



IN-DEPTH:

GENDER DIVERSITY

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Women are rising to 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 Women's employment rates held up better than men's in the years following the recession,² and in 2015, a record number of women were on the FORBES list of World Billionaires.³ Despite these successes, however, there is still a dearth of female directors on the boards of public companies around the world.

A few countries, France and Norway among them, are blazing trails for board gender diversity, but most have a long way to go. In the S&P 500, women make up 21% of all directors, a 6% increase over the past decade.⁴ Sectors that lead in gender-diverse boards include healthcare, finance, and consumer goods & services.⁵ Within the S&P 500, the basic materials sector ranks lowest, followed by the technology sector.⁶ Board gender diversity also varies significantly by country. A 2014 report by Credit Suisse that compared percentage 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. Countries with less than 5% women on boards included Japan, Pakistan, South Korea, and Taiwan.⁷ In 2015, the share of women on boards at large, publically listed companies in EU countries was 21.2%, with the UK slightly higher at 25.9%.⁸ Furthermore, regulatory developments will impact the amount of board gender diversity in the years to come. In 2015, Germany introduced quotas requiring major companies to allot 30% of board seats to women.⁹ In 2012, the EU Commission issued a [proposal](#) for a directive to improve board gender diversity by 2020.¹⁰

1 Jenna Goudreau. "Women Beat Men in Advanced Degrees." *Forbes*. April 27, 2011.

2 "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.

3 Andrea Navarro. "The World's Richest Women 2014." *Forbes*. March 3, 2014.

4 "2016 Spencer Stuart Board Index." Spencer Stuart. 2016.

5 Andre Chanavat. Katharine Ramsden. "Climb to the Top — Tracking Gender Diversity on Corporate Boards." *Thomson Reuters*. October 2014.

6 Heather Kelly. "Tech Boards Still Lag when it comes to Gender Diversity." *CNN Money*. November 18, 2015.

7 "The CS Gender 3000: Women in Senior Management." Credit Suisse. September 2014.

8 "Gender Balance on Corporate Boards: Europe is Cracking the Glass Ceiling." European Commission. October 2015.

9 Caroline Copley. "German Parliament Approves Legal Quotas for Women on Company Boards." *Reuters*. March 6, 2015.

10 Emily Cadman. "Europe Presses UK to Increase Female Director Numbers." *Financial Times*. March 19, 2015.

The U.S., however, appears reticent to make regulations concerning board diversity quotas, though it has pressed companies to provide more disclosure on their diversity initiatives. 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, as of 2016 very few companies have disclosed a formal diversity policy, and consequently there is very little disclosure of their effectiveness.¹¹ There has also been a lack of progress in adding women to boards. At the current rate, the Government Accountability Office estimates that it could take more than 40 years to achieve gender parity on the boards of publicly-traded companies.¹²

Many factors inhibit board gender parity. Director recruitment is often limited primarily to directors' own networks, which are typically made up mostly of older, white men.¹³ And some of those men are taking up more than one seat in corporate boardrooms. According to the 2016 Spencer Stuart Board Index, independent directors have, on average, 2.1 corporate board affiliations.¹⁴ However, only a small percentage is female. A 2013 study published in the *Academy of Management Journal* found that, among the 2,000 largest companies in the U.S., women comprise 28% of directors who serve on one board, but just 8% of those serving on more than one board. Researchers found that political errors and a lack of mentorship may be the cause for their limited board memberships. In fact, a faux pas committed early in a director's tenure made it 52% less likely that first-time board members would be invited to join additional boards within two years of their initial appointments. While the study found that women received the most mentoring on boards where there was already a female in place, the authors note that this dynamic did not appear sufficient to enable these directors to challenge the status quo of a majority of white, male directors.¹⁵

Women's opportunities may be further limited by a related factor: lack of executive experience many see as necessary to serve as a director. However, boards are prioritizing the recruitment of women over active CEO or COOs. According to a survey conducted by

11 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.

12 U.S. Government Accountability Office. "Strategies to Address Representation of Women Include Federal Disclosure Requirements." December 2015.

13 Joann S. Lublin. "Female Directors: Why So Few?" *Wall Street Journal*. December 27, 2011.

14 "2016 Spencer Stuart Board Index." Spencer Stuart. 2016.

