GLASS LEWIS

Board Gender Diversity

In-Depth Report

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Introduction

Women are rising to the highest levels of government in many countries, advancing to executive ranks at top corporations, and picking up more undergraduate and advanced degrees than men.[1] In the first quarter of 2019, 29.5 million women in the U.S. labor force had at least a bachelor's degree, compared with 29.3 million men, and 50.2% of the college-educated workforce was female.[2] Further, women's employment rates held up better than men's in the years following the recession,[3] and, in 2018, an all-time high of 256 women were on the *Forbes* list of world billionaires.[4] In 2020, the coronavirus pandemic reduced the list of billionaires overall and, of those who remained, 51% were poorer than they were in 2019. However, the list still contained 241 women in 2020.[5] Still, despite these continued successes, there remains a dearth of female directors on the boards of public companies around the world.

[1] Alexandre Tanzi. "U.S. Women Outpacing Men in Higher Education: Demographic Trends." *Bloomberg*. August 6, 2018.
[2] Alexandra Chaidez. "In a Milestone, Most College-Educated Workers in the U.S. Are Now Women." *CBS News*. June 24, 2019.
[3] "For the First Time in Over Six Years, Adult Women's Unemployment Rate Above Men's, NWLC Analysis Shows." National Women's Law Center. January 4, 2013.
[4] Jennifer Wang. "The Richest Women in the World 2018." *Forbes*. March 6, 2018.
[5] "The Forbes World's Billionaires list." *Forbes*. March 18, 2020.

International Board Gender Diversity

Several countries, including France and Norway, are blazing trails for board gender diversity, but most have a long way to go. As a result of gender diversity quotas and market norms and expectations, board gender diversity varies significantly by country. A 2014 report by Credit Suisse comparing percentages of women on boards in 43 countries found that, in 2013, estimates ranged as high as 39.7% in Norway to as low as 1.6% in Japan. Countries that had greater than 25% women on boards included Sweden, Denmark, Finland, and France. Meanwhile, countries with less than 5% women on boards included Japan, Pakistan, South Korea, and Taiwan.

In Credit Suisse Research Institute's third Gender 3000 report, it found that female representation on boards globally doubled in a decade, standing at 20.6% as of the report's publication in October 2019. Board representation in North America rose from 17.3% in 2015 to 24.7% in 2019 without formal regulatory pressure, while South America saw gradual improvement toward 7.8%. Asia Pacific reflects a considerable variance in board gender diversity from country to country, with diversity levels ranging from 3% to 30%. Norway, France, Sweden, and Italy are among the countries with the largest representation of women on boards, likely as these markets have instituted regulatory quotas or have established market norms around issues of board gender diversity. Seeing the largest proportional increase in the last five years are Malaysia, France, Australia, Germany, and Austria. The report found that, as the percentage of women on boards rises, so does the proportion of women in management, suggesting that the impact of greater diversity in the boardroom leads to better gender balance across executive functions. However, despite the quotas and policies in Europe, the proportion of women in management is higher in the United States (21%) and APAC (19% excluding Japan) than in Europe (17%).

According to the EU's 2019 report on gender equality, by 2018, the share of women on boards at large, publicly-listed companies in EU countries was 26.7%. France (44%) was the only EU Member State in which there was at least 40% of each gender at board level, and in Italy, Sweden, Finland, and Germany, women account for at least one-third of board members. However, the EU estimated in 2012 that companies in Finland, Latvia, the Netherlands, Slovakia, Spain, Denmark, and Sweden will reach an average board gender diversity of 40% by 2035. As was the case in France, it is theorized that regulatory developments will continue to impact the amount of board gender diversity in the years to come, largely as a result of their efficacy in diversifying boards. For example, Catalyst reports that, as of October 2018, nine of the top 10 countries ranked by the percentage of companies with three or more female directors were in Europe, and all but one of the countries (the UK) have gender quotas in place. Previously, in 2012, the EU Commission issued a proposal for a directive to improve transparency of the selection of board directors in the largest publicly listed companies. Though the proposal did not impose a quota, it aimed to reach 40% representation of women on said boards. More recently, however, in February 2018, the Commission published guidance to facilitate the implementation of targets to promote gender equality.

There has also been an increasing focus on ensuring that companies are developing a pipeline of future female directors. However, progress in this area has been slow-moving. In 2020, Catalyst reported that the percentage of women in senior management roles globally remained at 29% and that 87% of global mid-market companies had a least one woman in a senior management role. Still, women remained over-represented in support functions like administration, while men tended to be concentrated in operations, profit and loss, and research and development, which are all regarded critical experiences for CEO and board-level positions.

Further, the higher up the corporate ladder, the fewer women. In Australia, women represented just over a third of all managers in 2019 and were less likely to reach the top levels of management. India has the third lowest global representation of women managers, ahead of South Korea and Japan, who has set targets for increasing women in leadership positions by 2030. In Canada, men continue to hold over 90% of C-level executive roles, and women were only 43 of the 538 NEOs among Canada's 100 largest publicly traded corporations in 2020, down from 53 in 2019. Meanwhile, in Europe, just one out of three managers in the EU is a woman. Despite women being about half of those employed in the EU, they were just 18% of senior executives in 2019.

Gender Board Diversity in the U.S.

