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Women on Corporate Boards

Increasing in California but Still Underrepresented

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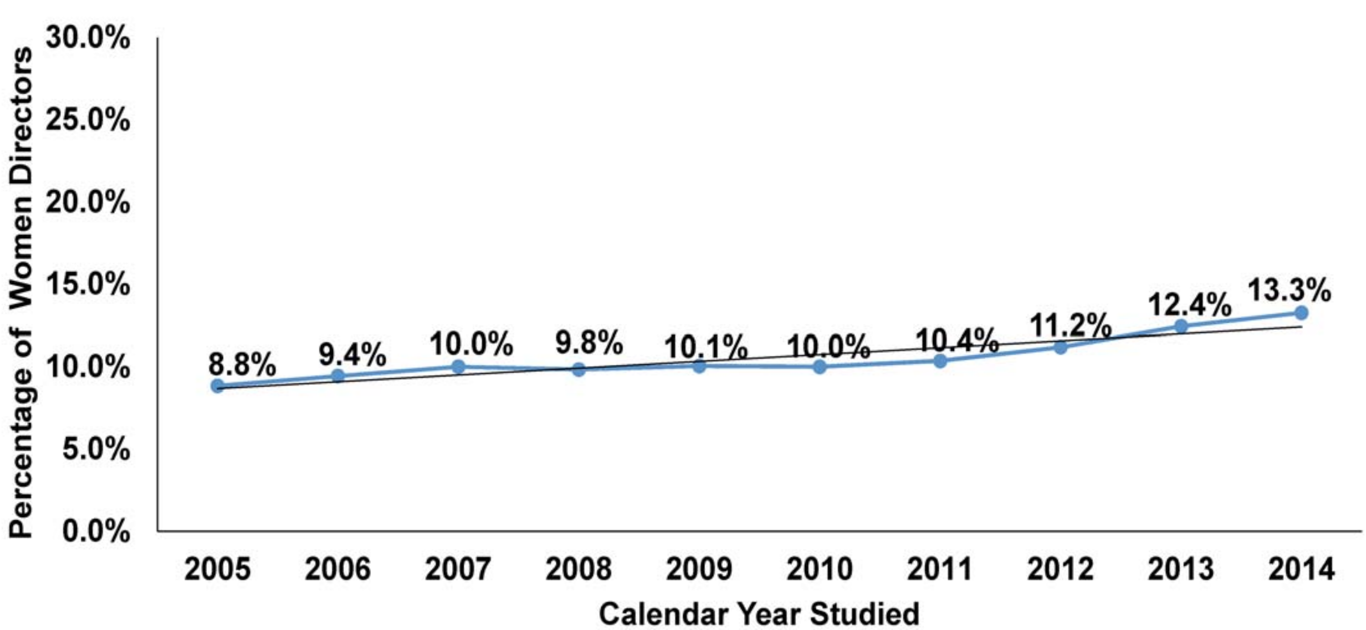
Organizations and governments across the world employ a variety of voluntary, regulatory and legislative means to increase the number of women directors on corporate boards. From media campaigns asking companies to hire more women directors to enacting laws requiring it, worldwide interest in board diversity has led to initiatives aimed at addressing disparities. These initiatives result from the disproportionately small number of women serving on corporate boards across the globe. In the United States, for example, only 19.2 percent of board directors were women in 2014.[1] In California, which accounts for 13 percent of the national economy,[2] the UC Davis Graduate School of Management has tracked data about the status of women directors in the state's largest 400 publicly traded firms since 2005.[3] This annual research demonstrates that the continued underrepresentation of women on California boards is ubiquitous although it varies significantly across locations and industries (Figure 1).

