The Netherlands, and Malaysia.[6] In most cases, quotas are set at 40 percent of boards seats to be held by women. Some quotas, as in Norway, are enforced by strong penalties; others (Spain) are more aspirational, with weaker enforcement; and some (France) are to be phased in.[7] The European Commission is also examining options for improving gender representation in boards, and Commissioner Viviane Reding has suggested that she will push for quotas if companies show little or no progress through voluntary efforts.

Australia provides an interesting case and a potential challenge to U.S. corporate leaders. With the help of a group of Australian business leaders, called Male Champions of Change, and revisions to the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council, 40 percent of new additions to Australian corporate boards in 2011 were women.[8] The Australian business leaders' program combined many elements of change we endorse in this report: establishing measurable objectives regarding gender diversity, "getting serious" about women's representation based on the CEO's commitment, and ultimately capturing the benefits of diversity and "an inclusive leadership culture."[9]

The leading emerging market countries, the BRICs, are also facing up to the challenge.[10] Although none of these countries has an outstanding (or even adequate) record of achievement with regard to its treatment of women and girls, each has taken action recently to promote women to top corporate positions. As reported by the *Economist* magazine, 32 percent of senior managers in China are women, compared with 23 percent in the United States. In India and Brazil, 11 percent of CEOs of large companies are women, compared with 3 percent of Fortune 500 CEOs in the United States.[11]

The United Kingdom recently has taken an important step, with many potential lessons and challenges for the United States. Recognizing that progress towards greater female representation on boards has been slow, the U.K. government asked Lord Mervyn Davies to "undertake a review of the current situation, to identify the barriers preventing more women reaching the boardroom and to make recommendations regarding what government and business could do to increase the proportion of women on corporate boards."[12]

The Davies Report was delivered to the U.K. Department for Business, Innovation and Skills and publicly released in February 2011. The report succinctly sums up a key motivation for CED and other corporate and political leaders to want to improve women's representation on corporate boards:

> The business case for increasing the number of women on corporate boards is clear. Women are successful at university and in their early careers, but attrition rates increase as they progress through an organisation. When women are so under-represented on corporate boards, companies are missing out, as they are unable to draw from the widest possible range

of talent. Evidence suggests that companies with a strong female representation at board and top management level perform better than those without and that gender-diverse boards have a positive impact on performance. It is clear that boards make better decisions where a range of voices, drawing on different life experiences, can be heard. That mix of voices must include women.[13]

The Davies Report goes on to point out some obvious and compelling features of gender imbalance on corporate boards:

- The importance of improving gender balance of corporate boards is increasingly recognized across the world.
- The current pace of change is not good enough. At the current rate it would take the United Kingdom's top 100 companies 70 years to achieve gender-balanced boards.
- Part of the challenge is supply – the pipeline of potential candidates for board positions.
- Part of the challenge is demand – capable female candidates are not getting board positions.
- Solutions must involve various actors within the corporate community – board chairs, CEOs, investors, and executive search firms. Government must play a supporting role.

Next, we examine these five points in greater detail.

## Why Is The Gender Composition of Corporate Boards Important?

As noted above, gender balance has become a competitive issue. Other countries have taken the lead – by instituting quotas, taking other direct action to promote women, or building national consensus through leadership – because they see the economic and social value of inclusion and diversity. The competition for talent is global, and talent matters to bottom-line results. Companies that do not provide sufficient incentive and opportunity for more women to rise to the top will lose them to others that will. Bloomberg news service reported that the response from qualified American female candidates to an inquiry from the search firm Spencer Stuart for directors for firms based in the United Kingdom, Germany and France was "huge, within hours."[14] No company will remain competitive for long if it ignores half of its available labor pool.

Women now constitute a substantial portion of highly talented labor, and that portion will continue to grow. Women have caught up to and surpassed men in college attendance and attainment of bachelor's and master's degrees, and the gaps are growing.[15] The number of females in graduate schools surpassed the number of males in 1984; in 2008 women accounted for 59 percent of graduate school enrollment. Currently in the United States, more than one-third (36.8 percent) of new MBAs are earned by women.[16] By 2019, women are projected to account for nearly 60 percent of total undergraduate enrollment.[17] Women's labor force participation has grown from about 32 percent in 1948 to 61 percent in 2009, while men's participation declined from 89 percent to 75 percent. These differences are much smaller among those with a college degree or more education, and women are now a majority of workers in "management, professional, and related occupations."[18] Yet, women continue to be a substantially underused resource with significant potential to yield economy-wide benefits beyond their direct effects where employed in companies. As the consultancy McKinsey has pointed out, the greater inclusion of women in corporate leadership would expand the supply of skilled and motivated talent, thereby expanding opportunities for performance gains.[19]