At the current rate of growth in board diversity, it was estimated in 2019 that gender parity on boards across the Russell 3000 would be achieved by 2034, which represents significant progress from Q4 2017 and Q4 2016 analysis when parity was expected to be achieved in 2048 and 2055, respectively. However, while women clearly still hold fewer board seats than men, by the end of the third quarter of 2020 gender diversity across Russell 3000 boardrooms had reached an all-time high and continues to reflect a consistent trend toward gender parity. While companies are adding more women to their boards, the raw number of women holding board memberships is lower, perhaps because companies are seeking out female candidates who already serve on public boards.

According to the 2020 Spencer Stuart Board Index, in 2020, 59% of new independent directors were women and minority men, tying the 2019 record. Of the 272 S&P 500 companies appointing new directors over the past year, just under half increased the number of women directors. In fact, a record-high 47% of new directors were women. However, despite the record number of incoming female directors, representation of women on S&P 500 boards increased only incrementally to 28% of all directors, up from 26% in 2019 and 16% in 2010.

This progress is not just limited to the bigger companies. Although large-cap companies are improving gender diversity, according to data from Morningstar, small-cap companies are just reaching the level that the S&P 500 was at a decade ago, and the disparity seems to be growing. Whereas the gap between the S&P 500 and the remaining companies in the Russell 3000 was 5.4% in 2009, in 2019 it was 8%.

Many are still setting their sights on companies' development of future female directors. However, below the board level, progress is not being made as quickly with respect to reaching gender parity within companies' leadership levels. In 2020, Catalyst reports that, for every company run by a woman, there are still nearly 13 run by a man. In the United States, women were nearly half of the labor force but only slightly over a third of managers in 2019. Further, in 2019, white women held almost a third of all management positions, while women of color held a drastically smaller share. In 2019, for every 100 men who were promoted to their first management position, 72 women were promoted and hired.

State Level Attempts at Increasing Board Diversity

In order to address issues of gender imbalance on boards, some state legislatures have begun to address these issues. Notably, the state of California passed legislation in 2018 requiring public companies headquartered in the state to have a minimum of one female on its board and larger companies to have more women depending on size. California is currently in its second phase of the ruling, which mandates that boards with five members have at least two female members while those with six or more are required to have at least three females by December 2021. While in 2018 nearly 30% of public company boards in California consisted exclusively of men, as a result of the new law, by October 2020, the figure had dropped to less than 3%. [6]

[6] Michal Lev-Ram. "Exclusive: California's Board Diversity Law Led to 670 Board Seats Filled by Women, Report Finds." *Fortune*. October 13, 2020.

Other U.S. states have also taken steps to help increase women's representation on boards. For example:

- In 2017, Colorado adopted a joint resolution encouraging companies to have a minimum number of female directors depending on the size of the board, but this was a non-binding resolution and did not impose disclosure requirements.
- In August 2019, Illinois enacted a board diversity disclosure law applying to publicly held, foreign and domestic corporations with their executive offices in the state. In addition to imposing minimum levels of female directors, the law addresses racial and ethnic diversity and advises companies to address race at the same time as gender. It also requires information about the qualifications for board and executive officer positions, the nomination and selection process, and policies and practices for promoting diversity, equity, and inclusion among directors and executive officers. The Illinois Secretary of State is required to report annually on the number of corporations with at least one female director.
- Effective October 1, 2019, the governor of Maryland signed into law legislation that requires foreign or domestic and profit or nonprofit business entities, including private corporations, headquartered in the state to disclose in their annual reports the total number of directors and the total number of female directors.
- New York State has enacted a statute that imposes obligations on domestic and foreign corporations authorized to do business in the state to identify their total number of directors and the number of female directors.
- Hawaii, Massachusetts, Michigan, New Jersey, and Washington state are all considering or have enacted mandatory board diversity legislation applicable to publicly held, foreign or domestic corporations with their principle executive offices in the state and requiring varying minimum number of female directors, deadlines for implementation, and penalties.
- The Ohio legislature is considering a resolution that would urge public and private companies and institutions doing business in the state to increase gender diversity on boards and in senior management positions and to publish diversity goals.
- Pennsylvania is considering legislation to encourage publicly held corporations to achieve equitable and diverse gender representation by 2021, though this would not be mandatory, and suggests minimal levels of female board representation.[7]

[7] Michael Hatcher, Weldon Latham. "States Are Leading the Charge to Corporate Boards: Diversify!" Harvard Law School Forum on Corporate Governance. May 12, 2020.

Investors Push for Diverse Boards

Investors increasingly expect boards to lead companies in new directions, introduce fresh perspectives, and focus more on risk mitigation as they are aware of the risks presented by "group think" at a company or among its board members and are pressing companies to ensure that boards provide more effective oversight by asking challenging questions. It is believed that new and different ideas will more likely come from boards that are diverse in race, gender, background, experience, and have appropriate levels of independence. According to the 2020 Spencer Stuart Board index, changes to board composition are the most common rationale for activist activity and, in the past several years, major institutional investors have pressured boards to increase gender and racial and ethnic diversity, with some voting against nominating committee members on boards with too little diversity.

Gender diversity is an issue that generally appeals to investors because it can act as proxy for other forms of diversity. It is also perceived as important for long-term growth as it can signal a company's commitment to progressive gender values and attention to regulatory risks. This is proven by studies that have found that companies ranked highly on *Fortune's* diversity ranking tend to have higher market valuations, as do companies with more women in managerial positions.

