BRINGING WOMEN TO THE TABLE

The business case for diversifying your board of directors.

BY STACEY CLOSSER

Take a look around the table at your next board of directors meeting and ask yourself, "Do the vast majority of board members represent similar life and work experiences?" If the answer is yes, you've got a problem.

Even if you disregard its moral motivations, there is a real business case for embracing gender diversity on your board. According to a recent report by Catalyst, Fortune 500 companies with the highest representation of female board directors attained significantly higher financial performance, on average, than those with the lowest. The report, *The Bottom Line: Corporate Performance and Women's Representation on Boards*, looked at three critical financial measures — return on equity, return on sales, and return on invested capital — and compared the performance of companies with the highest representation of women on their boards to those with the lowest.

This isn't the first time the correlation between gender diversity and financial performance has been made. The Catalyst results are backed up by a 2012 Credit Suisse report, which analyzed the performance of 2,360 companies globally for six years and found that organizations with women on their management boards represented a better investment.

"We also find that companies with one or more women on the board have delivered higher average returns on equity, lower gearing, better average growth, and higher price/book value multiples over the course of the last six years," the report states.

While the reasons for this are varied and can be subjective, Credit Suisse research suggests that reduced volatility is one specific consequence of greater board diversity, enhancing stability in corporate performance and share price returns.

And yet, concurrent with these findings runs the Catalyst headline, "Still no progress after years of no progress." In 2013, roughly 17 percent of corporate board seats belonged to women, a statistic that has remained essentially flat for eight years. A striking 10 percent of companies have no women serving on their boards.

It might be tempting to point to a director's longevity as a reason why the rate of gender diversity isn't increasing at a faster rate, but it appears the trend continues when seats open up.

"Even among the open board seats, over 80 percent of them went to men," says Brande Stellings, vice president of corporate board services for Catalyst. "So even if we had more seats, more turnover, we still need to address the issue that women are not getting selected at the rates that you'd expect them to."

So what does that mean for your organization? Based on research and trends, companies that are not actively looking to diversify their boards will lose on a variety of fronts.

"Diversity of thought, of any kind, encourages better group discussions and decision making," says Malli Gero, co-founder and executive director of 2020 Women on Boards, a national campaign to increase the percentage of women on boards to 20 percent by 2020.

The European Union is considering rules that would instill a 40 percent quota for female directors by 2020, and several European countries have already instituted quotas including France, the Netherlands, Italy, and Spain. Gero cautioned that the demand for qualified women in Europe will likely bring executive searchers stateside, decreasing the pool of qualified female candidates for U.S. companies.

Companies that act aggressively now will not only garner the top talent but also reap the financial performance rewards more quickly. Investors and shareholders are watching this issue more closely as well and will make investment decisions accordingly.

"This is pretty indisputable … having more women on boards creates greater profitability, lower risk, better employee engagement, and better long-term sustainable performance," says Carolyn Buck Luce, executive in residence at the Center for Talent Innovation, and Managing Partner of Hewlett Consulting Partners.

THE PIPELINE MYTH

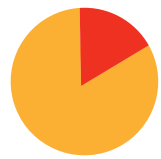
There are several myths that accompany naysayers about gender diversity, the most popular being that there aren't enough qualified female candidates.

"We know now that the supply-side pipeline is full to bursting with board-ready women, many endorsed by their own CEOs as qualified candidates for outside corporate boards," wrote Betsy Berkhemer-Credaire in her book, *The Board Game — How Smart Women Become Corporate Directors*. She is the president and co-founder of Berkhemer Clayton Inc., a retained executive search firm, and has been tasked with finding board directors through the years.

"There is a proliferation of experience in the last 20 years in all disciplines. We haven't had the numbers before like this," says Berkhemer-Credaire. "Every board can find a qualified woman who will bring value to that board."

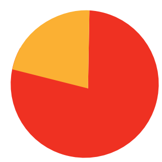
She encourages companies to expand their search to include business owners, women from senior executive positions, academia, and those retired from government service.

Her suggestion underscores the other board myth that directors must be a sitting or retired



17%

Percentage of corporate board seats belonging to women.



80%

Percentage of empty board seats that went to men.