CED and others have written extensively about a separate but related aspect of the business case for women on corporate boards. Specifically, having more women on boards would help companies engage better with the society in which they operate and help restore some trust in business as a social institution. The ongoing evolution of business in the United States, especially for corporations, is putting greater emphasis on business's social role and its relationship to business performance, including shareholder value and other metrics of success. As companies search for a new value paradigm based on responsible engagement with their stakeholders and society overall, they should be looking at their policies toward recruitment, retention, and development of women. As indicated by a Canadian Conference Board study and other observations, boards with women directors tend to be

more in touch with longer-term, societal perspectives of stakeholders.[20] As important, the advancement of women to leadership roles can play a significant part in restoring both trust in and performance of American business, especially in national and global markets that increasingly demand that companies reflect societal goals and values, including those pertaining to women's empowerment and social equity.

*Why board leadership?* Analyses of women's economic empowerment and contributions to economic performance, growth, and equity range across an extensive list of topics encompassing entrepreneurship, production work, services, household work, consumer activities, and so on. To be most effective, we have chosen to focus on corporate leadership, specifically boards of directors. We do this for several reasons. Fundamentally, we agree with the Davies Report, which puts it this way:

> The boardroom is where strategic decisions are made, governance applied and risk overseen. It is therefore imperative that boards are made up of competent high calibre individuals who together offer a mix of skills, experiences and backgrounds. Board appointments must always be made on merit, with the best qualified person getting the job. But, given the long record of women achieving the highest qualifications and leadership positions in many walks of life, the poor representation of women on boards, relative to their male counterparts, has raised questions about whether board recruitment is in practice based on skills, experience and performance.[21]

This focus on the top is not to suggest that bottom-up approaches, or other targeted approaches, should be discounted or downgraded. The search for gender equity should proceed at all levels. But, as a business leadership group, CED's greatest impact occurs when research and policy recommendations are addressed to business leaders who can appreciate the critical and sensible analysis portrayed in these pages, and take action. In this regard, we believe CED's unique voice can take the women's empowerment issue out of its traditional forum of women speaking to women and into a wider circle of understanding where the potential for impact is significant.

We note, too, that adding women to top positions has a leverage effect by providing role models and aspirational goals for other women and for girls at early stages of education and career decisions. Women at the top of their firms play a significant role in helping to pull others into top management and board positions.[22] This leveraging effect has been shown in numerous global studies of women's role in economic achievement, and will be a critical element in achieving more-equitable gender representation in future boards. The pull from the top can have powerful economic effects throughout the various strata of a company and overall society. More diverse boards will produce more diverse senior management and more diverse workforces. It will produce better outcomes for companies and is a key ingredient in managing for the longer term.

## The Current Pace of Change Is Not Good Enough

Compared to the past, women today participate in the production side of the U.S. economy in relatively greater proportions and with significantly greater opportunities, although a wide gap remains between actual and ideal results. In 1980, no women were to be found in the top executive ranks of the Fortune 100; in 2001, 11 percent were women.[23] But, progress in women's economic empowerment appears to have leveled off. As noted, women continue to occupy board seats in the low to mid teens as a percentage of all positions. The aggregate percentage of women on boards in U.S. companies has been in the range of 12.1 to 12.3 percent for the past 3 years, according to GovernanceMetrics' 2011 survey.[24] In the *Fortune 500*, women held 15.2 to 15.7 percent of board seats in 2009 and 2010, according to Catalyst.[25] Women currently account for only 2.0 to 2.6 percent of board chairs and 7.3 to 8.8 percent of lead directors.

Looking beyond these averages, observers have examined other details of board composition. For example, Catalyst reported that in 2009 and 2010, more than half of *Fortune 500* companies had at least two female directors, while 11 percent had none. About 20 percent had three or more female directors, a threshold many consider to be a minimum "critical mass" for effectiveness.[26] A report by The Corporate Library indicated that only half of Russell 2000

companies had any women on their boards; only four percent had more than two women.[27] Oddly, companies in the Russell 3000 had a higher percentage of women on boards: 60 percent had one woman and 8 percent had more than two.