In response to this and other reports, local and state leaders have asked for a number of voluntary efforts and goals. In 2008, then State Controller John Chiang asked CalPERS and CalSTRS, two of the largest pension funds in the country, to amend their governance policies and identify best practices to address corporate board diversity.[4] As State Treasurer, Chiang recently followed up, requesting that the two funds continue focusing on board diversity in corporations where they invest.[5] Also in 2008, San Francisco's Department on the Status of Women launched a Gender Equality Principles Initiative that encourages participating companies to recruit and appoint women to boards of directors.[6] More recently, the California Senate passed

Figure 1. California director positions held by women reached 13.3 percent at the end of 2014.[10]



Concurrent Resolution (SCR) 62 (Jackson) in 2013.[7] This resolution represents the first set of goals advanced by California's legislature, and it urges California's publicly traded companies to meet certain goals by December 2016. The resolution created three benchmarks for California's publicly traded companies that depend on the size of the board: three women directors for companies with nine or more directors, two women for companies with five to eight directors and at least one woman on company boards with fewer than five directors. These benchmarks broadly reflect prior research cited in the resolution, prompting the conclusion that "[large] boards of directors need to have at least three women to enable them to interact and exercise an influence on the working style, processes, and tasks of the board, in turn positively affecting the level of organizational innovation within the firm."[7] Research also finds,"[f]irm innovation is one of the most important predictors of firm performance, helping firms gain competitive advantage and increase their performance."[8]

Women on Boards, Past and Present

Using historical data from the annual UC Davis study, which largely reflect time periods prior to the resolution, we analyze gender representation on California's 400 largest company boards over time and assess whether they are likely to meet the resolution's goals by December 2016. Between 2005 and 2014, there was a 133 percent increase in the percentage of companies meeting the resolution's benchmarks, from 7.5 percent (30) in 2005 to 17.5 percent (70) in 2014 (Figure 2; See also Appendix Table 1). The two largest increases were from 2006 to 2007 (39.4 percent) and from 2012 to 2013 (28.6 percent). However, companies are not adding women to their boards quickly enough to meet the resolution's benchmarks by 2016. To meet this goal, 83 percent (330) of the firms would have to fill 533 more director positions with women by the end of 2016.

It is difficult to make projections about how quickly women will join boards in the future. The U.S. Government Accountability Office recently released a report about women board directors nationally. They project it will take until roughly 2024 for women to comprise 30 percent of boards and more than 40 years for women to reach parity in representation with men.[9]

Finally, while the number of women board directors is small, women of color represent an even smaller number of board directors. In the Fortune 1000 companies studied (90) by UC Davis with 2014 data, 89.5 percent of the women directors were white.[10] Government leaders, organizations and stakeholders also may want to be cognizant of how women's race and ethnic category bear on the diversity of corporate boards as they seek solutions.

A Snapshot of Industries

California's 400 largest publicly traded companies together had 3,260 director positions in 2014. Board sizes averaged eight directors and ranged from four

Figure 2. The percentage of California companies meeting the benchmarks has been on the rise since UC Davis began collecting data in 2005. N=400