20%

The percentage that 2020 Women on Boards seeks to increase the number of women on boards by 2020.

From left, Lockheed Martin Executive Chairman Robert J. Stevens; Chairman, President, and CEO Marillyn Hewson; Executive Vice Presidents Larry Lawson and Orlando Carvalho stand near an F-35B at Marine Corp Air Station in Yuma, Ariz., after the squadron's re-designation ceremony, Nov. 20, 2012.

CEO and have previous board experience. The reality is that there are significant business units that are being run by women who are gaining skills that would qualify them for boards even if they don't have the title. This isn't unique to women directors — at least half of sitting directors don't have CEO experience.

"What we're seeing — and it's not just true of women, but all directors — is that you're missing a lot of talent if you're just looking at C-titles out there," says Gero. "Most nominating chairs and committees would be pleasantly surprised to find how many qualified women there are with amazing experience who don't necessarily have C-titles."

The ideal solution is to have a healthy internal pipeline of female executives — an approach that requires long-term planning, but one that can be advocated by investors who can make recommendations regarding board appointments. "Over the last year, investors have become increasingly vocal and proactive on this issue. Many have set their own policies for engagement with the companies in which they invest," wrote Lord Davies of Abersoch in the Women on Boards 2013 report. The annual report examines women's participation on boards in the FTSE 100 and FTSE 250. For 2014, the voluntary, business-led approach in the U.K. has seen women's representation increase to 20.7 percent, up from 12.5 percent in 2011. The dramatic rise is encouraging — if U.K. organizations can find female directors, there's no reason American companies can't do the same.

FOLLOW THE MASTERS

Many companies that made diversity a priority have paved

the way to success for those that followed. Lockheed Martin was recently recognized by Catalyst for its diversification efforts. In the early 2000s, Lockheed Martin identified its need to attract, engage, and leverage a wider range of talent and responded by making diversity and inclusion an integral part of its business strategy. The results have been profound, most notably on the company's board of directors. Women's representation on the board of directors went from 13 percent in 2004 to 33 percent in 2013.

Other companies that have turned it around include The Coca-Cola Company, Burberry Group, Diageo, and Kaiser Permanente.

"People should ask themselves — what's the risk?" asks Stellings. Time and again research has shown that diversity adds value to the bottom line, benefits innovation, demonstrates social responsibility, and enhances employee engagement.

It becomes crystal clear when Luce points out the makeup of the global talent pool. "What percentage are white men? Ten percent," says Luce. "It's really all about the demographics of the current and future employee base and the current and future customer, shareholder, and stakeholder. They are becoming more and more the face of 'she,' so if you don't have that face, it lowers your chance of innovation, market growth, managing risk, and sustainability."

Insigniam co-founding partner Shideh Sedgh Bina agrees, adding, "One day, future business leaders will look back and see that the lack of appropriate balance of women on boards and in the C-suite during this era was a classic case of corporate myopia, resulting in very costly missed opportunities."

So perhaps the real question you should be asking is, "What's the risk of not diversifying the board?"

A 2012 report from the Committee for Economic Development in Washington, D.C., puts it succinctly: "No business would tolerate a similar lack of achievement with respect to sales, revenues, earnings, or any of the other metrics commonly used to measure business success. … Gender representation is a competitiveness issue. The achievement of greater representation by women on corporate boards must be seen as part of a larger issue of talent development and met with the same urgency and accountability as any other competitive threat."

HOW TO EXPAND OPPORTUNITIES FOR WOMEN ON BOARDS:

01 BE BOLD

On average, companies with the highest percentages of female board directors outperformed those with the least by up to 66 percent, regarding ROI on invested capital.

02 CONSIDER

There is tremendous value in having your female executives sit on other companies' boards. Also, build relationships with organizations that prepare executives for board service such as the Women's Director Development program at Kellogg School of Management at Northwestern University.

03 RESOURCES

Toss the status quo and recognize that diversity is part of good governance. Change selection criteria to better reflect the real requirements of the position and eliminate non-essential, exclusionary requirements.

Source: Catalyst report, *The Bottom Line: Corporate Performance and Women's Representation on Boards*, sponsored by The Chubb Corporation