15 Kathryn Dill. "More Women and Minorities Are On Corporate Boards Now, But..." *Forbes*. September 25, 2013.

Spencer Stuart in 2016, 64% of respondents were looking to bring a woman on board when recruiting new directors, a 10% increase from 2015, making it the top priority for these boards. The second highest priority was active CEO or COO background, with 63% of respondents expressing this preference. While recruiting women has become the highest priority among respondents, only 6% of CEOs in the S&P 500 were women. In 2016, 47% of new male directors were current or former CEOs, chairs, presidents or COOs compared to only 18% of new female directors.¹⁶

Although many companies contend that a shortage of qualified female director candidates hinders increased gender diversity, they may be underestimating the pool of qualified candidates. Spencer Stuart says that in 2012, even in searches in which clients were not specifically looking for a woman director, a female candidate was chosen nearly 20% of the time.¹⁷ In fact, boards may be increasingly considering nominating female directors who come from outside the executive ranks. Since 2007, Spencer Stuart says, one-third of female board recruits have been top corporate executives. The firm states that 30% have been divisional business leaders and general managers, and 27% were finance leaders, bankers or former audit partners. As companies more fully integrate social media and e-commerce into their business models, the recruiter says, women may increasingly be nominated to board seats; women now represent 27% of Spencer Stuart's digital placements.¹⁸ Spencer Stuart also 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.¹⁹ The 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.²⁰

Given the relatively low number of female board members, it is unsurprising that gender diversity has become a focus of investors in recent years. In the wake of the 2008 financial crisis, many investors expect boards to lead companies in new directions, introduce fresh perspectives and focus more on risk mitigation. Investors 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 and experience and that have appropriate levels of independence. Investors have also pressured regulators to require companies to provide more information about the racial and gender composition of their boards. 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.²¹

Board diversity is also seen as a 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 can effectively gauge opportunities or challenges if no women are consulted or given a role in setting strategy or direction — but that's actually the case with numerous companies. Indeed, according to a 2011 review by executive search firm CTPartners, 29 Fortune 1000 consumer companies had no women on their boards. Clearly, this poses strategic challenges for these companies, given that women control nearly 75% of consumer purchasing decisions.²² Further, while women are responsible for 85% of luxury sales, fashion and luxury boards have an average female representation of only 25%.²³

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. Studies on the effects of diverse boards continue, but recent findings indicate:

BOARD DIVERSITY TRICKLES DOWN

Having more women on a board leads to more women at the 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

¹⁶ “2016 Spencer Stuart Board Index.” Spencer Stuart. 2016.

¹⁷ “2012 Spencer Stuart Board Index.” Spencer Stuart. 2012.

¹⁸ *Ibid.*

¹⁹ Tessa Bamford, Julie Hembrook Daum, Malini Vaidya.

“Recruiting the First-Time Director.” Spencer Stuart. March 2013.

²⁰ Susan Vinnicombe, Elena Doldor, Caroline Turner. “The Female FTSE Board Report 2014.” Cranfield University School of Management. 2014.

²¹ Andrew Ackerman. “Democrats Press SEC Chief Mary Jo White on Diversity Initiative.” *Wall Street Journal*. March 2, 2016.

²² “Women on Boards: Review & Outlook.” CTPartners. November, 2011.

²³ Elizabeth Paton. “In Luxury, the Female Factor.” *New York Times*. December 1, 2015.

gender-balanced workforce a reason for optimism. A 2011 study by David A. Matsa and Amalia R. Miller 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. Further, 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%.²⁴ 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.²⁵

However, 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.²⁶ Creating a more inclusive workplace is essential to addressing an underlying factor impeding board gender diversity; women are less interested in top executive positions likely due to the fact that they do "may not think their ideas and contributions carry the same weight as men's."²⁷

BOARD DIVERSITY CAN SPUR POSITIVE CORPORATE BEHAVIOR

Research has shown that an increase in women in leadership positions can improve several aspects of corporate governance and corporate behavior. A 2010 Rock Center for Corporate Governance review found that well-managed board-diversity initiatives can improve a board's decision making and

24 "Queen Bee Syndrome' Among Women at Work is a Myth, Study Finds." *The Guardian*. June 7, 2015.