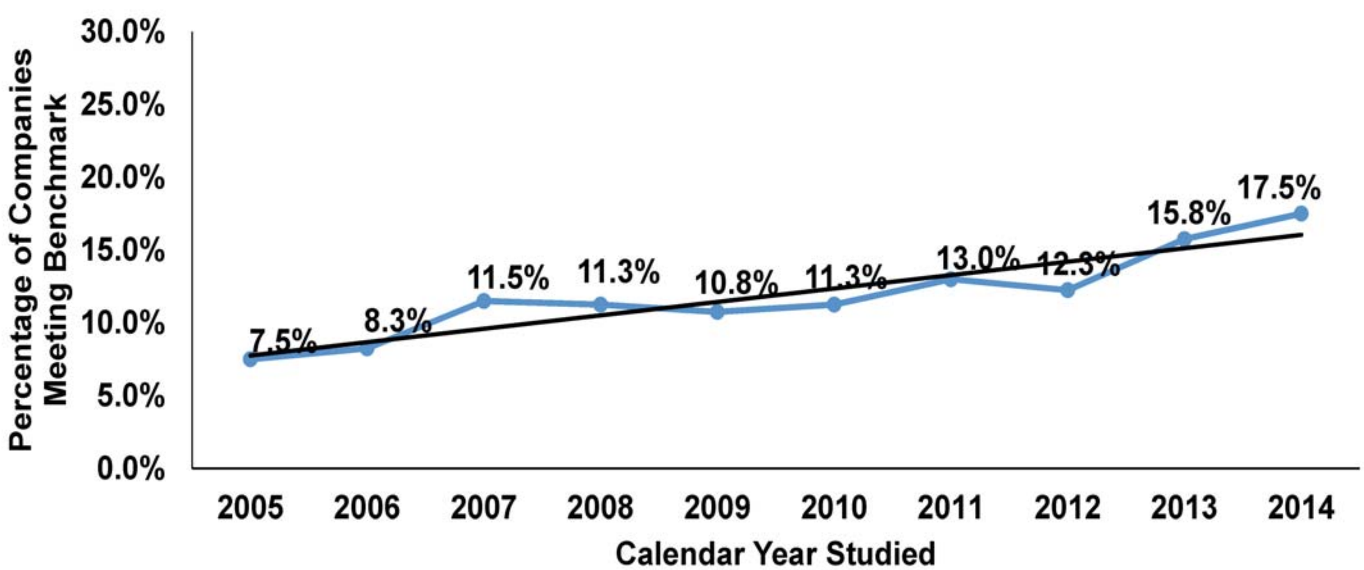
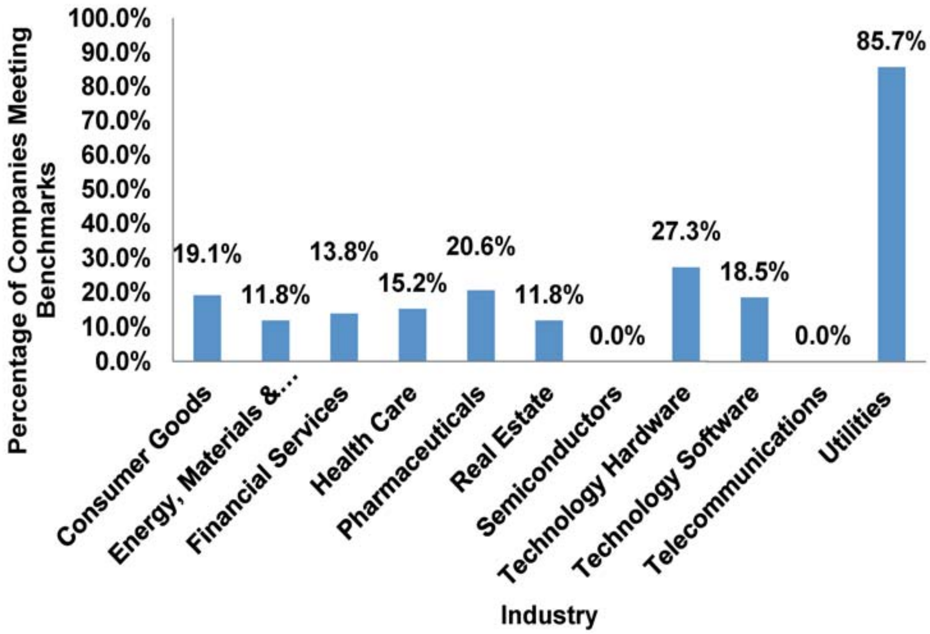


Figure 3. A much larger percentage of utility industry firms met the benchmarks. (N=400)



to 16 director positions. Women held 13.3 percent of all board seats. While women are represented on boards in every industry, there are large differences across industries (see Appendix Table 2).[11] On the low end, women held 6.9 percent (20) of board seats in the semiconductor industry and only held 8.3 percent (1) of seats in the telecommunications industry in 2014. The utility industry had the largest percentage of women directors at 27.5 percent (19), and the technology software industry had the largest number (82) of women directors.

Rather than being concentrated in one or two companies within an industry, women directors are fairly evenly distributed across companies in each industry. That is, industries with a larger share of companies meeting benchmarks often have a larger percentage of women directors; the percentage of companies meeting benchmarks is 87 percent correlated with the percent of women directors between 2005 and 2014. Notably, and different from all other industries, all 37 semiconductor companies as well as both telecommunications companies in the study fell short of the benchmarks (Figure 3). The 34 real estate and 34 energy, materials and industrials companies had the next smallest percentage of companies meeting benchmarks at 11.8 percent each. And, just as the seven utility companies had the largest percentage of women-held directorships, they also had the largest percent of companies meeting the benchmarks, 85.7 percent (6). The technology hardware industry had the second largest percentage of companies meeting the benchmarks (27.3 percent or 12 companies). In all other industries, less than 25 percent of companies successfully met the resolution's benchmarks.