Investors have also pressured regulators to require companies to provide more information about the racial and gender composition of their boards. In 2009, the SEC adopted a rule requiring companies to disclose whether, and if so, how, their nominating committees consider diversity and how their policy's effectiveness is assessed. However, by 2016, very few companies had disclosed a formal diversity policy, and, consequently, there was very little evidence of their effectiveness.[8] In March 2016, SEC Commissioner Mary Jo White instructed SEC staff to review company disclosures and to give recommendations on whether the agency should require greater disclosure from companies on the race and gender of their directors.[9] In February 2019, the SEC released an interpretation of Item 401(e), under Regulation S-K, which requires a brief discussion of the specific experience, qualifications, attributes, or skills that led to the conclusion that a person should serve as a director. Item 407(c)(2)(vi) also required a description of how a board implements any policies it follows regarding the consideration of diversity in identifying director nominees. Therefore, the extent to which a nominating committee considers self-identified diversity characteristics (i.e. race, gender, ethnicity, religion, nationality, disability, sexual orientation, or cultural background) should be included in a company's 401 discussion. The guidance was updated in September 2020.

The NYC Comptroller's Board Accountability 2.0 project also led this charge, pressing companies to disclose a standardized board matrix, including, among other things, the board's demographics. Less than a year after the project was launched, it resulted in over 35 companies disclosing not only board members' qualifications and skills but also details concerning both gender and racial/ethnic diversity on the board. Additionally, 24 companies publicly committed to include women and people of color in the candidate pool for every board search.

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[8] Mary Jo White. "Focusing the Lens of Disclosure to Set the Path Forward on Board Diversity, Non-GAAP, and Sustainability." Keynote Address, International Corporate Governance Network Annual Conference. June 27, 2016.
[9] Andrew Ackerman. "Democrats Press SEC Chief Mary Jo White on Diversity Initiative." *Wall Street Journal*. March 2, 2016.

The Comptroller launched the third stage of the Boardroom Accountability Project in October 2019, calling on 56 companies to institute the "Rooney Rule" adopted by the NFL, which requires teams to interview minority candidates for head coaching, general manager jobs, and equivalent front office positions. Marking the first time a large institutional investor has called for structural reform for both new board directors and CEOs, the Comptroller asks companies to adopt a version of the Rooney Rule requiring the consideration of both women and people of color for every open board seat and for CEO appointments. To launch the initiative, the Comptroller sent letters to 56 S&P 500 companies including AT&T Inc., The Boeing Company, and the Walt Disney Co. As a result of this engagement, the Comptroller's Office successfully negotiated board and CEO diversity search policies with 14 companies, including 13 in response to shareholder proposals submitted to 17 companies for the spring 2020 proxy season and a fourteenth in response to a filing for a fall 2020 annual shareholder meeting. Though many companies already have similar policies governing director searches, the Comptroller's Office believes these are the first public companies to extend the policy to external CEO searches.[10]

Others in the investor community have taken steps outside of the shareholder proposal process to promote enhanced board diversity. For example, in January 2020, David Solomon, chief executive of Goldman Sachs, the largest underwriter of public offerings in 2019, announced that, starting July 1st, the bank would not take a company public unless there was at least one diverse board candidate, with a focus on women. The requirement will be raised to two diverse candidates in 2021. This could help a growing trend of women on recently-IPO'd boards. Of the 25 largest public offerings in 2019, only one went public without a woman on its board, a significant shift from 2016, 2017, and 2018 when nearly half went public with all-male boards.[11]

After the 2018 midterm elections, Democrats introduced new legislation pushing for greater diversity disclosure. In February 2019, the Improving Corporate Governance Through Diversity Act of 2019 was introduced in the House of Representatives with a companion bill simultaneously introduced in the Senate. The bill, which garnered the support of the Council for Institutional Investors and the U.S. Chamber of Commerce, would require public companies to disclose annually in their proxy statements data on the racial, ethnic, gender composition, and veteran status of its board of directors, director nominees, and executive officers based on voluntary self-identification. It would also require disclosure regarding the adoption of any board policy, plan, or strategy to promote racial, ethnic, and gender diversity. In addition to these disclosure requirements, the bill directs the SEC's Office of Minority and Women Inclusion to publish best practices for corporate reporting on diversity. While the spotlight on diversity has thus far mostly focused on the board, the bill goes a step further to also cover executive officers.[12]

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[10] Michael Garland, Jennifer Conovitz, Yumi Narita. "NYC Comptroller's Boardroom Accountability 3.0 Results." Harvard Law School Forum on Corporate Governance. Une 24, 2020.

[11] Alisha Haridasani Gupta. "Why 2019 Was a Breakthrough Year for Women in the Boardroom." *The New York Times*. March 3, 2020.

[12] Howard Dicker, Ade Heyliger, Aabha Sharma, Weil, Gotshal & Manges LLP. "D.C. Speaks Up: A Push for Board Diversity from the SEC and Congress." Harvard Law School Forum on Corporate Governance and Financial Regulation. February 25, 2019.

Meanwhile, the Diversity in Corporate Leadership Act of 2020, introduced in March 2020, would have required the SEC to establish a diversity advisory group to study and make recommendations on strategies to increase gender, racial, and ethnic diversity among the members of the board and to amend the Securities Exchange Act of 1934 to require issuers to make disclosures to shareholders with respect to gender, racial, and ethnic diversity. The bill did not receive a vote.

