Women and Corporate Governance

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Women's representation in corporate governance

Nationally, women are underrepresented at every level of corporate leadership, compared with men. Women are less likely than men to be corporate managers, vice presidents, senior vice presidents, CEOs, or board members.[1] The gap is particularly profound at the CEO and board level. Approximately 5 percent of companies in the 2015 Standard and Poor (S&P) 500 index have female CEOs.[2] Just 2 percent of financial services companies in the same index for 2014 were led by female CEOs.[3] In addition, women comprise just 19 percent of corporate board seats.[4] Representation in corporate governance is even worse for women of color. Although they make up a third of all working women, women of color represent less than half a percent of S&P 500 companies' CEOs and hold just over 3 percent of board seats for Fortune 500 companies.[5]

What accounts for women's underrepresentation in corporate governance?

Researchers have identified a number of barriers to women's participation in corporate leadership. Some sociologists cite gender norms regarding female and male characteristics, specifically pertaining to leadership qualities as an obstacle to

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1 McKinsey and Company, "Report: Women in the Workplace," 2016, p. 5, http://www.mckinsey.com/business-functions/organization/our-insights/women-in-the-workplace-2016. McKinsey and Company is a global firm that studies markets, trends, and emerging best practices, locally and globally.

2 American Association of University Women, "Barriers and Bias: Status of Women in Leadership," 2016, p. 1, citing study by Catalyst, "Women CEOs of the S&P 500," 2015. Standard and Poor's (S&P) 500 Index is a stock market index that identifies the top 500 companies in terms of investment performance.

3 Catalyst, "Women CEOs of the S&P 500," 2016, utilizing S&P 500 federally reported EEO–1 data from 2014, http://www.catalyst.org/knowledge/women-sp-500-finance.

4 Celia Huber and S. O'Rourke, "How to Accelerate Gender Diversity on Boards," *McKinsey Quarterly*, January 2017, http://www.mckinsey.com/global-themes/leadership/how-to-accelerate-gender-diversity-on-boards.

5 Think Progress, "Women of Color Are a Third of All Working Women, But They Aren't in Corporate America," March 17, 2015. Fortune 500 companies are selected on an annual basis by *Fortune* magazine based on highest revenue.

participation. One group of researchers reviewed 69 studies on stereotypes and leadership and found that stereotypically male characteristics are overwhelmingly associated with expectations for leadership success.[6] Virtues associated with effective leadership such as independence, competitiveness, and rationality are typically equated with masculine characteristics.[7] Women who aspire to become leaders on the executive level may encounter bias about their ability to lead. Some believe that as women move up the career ladder and into positions of leadership, they are expected to exhibit "feminine" and nurturing behaviors, and if they don't, they are viewed as abrasive and may face backlash.[8] On the flip side, if they come across as "too feminine," they may be seen as weak and unassertive. This can be a difficult tradeoff and serve as a deterrent for some considering taking an executive position.

Another barrier to women's participation in corporate leadership is their caregiving and child-rearing responsibilities. Some working women may struggle to maintain work–life balance when they bear the brunt of familial responsibilities. Women who want or have children may find it difficult to excel in high-level positions requiring 24/7 availability, significant time in the office, and travel on short notice.[9] In addition, time off for childbirth and raising children interrupts women's career paths, thereby affecting their level of experience and extending the time it takes some women to rise up in the ranks. In other words, career interruptions for familial responsibilities can diminish access to the professional experiences necessary for advancement.

Women interested in serving on corporate boards may be challenged by the lack of a pipeline to board service. The primary route or pipeline to corporate board membership is prior service as CEO of a public corporation.[10] Since women are vastly underrepresented at the CEO level, compared with men, this makes women less likely

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6 Anne M. Koenig, A. H. Eagly, and A. A. Mitchell et al, "Are Leader Stereotypes Masculine? A Meta-Analysis of Three Research Paradigms," *Psychological Bulletin*, vol. 137, no. 4, 2011, p.616.

7 Stephanie N. Crites, K.E. Dickson, and A. Lorenz, "Nurturing Gender Stereotypes in the Face of Experience: A Study of Leader Gender, Leadership Style, and Satisfaction," *Journal of Organizational Culture, Communications, and Conflict*, vol. 19, no. 1, 2015, p. 1–23.

8 Lawrence J. Trautman, "Corporate Boardroom Diversity: Why Are We Still Talking About This?" *The Scholar: St. Mary's Law Review on Race and Social Justice*, vol. 17, 2015, p. 231.

9 Douglas M. Branson, "Pathways for Women to Senior Management Positions and Board Seats: An A to Z List," *Michigan State Law Review*, 2012, p. 1,575.