The contrast with women's substantial achievements in education, employment, and mid-level management is noteworthy. Economists and others have long been concerned about the effects of social impediments to women's full participation in the labor force. In her book, *Grand Pursuit*, which explores the history of economics and economic study, Sylvia Nasar devotes particular attention to Alfred Marshall, one of the principal founders of modern economics. In the 1870s, she writes, "Marshall was sensitive to the plight of women who were prevented from developing their intellects and regretted society's loss of their talents."[28] One-hundred-forty years later, we still have reason to regret society's loss of women's talents.

## The Supply Pipeline is a Challenge to Some, an Excuse to Others

Board nominating committees often say that the small number of women on boards is due to the small number of perceived candidates in the pipeline.[29] Our review leaves us doubtful about whether this is true or just a perception by (mostly male) nominating committees. It may be because nominating committees set criteria for board membership that are too narrow, thus filtering out female candidates who might be qualified were it not for the lack of a CEO credential. As discussed in the recommendations section below (and Appendix 2), many organizations maintain long lists of female candidates qualified for board positions. The organization WomenCorporateDirectors (WCD), for example, has over 1350 members serving on over 1500 boards worldwide.[30] At present, board candidates are mostly drawn from a pool of senior corporate managers; sitting and former CEOs are most sought after. Women are under-represented in this target group, even more than they are in boards. In 2011, only 14 women held the position of CEO in a *Fortune 500* company. With the addition of Virginia Rometty at IBM and Meg Whitman at Hewlett-Packard, among others, this number rose to 18 in 2012. Another 21 women were CEOs of the next 500 companies ranked by *Fortune Magazine* (numbers 501-1000).[31] In the next-lower management tier, women represented only 8.4 percent of the highest-paid positions within the S&P 100.[32]

Supply, of course, is also strongly affected by the willingness of women to prepare for and accept leadership roles that will enhance their candidacy for a board position. Many observers have noted that although male and female graduates enter into the workforce in relatively equal numbers, the number of women tends to diminish the higher up the chain of management one looks. As the Davies Report puts it: "[T]he reasons for this drop are complex, and relate to factors such as lack of access to flexible working arrangements, difficulties in achieving work-life balance or disillusionment at a lack of career progression."[33]

Some analysts have pointed to some elements of self-selection, where women remove themselves from competition for some jobs – effectively taking themselves out of the supply pool. One aspect of self-selection may be due to the interaction between institutional structures and gender differences, which can cause even high-performing women to be risk averse, lack confidence, or be reluctant to make an up-front commitment in certain situations.[34]

An obvious issue relevant to the potential pool of female candidates for top positions is the role motherhood plays in the development of a woman's career. (This generally would not be relevant later in a woman's career when she might be considered for board membership.) Many women leave employment for an extended period during childbearing years, which happens to coincide with early- to mid-career development. When they return, women may find themselves behind colleagues and hindered in career advancement. U.S. societal norms place extra burdens on working women, who are expected to take care of their families and homes to a greater measure than men. Data show that employed married women on average spend 40 minutes more per day than married men doing household activities such as cooking, housework, and household management.[35] These extra responsibilities can take a toll on a young woman's career path. As discussed in recommendations below, businesses can do much more to smooth a woman's

career development to minimize the disruption of childbearing and other family responsibilities.

## Nominating Committees Do Not Demand Enough Women Candidates

When the outcome of a labor market is that fewer of an identifiable class of participants are hired than one might normally expect, analysts often look to determine whether there is evidence of bias in hiring. And researchers have looked for the existence of bias in the market for corporate directors. Overt bias has been hard to detect, but analysts have found evidence of tacit discrimination based on cultural factors, such as gender stereotypes, and of a "glass-ceiling" effect whereby biased initial conditions limit gains in the absence of strong countermeasures.[36] Many observers have commented on the tendency of individuals to associate with people like themselves or with similar backgrounds and points of view. This may help explain why boards appear so homogeneous and why change at the margin is so difficult.

In most boards, nominating committees have formal responsibility for choosing director nominees. Many employ executive search firms to aid in the development of candidates. And, throughout this chain, many have professed a desire to expand the candidate pool to include more women. One search firm, Spencer Stuart, reported that 90 percent of S&P 500 boards included in their annual proxy statements a commitment to "achieving a diversified board in terms of age, race, gender, geographic origin, viewpoints and experience."[37] Many boards also said they wanted to reflect the company's "business footprint, customer base and shareholders." Yet they profess a lack of suitable candidates, and the number of women on boards has barely changed in recent years. In our view they need to expand their search criteria and look harder.