While some investors support increasing board gender diversity simply as a matter of course, others suggest there is a strong business case for it. They believe it can lead to a more diverse workforce, better corporate governance practices, and improved stakeholder relations, which, in turn, will result in better financial performance. Board diversity is also seen as key to ensuring that a company is able to reach all segments of its market. It is questionable whether a company that provides products or services generally purchased by women, who control nearly 75% of consumer purchasing decisions,[13] can effectively gauge opportunities or challenges if no women are consulted or given a role in setting strategy or direction. According to research from Harvard Business Review, women make the decision in the purchases of 94% of home furnishings, 92% of vacations, 91% of homes, 60% of automobiles, and 51% of consumer electronics. Further, while women are responsible for 85% of luxury sales, fashion and luxury boards have an average female representation of only 25%.[14] Studies on the effects of diverse boards continue, but recent findings indicate:

Board Diversity is an Indicator of Better Financial Performance

Many studies suggest that greater gender diversity in the boardroom improves financial performance. A 2007 Catalyst study found that companies with more women on their boards outperformed companies with fewer women relative to metrics such as return on equity, return on sales, and return on invested capital. In a study of Dutch companies, researchers found that return on equity was consistently and statistically significantly higher for companies with women on their boards than for those without. Similarly, a study that examined 1,000 companies across ten Asia Pacific economies found that companies that have at least 10% of their board seats held by women had a higher return on equity and return on assets compared to companies that had lower levels of female board representation.[15] A multi-country study found that firms with more female directors have higher firm performance by Tobin's Q and return on assets measures. The results also suggest that external independent directors do not contribute to firm performance unless the board is gender diversified, which holds with respect to different estimation models and robustness tests.

Board diversity may not be the only form of diversity that can prove beneficial to companies. In fact, companies may benefit from diversity initiatives aimed at promoting women to executive roles. For example, McKinsey & Company's 2018 study found that companies in the top quartile for gender diversity, specifically on executive teams, were 21% more likely to outperform on profitability and 27% more likely to have superior value creation, while companies in the bottom quartile for gender diversity were 29% less likely to achieve above-average profitability than were all other companies in the data set.

[13] Noam Noked. "Women on Boards: Review & Outlook." Harvard Law School Forum on Corporate Governance and Financial Regulation. June 2, 2012.
[14] Elizabeth Paton. "In Luxury, the Female Factor." *New York Times*. December 1, 2015.
[15] "Study Links Gender Diversity in Asia Pacific Boardrooms to Better Company Performance." Korn Ferry. March 6, 2015.

Furthermore, the highest-performing companies in terms of both profitability and diversity had more women in line (generally revenue-generating) roles than in staff (generally supportive) roles.

A 2012 study found that shares of companies with women board members and a market capitalization of more than $10 billion outperformed comparable companies with all-male boards. A study conducted by the International Monetary Fund, which sampled more than 2 million companies across 34 European countries, found that substituting one man for one woman in senior management or on a corporate board was associated with an increase in ROA of between 8 and 13 basis points.[16] The aforementioned 2018 McKinsey & Company study also found a positive correlation between greater levels of gender diversity specifically at the executive level and a higher likelihood of financial "outperformance."

Board gender diversity may also play a role in value creation following corporate transactions. A 2016 survey of 21,980 publicly held firms from 91 countries found that having more women in overall executive positions was tied to greater profitability and that companies with more women on their boards showed slightly better performance.[17] Further, in 2013, researchers at the University of British Columbia found that having female board members had a substantial and positive effect on a firm's value by reducing the cost and volume of acquisitions.[18] A 2012 study of 649 acquisitions between 2001 and 2009 found that, while board gender diversity had no direct impact on the size of a bid premium or the market reaction to the announcement, it was positively associated with acquirers' long-term performance. Thus, the authors suggest, firms with women on their boards may be more likely to "choose targets that lead to more profitable future outcomes or alternatively are better in post-merger integration." Board gender diversity may also be beneficial to companies during turbulent economic cycles. The authors of a 2012 study found that board gender diversity may be correlated with less volatility and more balance through economic cycles. This study found that, between 2005 and 2007, female board representation seemed to have little to do with companies' financial performance. However, during the recession, from 2008 through 2012, the stock prices of companies with at least one female director were, on average, 26% higher than for companies with no women on their boards.[19]

Another study on the effect of female directors on firm performance during the economic recession of 2008 found that the presence of female directors on the board significantly improved performance, indicating that an increase in the percentage of female directors by one standard deviation raised ROA by 8.41%, however, the benefits of board gender diversity were not found outside the crisis period. This may suggest that female directors bring new ideas and different perspectives during times of crisis when companies likely need more monitoring and different advice than they usually do. A study examining 2007-2011 board characteristics was able to analyze the effect of female representation on companies' 2010-2014 financial outcomes—effectively bypassing the financial volatility of the recession. Female representation was found to positively influence firm financial performance as measured by ROA and Tobin's Q.

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[16] Lone Christiansen, Huidan Lin, Joana Pereira, Petia Topalova, and Rima Turk. "Gender Diversity in Senior Positions and Firm Performance: Evidence from Europe." IMF. March 2016.
[17] Janet Adamy. "Companies Where More Women Lead Are More Profitable, a New Report Says." *Wall Street Journal*. February 8, 2016.
[18] Nilofer Merchant. "Women on Corporate Boards: Do They Make Men THAT Uncomfortable?" *Time*. December 3, 2013.
[19] Renuka Raysam. "Do More Women on the Board Mean Better Results? " *The New Yorker*. November 19, 2013.