25 David Matsa, Amalia Miller. "Chipping Away at the Glass Ceiling: Gender Spillovers in Corporate Leadership." RAND Working Paper No. WR-842. January 2011.

26 Rachel Feintzeig. "Women Penalized for Promoting Women, Study Finds." *Wall Street Journal*. July 21, 2014.

27 "Women in the Workplace." McKinsey & Company. 2016.

enhance a company's image by publicly conveying commitments to equal opportunity and inclusion.²⁸ The public image enhancement is supported by a recent finding that boards with more female directors and officers tend to have more active corporate philanthropy programs and give more money to charity.²⁹ 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, Renée B. Adams and Daniel Ferreira, 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.³⁰

Another study found that higher numbers of women 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.³¹ 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.³² Further, a 2012 study by researchers from Santa Clara University, the University of Wisconsin and Kansas State University 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

28 Deborah Rhode, Amada K. Packer. "Diversity of Corporate Boards: How Much Difference Does Difference Make?" *Delaware Journal of Corporate Law*. Vol 39, No 2. 2014.

29 Christopher Marquis, Matthew Lee. "Who is Governing Whom? Senior Managers, Governance and the Structure of Generosity in Large U.S. Firms." Harvard Business School. November 2010.

30 Renée B. Adams, Daniel Ferreira. "Women in the Boardroom and Their Impact on Governance and Performance." *Journal of Financial Economics*. 2009.

31 Larelle Chapple, Pamela Kent, James Routledge. "Board Gender Diversity and Going Concern Audit Opinions." *2012 Financial Markets & Corporate Governance Conference*. January 3, 2012.

32 Ferdinand A. Gul, Bin Srinidhi, Judy S.L. Tsui. "Board Gender Diversity, Auditor Quality Choice and Audit Fees." April 17, 2012.

that these companies are better governed or that heterogeneous groups are less susceptible to “group-think” and ask tougher questions.³³

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 the fact that there were fewer layoffs may reflect a longer-term, more stakeholder-oriented perspective that could potentially result in long-term benefits for the country.³⁴

Women on boards may also be a factor in building more sustainable companies. A 2012 study sponsored by consultant KPMG and Women Corporate Directors found that companies with at least three women on their boards had better environmental, social and governance (“ESG”) performance than those that did not. However, very few companies meet this threshold. In fact, only three of the 1,500 companies in the review had more than three women on their board: Kimberly-Clark, General Motors and Walmart. Thus, causality of this link remains questionable. However, Kellie McElhaney, one of the study’s authors, asks, “Is a company that’s not managing risk like ESG going to realize that it’s a risk not to have more women in senior leadership --- Which happens first — adding more women to a board or improving sustainability initiatives?”³⁵

A study sampling 128 publicly listed Australian companies showed that increasing women’s representation on boards lowers incidence of corporate fraud.³⁶ 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.³⁷

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. These findings appear to be limited to industries where innovation and creativity are particularly relevant.³⁸

BOARD DIVERSITY AS AN INDICATOR OF BETTER FINANCIAL PERFORMANCE

Several 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.³⁹ In another study, researchers found that return on equity was consistently and statistically significantly higher for Dutch companies with women on their boards than for those without, possibly indicating that having women on boards could correlate with better financial performance.⁴⁰ 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.⁴¹ Another study found a statistically significant positive relationship between having women or minorities on the board and firm value, after controlling for size, industry and corporate governance measures. Additionally, this study found that the proportion of women and minority directors increases with firm size and board size, but decreases as the number of insiders increases.⁴² A 2012 study

37 Douglas J. Cumming, Tak Yan Leung, Oliver M. Rui. “[Gender Diversity and Securities Fraud.](#)” *Academy of Management Journal*. February 2, 2015.

38 Jie Chen, Woon Sau Leung, Kevin P. Evans. “[Board Gender Diversity, Innovation, and Firm Performance.](#)” *SSRN*. November 30, 2015.

39 Lois Joy, Nancy N. Carter, Harvey M. Wagner, Sriram Narayanan. “[The Bottom Line: Corporate Performance and Women’s Representation on Boards.](#)” *Catalyst*. 2007.

40 Mijntje Lückers-Rovers. “[Women on Board and Firm Performance.](#)” Nyenrode Business University. April 2010.

41 “[Study Links Gender Diversity in Asia Pacific Boardrooms to Better Company Performance.](#)” Korn Ferry. March 6, 2015.