Nominating committees, especially in retail-oriented companies, may want to consider the value women can add to board deliberations because of their ability to connect with consumers, employees and other stakeholders. Women account for 85 percent of all consumer purchases in the United States and are increasingly part of a business's employee and supplier base. While boards do not have to represent stakeholder constituencies, having the stakeholders' perspective represented in the boardroom would, in most cases, be an advantage.

## A Note on Self-Correcting Markets and Effects of Gender Differences on Supply and Demand

The observable outcomes of any market are the result of the interplay between aspects of the demand for and supply of the outcome in question. The lack of women directors reflects problems in both sides of the market. Some of these problems are rooted in the different career development paths often taken by men and women. For example, a common experience reported by men and women (and backed by experimental research) is one of seeing men being promoted on their potential while women must have proven accomplishments before their talent is recognized.[38] Another often-reported experience is of a disconnect between women who might be waiting for more senior management to recognize their talent and promote them to more responsible positions and the senior managers who are waiting for the women to signal their interest in such promotion. The need for better accommodation of maternity and childcare needs is a distinct, though separate, part of gender-based career development.

In normally operating markets, demand and supply imbalances are automatically corrected as buyers and sellers adjust to prevailing prices. The market for board directors, in particular female directors, may not fully fit the standard economic model. The unique characteristics of both buyers (companies) and sellers (highly skilled individuals) make the market for directors very different from markets for commodities like wheat or oil. In fact, there is no single market for directors, because each company can be thought of as having its own individual market needs. In such a circumstance, normal self-correcting mechanisms of a market may not be very effective. Thus, we need to examine policy solutions – primarily private-sector solutions – that could be effective at correcting the gender imbalance.

## Some Solutions

The Davies Report recommends ten key actions to improve gender balance on corporate boards. (Discussed in summary below and reproduced in

Appendix I.) Unlike some other European nations, they do not opt for quotas. Nor do we.

We agree with the spirit of the Davies Report's embrace of softer forms of targeting, goal setting, and disclosure, amended as appropriate to the U.S. context and U.S. reporting regulations. Businesses operate more effectively when they have well-defined goals, with accountability for reaching targets. The U.K. report recommends that leading companies aim for a figure of 25 percent of board seats to be occupied by women by 2015. In addition, it asks companies to set publicly aspirational goals for appointments of women to the board, disclose the proportion of women on the board and in senior executive positions, explain publicly how the nomination committee addresses diversity, and expand the search for well-qualified women, in addition to other specific recommendations. **We encourage U.S. businesses to consider adopting and voluntarily reporting on progress to meet stretch targets for the nomination and election of women to their boards.**

A six-month review of the Davies Report, published in October 2011, indicated that some progress already had been made.[39] The U.K. Corporate Governance Code has been changed to mandate the recommended disclosures. Most important, female directors constituted 22.5 percent of all board appointments since the report was published, and the percentage of women on FTSE 100 boards rose from 12.5 percent to 14.2 percent – an improvement, though still significantly short of the target. In addition, one-third of FTSE 100 companies have established aspirational targets to increase the number of women on boards, and more than half of companies have explicitly announced support of the Davies Report.

In the United States, the SEC has (recently) established a rule mandating disclosure of board nominating practices. (See Box.) In addition, SEC Commissioner Luis Aguilar has publicly supported a proposal akin to the National Football League's (NFL's) "Rooney Rule."[40] The Rooney Rule was instituted by the NFL to address a lack of racial diversity in head coaching positions, which was particularly glaring in contrast to the high percentage of black players. (Major League Baseball has a similar rule known as the "Selig Rule.") In essence, the Rooney Rule requires all NFL teams to interview at least one minority candidate when filling a head coaching position. Teams are not required to hire that candidate, but they must make a good-faith effort when examining candidates. The effect has been to expand the search for qualified candidates, and the result has been an increase in hiring of minorities – nearly a quarter of head coaches hired since the rule was adopted have been minorities.[41]

### SEC Rule on Disclosure of Board Nomination Practices

In December 2009, the SEC adopted an amendment to Regulation S-K "to require disclosure of whether, and if so how, a nominating committee considers diversity in identifying nominees for director." The rule requires a company to disclose:

- Whether diversity is a factor in considering candidates for nomination to the board,
- How diversity is considered in that process, and
- How the nominating committee or board assesses the effectiveness of its policy for considering diversity.

