CORPORATE GOVERNANCE

You've Committed to Increasing Gender Diversity on Your Board. Here's How to Make it Happen.

by Paula Loop and Paul DeNicola

FEBRUARY 18, 2019

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After years of asking corporate directors about the importance of diversity in the boardroom, we've got some good news: the vast majority see value in including more women and minorities. Nearly 95% of directors agree that diversity brings unique perspectives to the boardroom, while 84% believe it enhances board performance, according to our 2018 Annual Corporate Directors Survey.

Even better, the number of directors who rate having more female board members as "very important" has nearly doubled since we began asking the question in our survey, rising from 25% in 2012 to 46% today. This is progress, especially when you consider that 80% of the directors in our study are male.

Investors such as State Street Global Advisors and BlackRock have voted against the re-election of directors on all-male boards, and California has mandated that women be on the public boards of companies headquartered in the state.

And yet the progress remains slow. Women hold just 24% of S&P 500 board seats, up only 3 percentage points since 2012, despite constituting 47% of the U.S. workforce and driving 70% to 80% of consumer spending everything from food and electronics to healthcare and financial services.

We're also seeing signs of "diversity fatigue": 52% of the directors in our survey say they think diversity efforts are motivated by political correctness, and 48% believe shareholders are too preoccupied with diversity.

So, where do we go from here?

We recommend that companies do five things:

Review the benefits. Research clearly shows that team diversity leads to greater innovation and better decision-making. Studies have also established a correlation to stronger company performance. Female directors change boardroom conversations in other important ways. In our survey, we found they are more likely than their male counterparts to say that social issues such as human rights (38% vs. 25%), climate change (27% vs. 13%), and income equality (22% vs. 14%) should play a role in corporate strategy. Women are also more likely than men to attribute problems with company culture to the tone set by top management, compensation plans, and an excessive focus on the short term. Female directors may also be better positioned to reflect the views of the women who make up a large percentage of customers, shareholders and employees.

Understand that one isn't enough. Boards, most of which have nine to 13 members, can't just add one woman and expect real change in the way they operate. You need at least three female directors, a critical mass that Egon Zehnder calls the "magic number" in its 2018 Global Board Diversity Tracker. With at least two female colleagues, women are more likely to speak up and be heard.

Rethink director criteria. Female and non-white directors now joining corporate boards have notably different backgrounds than their white male peers. They are more likely to be serving for the first time and less likely to be current or former CEOs. New women directors tend to have more finance, technology and consumer experience than male directors, according to Spencer Stuart's 2018 Board Index. To recruit more diverse candidates, boards have had to cast a wider net and focus on skills and experience rather than the titles candidates have held.

Require a 50-50 slate. It's not just shareholders who are pushing for greater board diversity. In October, executive search firm Heidrick & Struggles, in cooperation with Stanford's Rock Center for Corporate Governance, announced that at least half the candidates on the first slate it submits to clients will now include those from underrepresented groups. This is a major development and a policy we recommend all public companies adopt as part of their recruitment process. Organizations seeking greater board diversity should be more rigorous, considering only slates of women and non-white candidates.

Expand the size of the board. The low turnover of board seats is a major obstacle to creating greater board diversity. Half of S&P 500 boards added no new directors last year. With few boards embracing term limits, and the typical mandatory retirement age set at 72 or more, the best way to speed up board refreshment is to expand membership. Last year, for example, more than half of new women directors joined boards that had increased in size, according to Spencer Stuart. Given that research suggests smaller boards are more effective, the board can return to its previous size once directors with longer tenures have retired, creating an optimally sized board with more diverse perspectives.

We believe it's time to make boards' diversity ambitions a reality. These five steps can help.

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