Other studies, however, are somewhat inconclusive as to whether women's presence on boards affects firm value, and several studies have found a negative correlation or no relationship. For example, a meta-analysis using data from 20 studies that covered both developed and developing countries found that the correlation between the percentage of women on corporate boards and firm performance was small and non-significant. In addition, a 2016 study found no causal relationship between female boardroom representation and lower equity risk and that the relationship between the two is spurious and driven by "unobserved between-firm factors."

A 2010 review of studies on board diversity found no relationship between board diversity and financial performance. Nonetheless, the authors note that their review did find "some theoretical and empirical basis for believing that when diversity is well managed, it can improve decision making and enhance a corporation's public image." Similarly, a 2008 study in the *Journal of Business Ethics* reviewed 500 of the largest Canadian companies and found that having more women on corporate boards and in top management did not seem to generate significant excess returns. On the other hand, the study found that firms with a high percentage of women in management and governance systems create enough value to keep up with normal stock market returns. The study also found that companies operating in complex environments generate positive and significant abnormal returns when they employ a high proportion of female officers. However, it did not appear that the participation of female directors made a difference in this regard. Additionally, a study of 400 large U.S. companies between 1997 and 2005 found that increases in board gender diversity had no effect on a company's profitability and that companies suffered a marginally significant decrease in stock value following the introduction of more women to the board.

A 2015 study examined whether board gender diversity has a positive effect on firm performance based on data from the Netherlands and Denmark. The study observed 2007 data at 186 firms. Of those firms, nearly 40% had at least one woman on the board, and the average female representation across all firms was 5.4%. The researchers used two-stage least-squared estimations, using Tobin's Q as a measure of performance to investigate the impact of board diversity. Ultimately researchers found that there was no relation between board diversity and firm performance for their dataset. Additionally, a Catalyst study also found that diverse boards have lower volatility, better performance, and invest more in research and development.

Finally, a 2009 study published in the *Journal of Financial Economics* found that encouraging gender quotas at companies with strong governance practices ultimately decreased shareholder value relative to Tobin's Q and return on assets. The findings indicated that, while female directors may improve the monitoring intensity of the board, these well-governed companies did not benefit from additional monitoring. However, a company's ROA and Tobin's Q could increase if gender quotas were enforced at corporations with weak governance structures, as measured by their abilities to resist takeovers. Further, while finding no correlation between financial performance and board diversity, one study found that more gender and ethnically diverse boards could enhance a firm's non-financial value through better environmental, social, and governance performance. This points to diverse boards taking more of a "stakeholder" view of corporate governance, rather than focusing only on the "shareholders." One reason for this broader viewpoint could be the diversity of experience held by female directors. For example, a 2014 Cranfield Female FTSE Board report shows that, in the FTSE 100 in 2013, 36% of female non-executive directors brought multiple sector experience, differentiating them from their male counterparts.

There are other examples that indicate that the benefits of board gender diversity may be realized only under certain circumstances. A 2011 study of German public companies found no correlation between female board membership and stock performance, with two exceptions: (i) consumer-oriented companies benefited from women holding decision-making positions, because women tend to control household purchases, thus other women understand better what appeals to them; and (ii) companies with large female workforces, which benefited from lower turnover and the ability to retain talented employees.[20] Further, a 2015 study that analyzed the effect of gender and nationality diversity on boards of banks from nine countries found that while gender diversity increases bank performance, institutional factors play a significant role. The study found that in the context of weaker regulatory environments, including investor protection, board diversity has less influence on bank performance.

These studies' ambiguous findings with respect to the financial benefits derived from board gender diversity may be explained in part by considering that women may be placed in charge during challenging situations more often than men. In a review of academic literature regarding board gender diversity, Lawrence J. Trautman described a phenomenon researchers called the "glass cliff," in which women are appointed to corporate boards and top management teams when a company faced significant difficulty. The researchers found that companies were more likely to appoint a female officer, CEO, or director "when events magnify the risk of failure." A separate review cited by Trautman found this phenomenon in the United States, determining that in 10 of the 22 examples in which female CEOs were appointed, companies faced "telling and uncertain circumstances, or worse." Moreover, a 2018 study found that, with other conditions remaining the same, female CEOs were significantly more likely to be dismissed than male CEOs while male CEOs are less likely to be dismissed than female CEOs when firm performance is high (compared to when it is low).

Board Diversity Trickles Down

Having more women on a board can lead to having more women at a company. Both theoretically and empirically, it appears that increasing female representation on boards begets more gender diversity throughout the organization. Thus, the increase in board membership by women gives those who seek a more gender-balanced workforce a reason for optimism. Researchers at Columbia University who looked at management teams in 1,500 companies over a 20-year period echoed this finding and found that where women had been appointed chief executive, other women were more likely to rise to senior positions. However, in companies where a woman had been given a senior role that was not the CEO, the likelihood of other women landing an executive position fell by 50%.[21] A 2011 study of directors and executives at S&P 1500 companies between 1997 and 2009 found a positive correlation between higher numbers of women on boards and higher numbers of women in top executive posts in the corporation. These studies suggest that tone at the top is important in promoting organizational diversity since, as more women are elected as directors of corporations, other women will begin to be promoted to higher levels of management within those corporations.