The rule does not have a set definition of diversity. Companies, therefore, are able to define diversity "as they consider appropriate," which could range from "differences of viewpoint, professional experience, education, skill and other individual qualities and attributes that contribute to board heterogeneity" to identification based on "race, gender and national origin."

Source: Securities and Exchange Commission, "Proxy Disclosure Enhancements, Final Rule," December 16, 2009.

Aguilar has proposed that boards adopt a similar approach. In the context of board seats, nominating committees could instruct search firms to include women candidates on lists for committee deliberation. Corporations and their search firms could do this voluntarily, without regulation from the SEC.

An important route to improving the gender balance of boards is through executive search firms, which are used by most major corporations to recommend candidates to fill executive and board positions. Some

such firms are already taking the lead in the search for women directors. Heidrick & Struggles, for example, is cited by McKinsey as making "a dedicated effort to submit female candidates for all its board searches on a global basis," leading to more female appointments to corporate boards.[42] Other executive search firms have also pledged to pay greater attention to female candidates. Following publication of the Davies Report, the U.K. executive search industry agreed to a voluntary code that includes a provision that at least 30 percent of long-list board candidates be women. Over 20 companies have signed up since the Code's launch.[43] The continuing problem, however, is that results do not seem to change.

## CED Recommendations: A Business Approach to Expand Supply and Increase Demand by Advocating for Talented Women

We are frustrated that despite the efforts of many to try various "good ideas," such as those endorsed by the Davies Report, the SEC, and numerous companies, including executive search firms, little progress has been made over the past decade. No business would tolerate a similar lack of achievement with respect to sales, revenues, earnings, or any of the other metrics commonly used to measure business success. As we state at the start, gender representation is a competitiveness issue. The achievement of greater representation by women on corporate boards must be seen as part of a larger issue of talent development and met with the same urgency and accountability as any other competitive threat.

It is, therefore, imperative that businesses treat this issue as a strategic business decision and back it up with commitment, measurement, and accountability. Businesses know how to make such strategic decisions and drive them to completion. Companies must decide for themselves that the development of highly talented women and the goal of placing more women on corporate boards are important to their financial future. Once they take such a decision, they must work out a strategy for its achievement, including measurable goals and accountability tied to performance pay. Each business will find its unique solution, but those solutions may share common elements. McKinsey, for example, recommends explicit diversity indicators to monitor progress and define priorities. Indicators might include: the proportion of women in a company's business units at each level of employment; pay levels and attrition rates of men and women in comparable positions; and the ratio of women promoted to women eligible for promotion.[44] Experience indicates that when such indicators are used in regular reviews, companies are more likely to be successful at promoting and retaining women.

**We have one fundamental recommendation: businesses – business leaders – must make it a priority to develop the talents and advance the careers of female staff who have been identified as potential leaders. This means providing such women with the experiences and background needed to rise to the top, advocating their promotion to higher levels of responsibility, and showing visible results of these efforts.** The development of talent within an organization is critical to long-term competitiveness. Businesses that can develop talented women and integrate them into their leadership are much more likely to succeed in competition with those that fail to do so.

### *Developing Talent and Expanding the Pipeline*

Successful companies place a high priority on attracting, retaining, and developing their highest-performing employees. Many of these employees are, and increasingly will be, women. Accordingly, many companies already have mentoring and training programs aimed at enhancing women's career experiences and development. Various such mentoring, coaching, and networking programs have proven effective in helping women to achieve successful careers and increasing the pool of available candidates for board positions. These programs can be especially helpful in overcoming a tendency on the part of some women to under-reach for promotions and other job opportunities – not because they are under-qualified, but because they may be less assertive or less self-sure than male counterparts.

Still, evaluators give such programs uneven marks, and a new push has emerged for more aggressive programs. We agree that more must be done. McKinsey, for example, suggests some relatively simple steps to enhance the effectiveness of mentoring and other such

programs.[45] One step is to rethink human resources (HR) policies that can hold women back. For example, identifying high-potential candidates based on an age range (say, 28-35) might discriminate against women, especially those in mid-career or those who might temporarily leave the workforce and return at an older age. HR could use a metric such as time employed with the company, which could include time spent on maternity leave. Another approach is to ensure that recruiters and operations managers are trained on the importance of diversity. And, McKinsey points out that mentoring programs need not be limited to within individual companies. Many successful programs are operated regionally or among leading companies.