42 David A. Carter, Betty J. Simkins, W. Gary Simpson. “[Corporate Governance, Board Diversity and Firm Value.](#)” *Financial Review*, Volume 38, Issue 1, p.33-53. February 2003.

33 Melissa Korn. “Maybe Math Isn’t So Hard.” *Wall Street Journal*. November 28, 2012.

34 David A. Matsa, Amalia R. Miller. “[A Female Style in Corporate Leadership? Evidence from Quotas.](#)” June 2011.

35 “[More Female Board Directors Add Up to Improved Sustainability Performance.](#)” *Science Daily*. November 19, 2012.

36 Alessandra Capezio, Astghik Mavisakalyan. “[Women in the Boardroom and Fraud: Evidence from Australia.](#)” *Australian Journal of Management*. Vol. 41(4), pp. 719-734. 2016.

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.⁴³ One recent 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.⁴⁴

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 Great Recession. Female representation was found to positively influence firm financial performance as measured by ROA and Tobin's Q.⁴⁵

Board gender diversity may also play a role in value creation following corporate transactions. A 2016 survey of 21,980 publically held firms from 91 countries found that having more women in overall executive positions was tied to greater profitability at companies, and also that companies with more women on their boards showed slightly better performance.⁴⁶ Further, in 2013, researchers at the University of British Columbia found that having women board members had a substantial and positive effect on a firm's value by reducing the cost and volume of acquisitions.⁴⁷ Additionally, 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.”⁴⁸ 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, from 2008 through 2012, the stock prices of companies with at least one woman director were, on average, 26% higher than for companies with no women on their boards.⁴⁹

Other studies, however, are somewhat inconclusive on whether women's presence on boards affects firm value, and several studies have found a negative correlation or no relationship. For instance, a meta-analysis using data from 20 studies that included both developed and developing countries found that the correlation between percentage of women on corporate boards and firm performance was small and non-significant.⁵⁰ In addition, a 2016 study found no causal relationship between female boardroom representation and lower equity risk, and that the relationship between the two are spurious and driven by “unobserved between-firm factors.”⁵¹ A 2010 review of studies on board diversity by the Rock Center for Corporate Governance 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.”⁵² 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 women officers. It did not appear that the participation of women directors made a

43 Francesca Lagerberg. [“Women in Business: The Value of Diversity.”](#) Grant Thornton. September 29, 2012.

44 Lone Christiansen, Huidan Lin, Joana Pereira, Petia Topalova, and Rima Turk. [“Gender Diversity in Senior Positions and Firm Performance: Evidence from Europe.”](#) IMF. 2016.

45 Hou, Judy. [“Corporate Board Diversity: An Empirical Study of Its Effects On Firm Financial Performance.”](#) Princeton University. 2016.

46 Janet Adamy. [“Companies Where More Women Lead Are More Profitable, a New Report Says.”](#) *Wall Street Journal*. February 8, 2016.

47 Nilofer Merchant. [“Women on Corporate Boards: Do They Make Men THAT Uncomfortable?”](#) *Time*. December 3, 2013.

48 Martin Bugeja, Samir Ghannam, Zoltan Matolcsy, Helen Spiropoulos. [“Does Board Gender-Diversity Matter in M&A Activities?”](#) August 22, 2012.

49 Renuka Raysam. [“Do More Women on the Board Mean Better Results?”](#) *The New Yorker*. November 19, 2013.

50 Jan Luca Pletzer, Romina Nikolova, Karina Karolina Kedzior, Sven Constantin Voelpel. [“Does Gender Matter? Female Representation on Corporate Boards and Firm Financial Performance — A Meta-Analysis.”](#) *PLoS One*. Vol. 10(6); e0130005. June 18, 2015.

51 Vathunyoo Sila, Angelica Gonzalez, Jens Hagendorff. [“Women on Board: Does Boardroom Gender Diversity Affect Firm Risk?”](#) *Journal of Corporate Finance*. Vol 36. pp.26-53. February 2016.