[20] Renuka Raysam. "Do More Women on the Board Mean Better Results? " *The New Yorker*. November 19, 2013.
[21] "'Queen Bee Syndrome' Among Women at Work is a Myth, Study Finds." *The Guardian*. June 7, 2015.

More recently, a study revealed that boards with more female directors tended to consider both a larger pool of candidates and a higher proportion of women when filling board vacancies. And as the proportion of women directors already on the board increased, so did the number of female candidates on the short list for consideration. Meanwhile, boards without any women directors did not appear to be making targeted efforts to increase gender diversity as 81% failed to consider a single female candidate for their most recent board vacancy, as opposed to the 21% of boards with at least three female directors. Just 2% of all-male boards considered two or more women candidates for their last vacant seat while 46% of boards with at least three women did so.[22]

It is crucial that men help to push for more gender parity as relying solely on women could prove problematic. Moreover, promoting diversity could reflect well on the men that do so. A 2014 study found that women and non-white executives who pushed for women and non-whites to be hired and promoted suffered in their performance reviews. According to the study's authors, women "can lean in and try to bridge the confidence gap all they want, but they're going to be penalized for advocating for other women, just like non-whites are." However, white men improved their performance review scores from valuing diversity.[23]

This can be an important factor, because having more women at a company can result in favorable outcomes for investors. Data from Credit Suisse Research Institute's Gender 3000 report reflects that companies with more diverse management teams have sector-adjusted outperformance of nearly 4% a year compared to those displaying below the average. As very few companies remain without women on their boards, the global comparison of share-price performance on a sector-adjusted basis of companies with one or more female board directors versus those with none has become narrowly based and is less meaningful in its output. Further, the report questions whether greater diversity leads to higher quality business models, which in turn affect share prices, or whether a high-quality business model leads to greater diversity.

A number of studies have found that companies with gender-diverse workforces innovate better, achieving higher output and returns. But diversity has also been found to hurt productivity and revenue by negatively affecting group cohesion as, in gender-diverse groups, people are more likely to make favorable associations with members of their same gender than with those of another gender, which can lead to conflict, stereotyping, and hinderance to group cooperation. However, broader social perceptions of and attitudes regarding gender could shape how people behave in gender-diverse settings, and these perceptions are typically formed at a societal level. When gender diversity is not normatively valued, women tend to experience more gender stereotyping that undermines social cohesion and causes female employees to feel less attached to their employer. Alternatively, widely embraced gender diversity contributes to a sense of inclusion which allows the exchange of knowledge and perspectives and reduces the likelihood of discrimination and conflict. The more gender diversity has been normatively accepted, the more it positively relates to subsequent market valuation and increased revenue.

[22] J. Yo-Jud Cheng, Boris Groysberg. "Gender Diversity at the Board Level Can Mean Innovation Success." *MIT Sloan Management Review*. January 22, 2020.
[23] Rachel Feintzeig. "Women Penalized for Promoting Women, Study Finds." *Wall Street Journal*. July 21, 2014.

However, other research shows that teams that include different viewpoints or thinking styles solve problems faster and produce more and higher-quality intellectual property such as patents. Further, mixed-gender teams have been found to better manage group conflict compared to homogenous teams and can better maximize creativity among team members. Increasing the representation of women on sales teams contributes to improved team performance through factors such as enhanced relational skills and organizational citizenship behavior. Research also shows that companies with higher levels of gender diversity and with HR policies and practices that focus on gender diversity are linked to lower levels of employee turnover. Employee experiences of inclusion contribute to engagement and retention. Organizations with strong diversity climates are likely to increase employees' job satisfaction and commitment to the company, and a 10% increase in perceptions of inclusion improves absenteeism, adding nearly one day a year in work attendance per employee. Further, women are more likely to express interest in an organization and perceive it as fair when other women are highly represented in top management positions.

Board Diversity Can Spur Positive Corporate Behavior

Research has shown that an increase of women in leadership positions can improve several aspects of corporate governance and corporate behavior. One study found that well-managed board diversity initiatives can improve a board's decision-making and enhance a company's image by publicly conveying commitments to equal opportunity and inclusion. Organizations with inclusive business cultures and practices have been found to be 57.8% more likely to improve their reputations, and consumers are more likely to purchase or consider products after viewing advertising perceived to be diverse or inclusive. This public image enhancement is also supported by a 2013 finding that boards with more female directors and officers tend to have more active corporate philanthropy programs and give more money to charity.

Additionally, in a sample of U.S. firms, researchers found that female directors have better attendance than their male counterparts and that male directors have fewer attendance problems as women gain more board representation. The study's authors also found that increasing the number of women on a board can increase the amount of monitoring undertaken by the board. The 2008 study notes that increased diversity is not a panacea. It warns that the relationship between gender diversity and corporate performance is complex and suggests that companies should not add women to their boards with the expectation that their presence will automatically improve corporate performance.

Another study found that higher numbers of female directors may lead to better corporate governance, particularly as related to companies' audit functions. After controlling for corporate governance factors and relevant financial characteristics, a 2012 study found that boards with at least one female director were less likely to receive a going concern opinion from an outside auditor. However, the researchers did not find a relationship between women on an audit committee and a firm's chances of receiving a going concern opinion. Additionally, a 2012 study found that companies with gender-diverse boards typically paid higher audit fees and more frequently chose specialist auditors than their peers, suggesting that boards with female directors were more likely to demand more monitoring through higher audit quality.