National and International Efforts to Increase Women on Corporate Boards

Increasing board diversity is also recognized as a national and international goal with solutions ranging from voluntary efforts led by nongovernmental organizations to legislation requiring compliance. Though there is no federal legislation or regulation in the United States aimed at closing the gender "leadership gap,"[12] nonprofit organizations have formed to increase women's board representation (e.g., 2020 Women on Boards, U.S. chapter of the 30% Club, Alliance for Board Diversity, Catalyst).[13] Internationally, the European Parliament voted in 2013 in support of a proposal to increase women's board membership to 40 percent in European Union member countries.[14] Australia, Canada and Finland adopted voluntary goals and actions to increase women's board membership in companies headquartered there. These solutions rely on different incentives to affect voluntary compliance. For example, Australia's model creates transparency by requiring disclosure of board and workforce gender compositions while Finland uses an endorsement system where business leaders and studies publicly affirm women's value and capabilities.[12] Beginning with Norway in 2003, at least 13 additional countries have enacted laws requiring companies with their headquarters in the country to include women on boards of directors. These laws vary; one country asks for just one woman per board while others specify that women comprise 50 percent of the directors.[15]

The history, studies and results of these initiatives differ, with Norway among the most studied. In Norway, legislated efforts initially called for publicly traded companies to voluntarily increase the number of women serving as board directors. When many did not, mandatory quotas went into effect and a reported 384 companies became private presumably to avoid compliance.[16] For the remaining companies, quotas have been effective at increasing the number of women directors, and one recent study found that the newly appointed women had higher education levels than women appointed prior to the quotas.[17] This same study also provided evidence that having more women directors increases the likelihood of a woman holding one of the five top-paying positions in a company. However, researchers did not find an observable change in the gender wage gap or in women's representation in other high-paying positions. One study done after Norway implemented its quota system demonstrates an initial drop in companies' overall value, and in an interview the author attributed the result to hiring less-experienced directors.[18] To address the issue of finding experienced women, Norway created a database of eligible and interested women. Perhaps as a result, companies are at times hiring the same women onto multiple boards – a practice cited by one researcher as a drawback to quotas because it limits the total number of qualified women who serve on boards.[19] Other countries' uses of transparency and endorsements to increase representation are also strategies to improve women's representation on boards, though the impact remains understudied.

Figure 4. Over 90 percent (372) of the firms represented in the study are from seven counties.*

*The map represents the number of the largest 400 companies headquartered in each county.

Policy Options

California decision-makers, organizations, companies and other stakeholders who want to increase boardroom diversity can consider a number of options that build on current efforts:

Expand Outreach and Increase Awareness

- Many California government leaders and entities, higher-education institutions and organizations are already working to increase the number of women board directors. The state could convene leaders to discuss goals and to align strategies. The California Commission on the Status of Women and Girls could work with local women's commissions and non-profit groups to inform business leaders about information and strategies aimed at increasing the number of women board directors. Starting with those counties where the largest companies are located is one way to focus available resources (see Appendix Table 3). Most of California's large companies are located in Alameda, Los Angeles, Orange, San Diego, San Francisco, San Mateo and Santa Clara counties. (See Figure 4).
- Stakeholders could build on CalSTRS' Diverse Directors database of qualified people interested in board appointments.[5, 20]
- Lawmakers could request or require all publicly traded firms to make board diversity information readily available or report the information to an agency, like the California Secretary of State, that will publish it.[21]
- Watermark, a non-profit organization in the Bay Area, used the UC Davis data to create an index of local publicly traded companies in which women hold at least 30 percent of board seats and the top five compensated positions.[22] Other organizations could replicate this index for companies in their region. They might consider highlighting companies that meet the SCR benchmarks and those that do not.

Improve proxy access and change director tenure.

- CalPERS and CalSTRS staff are working on an initiative requesting corporate boards adopt proxy access, which would result in companies adopting by-laws allowing shareholders to nominate board directors. Treasurer Chiang also asked both funds to consider specifying tenure length for board directors to create more open seats – along with comply or explain disclosures.[23] Stakeholders could encourage a California-centric effort to accomplish these same goals.