10 Deborah L. Rhode and A.K. Packel, "Diversity on Corporate Boards: How Much Difference Does Difference Make?" *Delaware Journal of Corporate Law*, vol. 39, 2014, p. 402; and Lisa M. Fairfax, "Some Reflections on the Diversity of Corporate Boards: Women, People of Color, and the Unique Issues Associated with Women of Color," *St. John's Law Review*, vol. 79, 2005, p. 1,105.

to meet the preferred experience for board membership. In fact, a 2012 survey of approximately 100 male board directors from private and public companies cited the lack of executive experience as the primary reason women's participation on boards is not increasing.[11] When women do make it to the corporate board level, they generally have done so by taking a nontraditional or non-vertical approach. In fact, one researcher found the majority of women directors have reached the corporate board level by first "sidestepping" out of business and into careers in academe, the not-for-profit sector, and in government or consulting.[12] In contrast, men generally move up the corporate career ladder in a more linear fashion and at a quicker pace. A long-term study of more than 4,000 alumni who graduated between 1996 and 2007 from MBA programs at leading business schools found male graduates were twice as likely as their female counterparts to be at the CEO/senior executive level.[13]

An emerging theory, known as the "glass cliff," posits that companies commonly appoint women into senior executive positions when they are performing poorly or failing financially. Research by two British psychologists supports this theory, finding women are disproportionately brought into precarious leadership positions, compared with men.[14] When a female CEO is unable to turn her company around financially, her failure may be judged as the result of her gender.[15] Thus, some argue that the practice of appointing women as CEOs only when a firm is in trouble sets them up to fail.

Arguments for increasing women's participation in corporate governance

A growing body of research suggests that women serving on corporate boards leads to good governance. Good governance can be measured by looking at its key components such as decision-making, monitoring and auditing, and attending meetings. Several studies connect women's participation on corporate boards with positive outcomes in

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11 Boris Groysberg and D. Bell, "Dysfunction in the Boardroom," *Harvard Business Review* (online version), June 2013, https://hbr.org/2013/06/dysfunction-in-the-boardroom.

12 Douglas M. Branson, *No Seat at the Table: How Corporate Governance and the Law Keep Women Out of the Boardroom*, 1st ed. (New York University Press, 2007).

13 Catalyst, "Pipeline's Broken Promise," 2010, p. 4, http://www.catalyst.org/system/files/Pipeline%27s_Broken_Promise_Final_021710.pdf.

14 Michelle K. Ryan and S. A. Haslam, "Glass Cliff: Evidence That Women Are Over-Represented in Precarious Leadership Positions," *British Journal of Management*, vol. 16, 2005, p. 81.

15 Ibid.

all of these areas.[16] In addition, other research takes the correlation argument a step further, contending that good governance improves company performance and its public image.

Women may bring different skills, experiences, and perspectives to corporate governance than their male counterparts. Female board members are linked to enhanced listening, social support, and problem-solving skills.[17] These skills can create a more thoughtful and deliberative decision-making process. In addition, some studies have shown that diversity of experience and perspective in general broadens the content of discussion. Differences in opinions, knowledge, and perspective may result in a "more thorough consideration of a wide range of interpretations, alternatives, and consequences"[18] to a particular problem and help generate solutions.

Other research reveals that women on corporate boards are more likely to participate in monitoring and auditing efforts. A study of approximately 2,000 S&P-rated firms from 1996–2003 found female board members were more likely to sit on monitoring- related committees—such as audit, nominating, and corporate governance—than men.[19] Corporate-monitoring efforts often include holding CEOs accountable for poor stock performance. Thus, some researchers contend the presence of women on corporate boards fosters a culture of accountability.[20]

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16 See generally, Renee B. Adams and D. Ferreira, "Women in the Boardroom and Their Impact on Governance and Performance," *Journal of Financial Economics*, vol. 94, no. 2, November 2009; Enkelena Gjuka, "Corporate America and 'The Perks' of Being a Woman: Increasing Gender Diversity in Corporate Boardrooms," *Journal of Civil Rights and Economic Development*, vol. 28, 2016, p. 323–343; and Vicki W. Kramer, A. M. Konrad, and S. Erkut, "Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance," Wellesley, MA: Wellesley Centers for Women, 2006.

17 Vicki W. Kramer, A. M. Konrad, and S. Erkut, "Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance," Wellesley, MA: Wellesley Centers for Women, 2006.

18 Lynne L. Dallas, "New Managerialism and Diversity on Corporate Boards of Directors," *Tulane Law Review*, vol. 76, 2002, p. 1391.