The Korn/Ferry Institute has advocated greater use of valid assessment tools for high-potential candidates who have critical skills associated with leadership success.[46] In evaluations, women's scores are similar to men's in most dimensions of leadership, thinking and emotional styles, although differences occur within sub-categories of those attributes. Evaluators should be attuned to subtle differences between men and women. Women, for example, tend to share credit and advocate for their team rather than for themselves as individuals. In such instances, uncovering hidden talent becomes more difficult but also more important. HR specialist and line managers can use various techniques to identify high performers at all stages of their careers.

Dissatisfaction with weak results from traditional mentoring programs has contributed to interest in more aggressive "sponsorship" programs that go further to identify women with high potential and connect them with sponsors who will help promote their career development.[47] Sponsorship is intended to be "a long-term, hands-on commitment to encouraging, fighting for and creating advancement opportunities for high-potential individuals."[48] Sponsors are expected to go out on a limb for their protégées, providing stretch opportunities, forming critical connections, and promoting visibility.[49]

Our recommendation would take sponsorship programs to another level by challenging senior executives, men in particular, to take responsibility for developing, grooming, and *advocating* for talented women within their companies. This means giving such women the experiences necessary to become effective board members. For example, one might advocate that a woman with recognized talent serve as a director on an outside board. Service on outside boards gives deserving women executives the opportunity to build the kinds of skills and accomplishments that nominating committees say they want.

Another approach, particularly for nominating committees, is to work with search companies to ensure full consideration of a talent pool that includes women. As noted above, many top search firms have stated a desire to be inclusive and to search widely for potential female candidates for senior executive and board positions. Many companies operating in the United Kingdom, Australia, and elsewhere have endorsed industry codes or targets. **These companies should publicly state their intent to maintain a similar commitment in their U.S. practices.** Nominating committees are in the position to insist that their search firms make that intent a reality by demanding to interview female candidates. They can, for example, ask their search firms to examine established lists of potential women directors from organizations such as WomenCorporateDirectors (WCD) and GovernanceMetrics (GMI). Several professional organizations have developed or are developing such lists. (See Appendix 2.) Nominating committees and their search firms should take advantage of these resources.

### *A Note on Cultural Impediments*

There is an unfortunate tendency in modern culture for men to shy away from supporting, mentoring, or sponsoring high-performing younger women due to concerns about "appearances." Women, too, may be deterred from such mentoring relationships because of worry about gossip.[50] Of course, such reluctance is not universal, but the underlying tensions exist and cannot be ignored. It is our fervent hope that culturally we have moved beyond such concerns, which can be a real impediment to progress for women, greater gender balance on boards, and ultimately successful and competitive enterprises.

A second cultural issue pertains to maternity and childcare. Businesses that seek to attract and retain women must find ways to accommodate their needs as they seek to balance their roles in and outside of

work. It is one of the challenges to business to carry out appropriate programs that balance the work and life needs of both women and men employees with the short-term and long-term staffing needs of the company. Such considerations may not seem as relevant in the context of directors, who often are more mature and less burdened by childcare and other family concerns. However, work-life issues can be very important through their effect on the pipeline of potential candidates as they move through (or drop out of) career development, and spousal care and parental care issues are also concerns for older women. A McKinsey survey showed that 57 percent of women said that balancing work and home responsibilities "is the biggest barrier to increasing gender diversity in the top management of companies;" 47 percent of male respondents agreed.[51]

Much has been written about work-life balance issues and their effects on women's careers.[52] A study by the Center for Work-Life Policy found that, in 2009, 31 percent of American women had had breaks in their careers of 2.7 years on average. Two-thirds had switched to working part time or flexible time to balance work and family.[53] Such career choices often take women off a path that could lead to senior management or a board position. A Government Accountability Office report in 2010 showed that female managers were less likely to be married or to have children than their male counterparts. In testimony on the report, one economist linked 40 to 50 percent of the gender pay gap to parenthood.[54]

Solutions that businesses can implement for themselves generally involve greater flexibility for workers, often using technology and tele-commuting to enable workers to better balance the demands of work and home. Taking concerted efforts to overcome any stigma associated with flexible work must be an important part of any such arrangements.