Evaluate strategies from successful industries:

- Since there are only seven utility companies in our analysis, we caution against generalizing about the industry. However, six of those seven companies meet benchmarks. The state could examine which strategies are being employed in this industry. Most of the large utility companies already meet the resolution's goals. The California Public Utilities Commission works closely with the California Utilities Diversity Council, which promotes diversity in governance, among other issues, within California's public utilities through such activities as reporting and outreach.[24,25] This council might serve as a model for improving diversity in other industries.

- The most rapid progress comes from the technology software industry, which increased its proportion of women directors by 91 percent between 2005 (8.1 percent) and 2014 (15.5 percent). This industry now has the second highest percentage of women directors, behind only the seven utility companies. Software companies could share their best practices and take the lead in encouraging other companies to follow suit.

Require companies to meet benchmarks

- As the experience in Norway demonstrates (see page 3), creating mandatory benchmarks increases the number of women on boards, but businesses may also leave the jurisdiction or withdraw their public status. Such an effort has never been tried in the United States and were legislation approved to do so, it could face legal challenges.

Endnotes

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2. CAL FACTS: December 2014. (2014). Legislative Analyst's Office. Retrieved from http://www.lao.ca.gov/reports/2013/calfacts/calfacts_010213.pdf. Accessed on January 7, 2016.

3. We exclude data from 2004 because UC Davis included only the largest 200 companies in their first annual study. UC Davis released this study in February 2006. The companies included in the UC Davis study each year change according to their market capitalization value. Roughly 80 percent of the companies remain among the largest 400 companies headquartered in California by market capitalization from any given year to the next. One hundred and seventy companies were in all 10 years of the data. These companies exhibited a larger percentage increase in their average percentage of women directors than the overall sample of 400 companies. Thus, year-over-year changes are not due to sample selection but rather are tempered by sample selection. UC Davis purchases company financial data from Wharton Research Data Services' Compustat database.

4. Chiang Urges CalPERS and CalSTRS to Address Diversity on Corporate Boards. (2006, February 6) Retrieved from http://www.sco.ca.gov/Press-Releases/2008/pr08011.pdf. Accessed on December 22, 2015.

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12. Sweigart, Anne. 2012. "Women on Board for Change: The Norway Model of Boardroom Quotas as a Tool for Progress in the United States and Canada." Northwestern Journal of International Law and Business, 32 (4): 81A-105A. Retrieved from http://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1007&context=njilb. Accessed on December 22, 2015.

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14. Cracking Europe's Glass Ceiling: European Parliament backs Commission's Women on Boards Proposal. (Nov. 2013) Retrieved from http://europa.eu/rapid/press-release_IP-13-1118_en.htm. Accessed on December 22, 2015.

Also see Improving the Gender Balance in Company Boardrooms. (2014, June). Retrieved from http://ec.europa.eu/justice/gender-equality/files/gender_balance_decision_making/boardroom_factsheet_en.pdf. Accessed on December 22, 2015.

15. Catalyst. Retrieved from http://www.catalyst.org/legislative-board-diversity. Accessed on December 22, 2015.

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21. See Publicly Traded Disclosure Search. Retrieved from http://www.ptsearch.ss.ca.gov/app/basic_search.html. Accessed on December 22, 2015.

22. Watermark Index. Retrieved from https://www.wearewatermark.org/watermark-index. Accessed on December 22, 2015. Watermark has partnered with UC Davis' Graduate School of Management since 2005 to promote the annual report discussed in this brief.

23. For example see http://www.dentons.com/en/insights/alerts/2015/october/16/women-on-boards-review-and-discussion-of-new-comply-or-explain-disclosure-requirements. Accessed on December 31, 2015.