19 In particular, this study found female board members were 7.5 percent more likely to sit on audit committees than men. See Renee B. Adams and D. Ferreira, "Women in the Boardroom and Their Impact on Governance and Performance," *Journal of Financial Economics*, vol. 94, no. 2, November 2009, p. 17.

20 Aarti Maharaj, "Do Women on Boards Improve Governance?" *Corporate Secretary*, December 14, 2011, https://www.corporatesecretary.com/articles/boardrooms/12089/do-women-boards-improve-governance/.

According to one comprehensive study, women on corporate boards have better attendance at board meetings and encourage better attendance by male board members. The study found female board members are 30 percent less likely to have attendance problems than men. [21] Their presence also had a marked effect on the attendance behavior of their male peers. In general, male board members' attendance improved as the fraction of women on the board increased.[22] Meeting attendance is an important component of good governance because it allows board members to stay informed, hold one another accountable, and participate in key decisions.

Multiple studies link women's participation on boards to improved corporate profit and performance outcomes. One commonly cited study by the Credit Suisse Research Institute looked at more than 2,000 companies that have stocks listed on the MSCI world stock market index and found the stock performance of those with women board members was 26 percent higher than those with no female board presence.[23]
In addition, companies with at least one female board member had a 4 percent higher return on equity than those without female members.[24] Further, net income growth for companies with female board representation also was 4 percent higher.[25] A study of nearly 90 European companies with a stock market capitalization of more than $175 million revealed those companies with at least two female board members outperformed their sector in terms of stock price growth by 17 percent.[26] An older study conducted by Catalyst Inc. compared Fortune 500 companies with the highest and lowest percentage of female board representation and found the companies with the highest percentage outperformed those with the lowest by 42 percent in return on sales and by 66 percent in return on invested capital.[27]

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21 Renee B. Adams and D. Ferreira, "Women in the Boardroom and Their Impact on Governance and Performance," *Journal of Financial Economics*, vol. 94, no. 2, November 2009, p. 11.

22 Ibid., p. 13.

23 Credit Suisse compared companies' stock performance over a six-year period. Credit Suisse Research Institute, "Report: Gender Diversity and Corporate Performance," August 2012, p. 12.

24 Ibid, p. 14.

25 Ibid.

26 For this study, stock price growth was measured over three years. The study was conducted by McKinsey and Company, an international management consulting firm. McKinsey and Company, "Women Matter: Gender Diversity, a Corporate Performance Driver," 2007, p. 13–14.

27 The study was conducted over a four-year period. Catalyst Inc. is a nonprofit organization focused on expanding opportunities for women and business. Catalyst, "Bottom Line: Corporate Performance and Women's Representation on Boards," 2007, p.1, http://www.catalyst.org/system/files/The_Bottom_Line_Corporate_Performance_and_Womens_Representation_on_Boards.pdf.

The Credit Suisse and Catalyst studies have been questioned in subsequent research for using a "means" comparison between the different groups of companies (with women board members or without women board members, for example), which can be distorted by any extreme values.[28] In addition, some researchers believe these studies alone, without controlling for other variables, do not prove causation between women's board participation and firm performance.[29] This research does not question whether women bring value to corporate leadership, but rather recommends a more robust and up-to-date examination of the link between gender diversity and corporate performance.

Some scholars also suggest women's participation in corporate governance enhances a company's public image. In particular, for companies with a diverse stakeholder or customer base, having a female presence on the board demonstrates inclusiveness and heightens credibility.[30] In addition, promoting gender inclusivity in governance supports corporate social responsibility (CSR) efforts[31] that look at the organization's impact on the local community. An organization can demonstrate its commitment to social equality by supporting gender diverse leadership.

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28 Deborah L. Rhode and A.K. Packel, "Diversity on Corporate Boards: How Much Difference Does Difference Make?" *Delaware Journal of Corporate Law*, vol. 39, 2014, p. 384–85.

29 Ibid., p. 387–88; Renee B. Adams and D. Ferreira, "Women in the Boardroom and Their Impact on Governance and Performance," *Journal of Financial Economics*, vol. 94, no. 2, November 2009 (this study did find, however, that women on boards can improve corporate performance for companies with weak governance); and Lawrence J. Trautman, "Corporate Boardroom Diversity: Why Are We Still Talking About This?" *The Scholar: St. Mary's Law Review on Race and Social Justice*, vol. 17, 2015, p. 225–227.

30 Deborah L. Rhode et al, "Diversity on Corporate Boards: How Much Difference Does Difference Make?" *Delaware Journal of Corporate Law*, vol. 39, 2014, p. 399.

31 CSR initiatives relate to how companies act as good corporate citizens by managing their economic, social, and environmental impacts.