## Conclusion

It is axiomatic in economic analyses of trade and competition to look at a country's sources of strength – its "comparative advantage." America's adaptability and cultural diversity have been sources of significant strength in its past economic development and current global competitiveness. Compared to many other countries, particularly in Europe and Asia, the United States historically has gained from its ability to integrate culturally diverse groups into positions where they could contribute significantly to economic growth and development. Women, too, have been integrated into the workforce in unprecedented numbers: Participation among women age 16 and over rose from about 33 percent in 1950 to about 60 percent today, and recent data show that women occupy virtually half of all jobs in the U.S. economy.

Despite these gains, the potential is much greater. The United States is not now a global leader in creating opportunities for women; it has ample room for improvement.

Although U.S. colleges and universities now graduate more women than men, women typically have fewer opportunities for advancement. This is not a problem that will fix itself. America's business leaders should understand that they need to use all available talent to succeed in today's global competitive markets, and such talent increasingly will come from women. Business leaders should be at the forefront of efforts to improve the gender balance at the top of corporate leadership. In other countries, such as the United Kingdom and Australia, male business leaders have taken a leading role in promoting better gender balance on boards. We challenge U.S. companies and their leaders to examine their practices against the best in class; they should ask what they will do to advance women, and they should be transparent in setting targets, measuring results and holding themselves accountable.

## Appendix 1

# Davies Report, Women on Boards (2011)

### Summary of Recommendations*

1. All Chairmen of FTSE 350 companies should set out the percentage of women they aim to have on their boards in 2012 and 2015. FTSE 100 boards should aim for a minimum of 25% female representation by 2015 and we expect that many will achieve a higher figure. Chairmen should announce their aspirational goals within the next six months (by September 2011). Also we expect all Chief Executives to review the percentage of women they aim to have on their Executive Committees in 2013 and 2015.

2. Quoted companies should be required to disclose each year the proportion of women on the board, women in Senior Executive positions and female employees in the whole organization.

3. The Financial Reporting Council should amend the UK Corporate Governance Code to require listed companies to establish a policy concerning boardroom diversity, including measurable objectives for implementing the policy, and disclose annually a summary of the policy and progress made in achieving the objectives.

4. Companies should report on the matters in recommendations 1,2 and 3 in their 2012 Corporate Governance Statement whether or not the underlying regulatory changes are in place. In addition, Chairmen will be encouraged to sign a charter supporting the recommendations.

5. In line with the UK Corporate Governance Code provisions B2.4 "A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments". Chairmen should disclose meaningful information about the company's appointment process and how it addresses diversity in the company's annual report including a description of the search and nominations process.

6. Investors play a critical role in engaging with company boards. Therefore investors should pay close attention to recommendations 1-5 when considering company reporting and appointments to the board.

7. We encourage companies periodically to advertise non-executive board positions to encourage greater diversity in applications.

8. Executive search firms should draw up a Voluntary Code of Conduct addressing gender diversity and best practice which covers the relevant search criteria and processes relating to FTSE 350 board level appointments.

9. In order to achieve these recommendations, recognition and development of two different populations of women who are well-qualified to be appointed to UK boards needs to be considered:

   - Executives from within the corporate sector, for whom there are many different training and mentoring opportunities; and
   - Women from outside the corporation mainstream, including entrepreneurs, academics, civil servants and senior women with professional service backgrounds, for whom there are many fewer opportunities to take up corporate board positions.

   A combination of entrepreneurs, existing providers and individuals needs to come together to consolidate and improve the provision of training and development for potential board members.

10. This steering board will meet every six months to consider progress against these measures and will report annually with an assessment of whether sufficient progress is being made.

* Davies, E.M. *Women on Boards* (2011), pp 4-5. http://www.bis.gov.uk/assets/biscore/business-law/docs/w/11-745-women-on-boards.pdf

## Appendix 2

# Selected Organizations that Provide Referrals for Qualified Women Candidates for Board Positions

| | |
|---|---|
| Catalyst | www.catalyst.org/home |
| Direct Women | http://directwomen.org |
| Financial Women's Association | www.fwa.org |
| GMI - Diverse Director DataSource | www.gmi3d.com |
| National Association of Corporate Directors | www.nacdonline.org |
| The Boston Club | www.thebostonclub.com |
| WomenCorporateDirectors (WCD) | www.womencorporatedirectors.com |
| Women's Forum of New York | www.womensforumny.org/womensforumny |

Note: Some organizations may require a membership, which can include a fee, for an individual to be listed.

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