Further, another 2012 study found that companies with at least one woman on the board were 40% less likely to restate quarterly or annual earnings than those with only male directors. The authors suggest that these companies are better governed or that heterogeneous groups are less susceptible to "group-think" and ask tougher questions.[24]

Board Diversity for Universal Good?

Other evidence suggests that while increasing female representation on boards may cause short-term losses, the long-term gains – both societal and to the company itself – may outweigh the initial costs. After a 2006 gender representation quota was instituted on the boards of Norwegian companies, researchers found that compliance with the quota resulted in a relative decline in operating profits over assets, caused by increased labor costs from fewer layoffs and higher employment relative to countries that did not have a gender quota. The authors suggest that the quota was costly for firms in the short-term, but that fewer layoffs may reflect a more long-term, stakeholder-oriented perspective that could potentially result in long-term benefits for the company.

Female board reputation may also be a factor in building more sustainable companies. A 2016 meta-analysis found that, despite a very weak relationship between board gender diversity and company performance, there is a somewhat stronger relationship between board gender diversity and corporate social responsibility (CSR). The analysis suggested that board gender diversity explains about 1% of the variance in companies' engagement in CSR.[25]

When corporate boards include diverse members, they are better able to recognize the needs and interests of different stakeholder groups and have been found to outperform non-diverse boards in ESG activities. Women board directors are more likely than men to identify social issues like human rights, climate change, and income inequality as crucial to corporate strategy. Gender diverse boards also tend to adopt more progressive organizational practices, such as work-life support programs, which increase employee satisfaction. However, to enhance any benefits of diversity for corporate social performance, efforts should be directed at holding boards more accountable toward diverse stakeholders and improving the status of women in society and in the workforce.

A study sampling 128 publicly listed Australian companies showed that increasing women's representation on boards lowers incidence of corporate fraud. There are similar findings for Chinese companies. Additionally, for these companies, the impact of women was stronger in male-dominated industries with respect to mitigating the frequency and severity of fraud. Additional research suggests that, in addition to mixed-gender boards having fewer financial reporting mistakes and controversial business practices such as fraud and earnings manipulation, adding women to the board can also improve investment efficiency and prevent risk overinvestment decisions as well as reduce the overconfidence of male CEOs.

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[24] Melissa Korn. "Board Math: One Woman Equals Fewer Accounting Errors." *Wall Street Journal*. November 26, 2012.
[25] "Does Gender Diversity on Boards Really Boost Company Performance?" The Wharton School at the University of Pennsylvania. May 18, 2017.

A 2015 study revealed the positive effect board gender diversity may have on innovation and firm performance. For given R&D expenditures, it found that more gender-diverse boards invested more in innovation and achieved greater innovation success as measured by patent and citation counts. Furthermore, it found that the relationship between board gender diversity and innovation is stronger when market competition is less intense and managers more entrenched. However, these findings appear to be limited to industries where innovation and creativity are particularly relevant.

More recent research affirms that companies that do establish inclusive business cultures and policies are more likely to report a 59.1% increase in creativity, innovation, and openness and a 37.9% better assessment of consumer interest and demand. According to one recent study, over a period of three years, companies with higher diversity in management earned 38% more of their revenues, on average, from innovative products and services than those with lower diversity.

Factors Inhibiting Board Gender Parity

Traditionally, many factors have inhibited board gender parity. Director recruitment is often limited primarily to directors' own networks, which are typically made up of mostly older, white men.[26] According to the 2020 Spencer Stuart Board Index, independent directors have, on average, 2.0 corporate board affiliations, which has been consistent for more than five years. Morningstar data reflects that, when recruiting women to boards, companies tend to add women who are already directors of other boards. In the past 15 years, the average female director was on 1.3 corporate boards versus 1.2 for men, and the gap is increasing. Of women who sit on boards, 24% sit on more than one, whereas 17.9% of men serve on multiple boards. Because women make up only a fraction of public company senior management positions and existing board positions, companies are recruiting from the same small population of female executives and existing board directors. While adding women to boards is becoming increasingly important to companies, the representation of women on executive teams is barely improving, leaving few female executive options from which to select potential directors.

According to the 2019 Spencer Stuart survey, bringing a woman on board when recruiting new directors was the top priority. However, in 2020, it had taken a backseat to bringing in racially or ethnically diverse candidates (68%) and candidates with technology experience (47%). After the 45% prioritizing the recruitment of women, 42% were seeking candidates with global perspective or experiences and 41% financial experience. In the S&P 500, there were 30 female CEOs, up from 25 in 2019 and 22 in 2015. 17% of women and minority directors were current or former CEOs compared with 46% of non-diverse male directors. Further, 32% of diverse directors (women and minorities) were first-time directors compared with 22% of the non-diverse directors. Accordingly, a failure of recruiting firms and boards to look outside of the typical director profile of either an experienced director or an individual with prior CEO experience could lead to more of the same: boards comprised of nearly all white men.