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Appendix

Table 1. 17.5 percent of companies studied met the resolution's benchmarks in 2014.*

Calendar Year Studied	All Boards: Total Companies	All Boards: Meeting Benchmark		All Boards: Change	Nine or More Board Members (At Least Three Women): Total Companies	Nine or More: Meeting Benchmark		Five to Eight Board Members (At Least Two Women): Total Companies	Five to Eight: Meeting Benchmark		Fewer than Five Board Members (At Least One Woman): Total Companies	Fewer than Five: Meeting Benchmark	
	N	N	%	%	N	N	%	N	N	%	N	N	%
2005	400	30	7.5%	–	154	12	7.8%	238	18	7.6%	8	0	0.0%
2006	400	33	8.3%	10.0%	159	13	8.2%	238	20	8.4%	3	0	0.0%
2007	400	46	11.5%	39.4%	154	16	10.4%	240	29	12.1%	6	1	16.7%
2008	400	45	11.3%	-2.2%	153	15	9.8%	244	30	12.3%	3	0	0.0%
2009	400	43	10.8%	-4.4%	160	15	9.4%	237	28	11.8%	3	0	0.0%
2010	400	45	11.3%	4.7%	146	17	11.6%	252	28	11.1%	2	0	0.0%
2011	400	52	13.0%	15.6%	139	20	14.4%	257	31	12.1%	4	1	25.0%
2012	400	49	12.3%	-5.8%	153	18	11.8%	244	31	12.7%	3	0	0.0%
2013	400	63	15.8%	28.6%	150	23	15.3%	242	38	15.7%	8	2	25.0%
2014	400	70	17.5%	11.1%	155	31	20.0%	242	39	16.1%	3	0	0.0%

*These are California's top 400 publicly traded companies by market capitalization.

Table 2. No large semiconductor or telecommunications industry companies met the benchmarks.

Industry	Total Companies	Companies Meeting SCR-62 Benchmarks		Total Director Positions	Women-held Director Positions	
	N	N	%	N	N	%
Consumer Goods	47	9	19.1%	404	58	14.4%
Energy, Materials & Industrials	34	4	11.8%	289	37	12.8%
Financial Services	29	4	13.8%	277	37	13.4%
Health Care	33	5	15.2%	248	32	12.9%
Pharmaceuticals	68	14	20.6%	518	68	13.1%
Real Estate	34	4	11.8%	267	29	10.9%
Semiconductors	37	0	0.0%	291	20	6.9%
Technology Hardware	44	12	27.3%	356	49	13.8%
Technology Software	65	12	18.5%	529	82	15.5%
Telecommunications	2	0	0.0%	12	1	8.3%
Utilities	7	6	85.7%	69	19	27.5%
Total	400	70	17.5%	3,260	432	13.3%

Table 3. Many counties are home to fewer than 10 companies represented in the study. These companies could lead the way in those jurisdictions by increasing the number of women directors on their boards.

Legend	County	Total Companies	Representation in Top 400	Companies Meeting SCR-62 Benchmarks		Total Director Positions	Women-held Director Positions	
		N	%	N	%	N	N	%
1	Marin	7	1.8%	3	42.9%	61	13	21.3%
2	Contra Costa	5	1.3%	2	40.0%	40	8	20.0%
3	San Francisco	32	8.0%	11	34.4%	287	58	20.2%
4	Santa Barbara	3	0.8%	1	33.3%	21	5	23.8%
5	San Diego	39	9.8%	9	23.1%	308	41	13.3%
6	San Mateo	42	10.5%	9	21.4%	323	44	13.6%
7	Ventura	6	1.5%	1	16.7%	61	10	16.4%
8	Santa Clara	104	26.0%	16	15.4%	851	108	12.7%
9	Los Angeles	82	20.5%	11	13.4%	675	78	11.6%
10	Alameda	31	7.8%	4	12.9%	245	32	13.1%
11	Orange	37	9.3%	3	8.1%	285	30	10.5%
12	Butte	1	0.3%	0	0.0%	12	1	8.3%
13	Kern	1	0.3%	0	0.0%	11	0	0.0%
14	Riverside	1	0.3%	0	0.0%	10	1	10.0%
15	Sacramento	1	0.3%	0	0.0%	8	0	0.0%
16	San Bernardino	2	0.5%	0	0.0%	16	1	6.3%
17	San Joaquin	1	0.3%	0	0.0%	7	0	0.0%
18	Santa Cruz	3	0.8%	0	0.0%	23	1	4.3%
19	Sonoma	2	0.5%	0	0.0%	16	1	6.3%
	Total	400	100.0%	70	17.5%	3,260	432	13.3%

The California Research Bureau provides research and nonpartisan public policy analysis to the State Legislature, Governor and Constitutional Officers.

The California Commission on the Status of Women and Girls requested this report.

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