Although many companies contend that a shortage of qualified female director candidates hinders growth in gender diversity, they may be underestimating the pool of qualified candidates, especially from those who do not fit the typical director profile. Spencer Stuart reports that, to increase female representation, boards are expanding their searches to include women from other backgrounds such as civil service, academia, or nonprofit experience.[27]

Hiring and promotion is also essential to addressing an underlying factor impeding board gender diversity; although women earn more bachelor's degrees than men and have for many years, they are less likely to be hired into entry-level jobs. At the first step up to manager, the disparity widens further. A recent study shows that for every 100 men promoted to manager, only 85 women are promoted, and this gap is even larger for women of color. As a result, women remain significantly outnumbered at the manager level, holding just 38% of manager positions while men hold 62%. This early inequality creates a domino effect down the talent pipeline.

[26] Joann S. Lublin. "Female Directors: Why So Few?" *Wall Street Journal*. December 27, 2011.
[27] Tessa Bamford, Julie Hembrock Daum, Malini Vaidya. "Recruiting the First-Time Director." Spencer Stuart. March 2013.

Does Adding More Women Matter?

Ultimately, the benefits or costs of increased board gender diversity may not be able to be fully determined now as there may be too few women serving on corporate boards. Similar to the aforementioned study of Norwegian companies, a 2012 study of German companies found evidence that increasing the proportion of women on a board first negatively affects company performance. However, after the percentage of women on the board reaches a "critical mass" of approximately 30%, a company is more likely to perform better than those with all-male boards. The researchers found that this "critical mass" translates into an absolute number of about three female directors.

A 2012 study of ASX 200 companies had similar findings. Researchers in this study distinguished between companies that had simply placed "token women" as directors (i.e., one woman on the board) and those that truly created a culture of diversity (i.e., "having enough female directors to empower them"). The researchers found that those firms with diverse boards, i.e. with at least three women, significantly outperformed and had better earnings quality than those with fewer or no women. According to the researchers, their findings suggest that "[t]rue gender diversity…appears to be associated with improved performance; tokenism, on the other hand, is not."

True gender diversity can likely indicate a greater and more genuine commitment to board diversity. In 2015, when the Securities and Exchange Board of India imposed a quota in 2014 requiring at least one female director on the board of every listed firm, more than 100 companies refused to comply, and the more than half who did appointed a director or executive's female relative to the board, many of whom had no professional experience and were expected to agree with their promoter's views and positions.[28] This case study may illustrate the researchers' findings that companies simply adding women to the board is not enough to reap the benefits of board gender diversity; companies must also foster and create a culture of female empowerment that demonstrates a genuine commitment to female boardroom representation. If the purpose of the board is to maximize shareholder value, then imposing such constraints on the choice of directors leads to significant declines in firm value.

On the other hand, investors may react negatively to the perception that a company's gender diversity initiatives are reactionary to rules imposed by regulators. In Norway, the increase of board gender diversity after the introduction of a quota led to negative market reactions as newly appointed female directors were seen as less competent, appointed only to meet quotas. When diversity is perceived as a result of regulatory compliance rather than capitalizing on an asset, it "has a less positive impact on innovation and problem solving." However, when regulators institutionalize women's leadership, studied subjects were less likely to gender stereotype and more likely to see women leaders as competent.

[28] Nita Bhalla. "Indian Firms Mock Gender Diversity as Boardroom Deadline Passes: Analysts." *Reuters*. April 1, 2015.

Reaching a critical mass may be necessary for women to be heard. A 2012 study found that women speak substantially less than men in most mixed-gender situations, which effectively reduces the influence of women and the benefits that could be derived from their participation. One of the study's authors, Tali Mendelberg of Princeton, says this could have far-reaching implications as "in school boards, governing boards of organizations and firms, and legislative committees, women are often a minority of members and the group uses majority rule to make its decisions."[29] One explanation for women's silence is that they don't want to be perceived as dominating the conversation. Though it is a widely believed stereotype that women talk more than men, in fact female contributions in mixed-sex dialogue are perceived as greater than male contributions by both male and female listeners, despite the fact that they are not.

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Ways to Improve Board Gender Diversity

According to a 2019 Credit Suisse Research Institute report, there are essentially only three ways to improve board gender diversity: (i) replacing a male director with a female director while maintaining the existing size of the board; (ii) adding a female director to the existing board, increasing its size; and (iii) removing a male director from the board without a female replacement, thereby reducing the board's size. Across Credit Suisse's Gender 3000 index, between 2016 and 2019, 35% of companies increased the number of women by replacing men, 56% increased the number of women, and 71% reduced the number of men, leading to a change in the percentage of women on the board.

According to the 2020 Spencer Stuart Board Index, of the 262 S&P 500 companies appointing new independent directors in 2019, 28% of companies increased the number of women directors by expanding their boards, while 20% did so while maintaining or reducing the number of independent directors.

Conclusion

Whether increasing gender diversity in boardrooms poses a benefit or a detriment to companies is a complex question. Increasing the number and influence of women on boards must involve recruiting uniquely qualified directors who bring a breadth of experience and insight to the board table. Companies operate in myriad industries and locations and have unique strategies, challenges, and opportunities. Simply adding women to the board for diversity's sake and without careful consideration of qualifications and experience is unlikely to automatically effect any positive corporate change. However, we view a companies' placement of women on boards as being representative of companies' consideration of broader, and harder to measure, diversity.

Glass Lewis believes that diversity, in general, is a positive force for driving corporate performance, as qualified and committed directors with different backgrounds, experiences, and knowledge will likely enhance corporate performance. We believe that gender is just one, albeit important, aspect of diversity and boards should ensure that their directors, regardless of gender, possess the skills, knowledge, and experience that will drive corporate performance and enhance and protect shareholder value.

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