52 Deborah L. Rhode, Amanda K. Packel. [“Diversity of Corporate Boards: How Much Difference Does Difference Make?”](#) *Delaware Journal of Corporate Law*. Vol 39, No 2. 2014.

difference in this regard.⁵³ 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 on the board.⁵⁴ While finding no correlation between financial performance and board diversity, one study found that more gender and ethnically diverse boards may 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."⁵⁵ Finally, a 2009 study published in the *Journal of Financial Economics* found that encouraging gender quotas at companies with strong governance practices ultimately decreases shareholder value relative to Tobin's Q and return on assets. Their findings indicate that while female directors may improve the monitoring intensity of the board, these well-governed companies do not benefit from additional monitoring. Yet, a company's ROA and Tobin's Q can increase if gender quotas are enforced at corporations with weak governance structures, as measured by their abilities to resist takeovers.⁵⁶

There are other examples that indicate that the benefits of board gender diversity may be realized 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.⁵⁷ 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.⁵⁸

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 2007 study for the *British Journal of Management* that observed a phenomenon researchers called the "glass cliff," in which women were 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 U.S. The review found that in 10 of the 22 examples in which female CEOs were appointed, companies faced "telling and uncertain circumstances, or worse."⁵⁹ Moreover, a 2013 report on CEO turnover from the world's largest 250 companies found that, among outgoing CEOs, women were more often forced out of office than men (38% of women compared to 27% of men).⁶⁰

DOES ADDING MORE WOMEN MATTER?

Ultimately, the benefits or costs of increased board gender diversity can't be fully determined now, as there are too few women on boards. 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.⁶¹ A 2012 study of ASX 200 companies had similar findings. Researchers in this study distinguished between companies that had

53 Claude Francoeur, Réal Labelle, Bernard Sinclair-Desgagné. "Gender Diversity in Corporate Governance and Top Management." *Journal of Business Ethics*, Volume 81. 2008.

54 Frank Dobbin, Jiwook Jung. "Corporate Board Gender Diversity and Stock Performance: The Competence Gap or Institutional Investor Bias?" *North Carolina Law Review*. Volume 89, Issue 3. March 2011.

55 Parveen P. Gupta, Kevin C.K. Lam, Heibatollah Sami, Haiyan Zhou. "Board Diversity and Its Long-Term Effect on Firm Financial and Non-Financial Performance." April 15, 2015.

56 Renée B. Adams, Daniel Ferreira. "Women in the Boardroom and Their Impact on Governance and Performance." *Journal of Financial Economics*. 94. October 2010.

57 Renuka Raysam. "Do More Women on the Board Mean Better Results?" *The New Yorker*. November 19, 2013.

58 Emma Garcia-Meca, Isabel-Maria Garcia-Sanchez, Jennifer Martinez-Ferrero. "Board Diversity and its Effects on Bank Performance: An International Analysis." *Journal of Banking and Finance*. Vol 53, pp202-214. April 2015.

59 Lawrence J. Trautman. "Board Diversity: Why it Matters." September 16, 2012.

60 PWC. "2013 Chief Executive Study. Women CEOs of the Last 10 Years." 2013.

61 Jasmin Joecks, Kerstin Pull, Karin Vetter. "Gender Diversity in the Boardroom and Firm Performance: What Exactly Constitutes a 'Critical Mass'?" February 22, 2012.

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, 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.”⁶² Indeed, companies in Norway experienced significant reduction in price of its publicly-traded companies’ stocks after its government mandated a 40%-female quota of its corporate boards in 2006.⁶³ 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 have no professional experience and are expected to agree with their promoter’s views and positions.⁶⁴ 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.

Reaching a critical mass may be necessary for women to be heard. A 2012 study in the *American Political Science Review* found that women speak substantially less than men in most mixed-gender situations. This effectively reduces the influence of women and the benefits that could be derived from their participation.⁶⁵ One of the study’s authors, Tali Mendelberg of Princeton, says this could have far-reaching implications. “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,” Mendelberg says. “These settings will produce a dramatic inequality in women’s floor time in many other ways. Women are less likely to be viewed, and to view themselves, as influential in the group and cause them to feel that their ‘voice is heard.’”⁶⁶

FINAL THOUGHTS

The benefits and costs, if any, of increasing gender diversity in boardrooms are complex issues. 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.

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 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.

62 Maria Strydom, Hue Hwa Au Yong. “[The Token Woman.](#)” *Australasian Finance and Banking Conference 2012*. August 7, 2012.

63 Kenneth R. Ahern, Amy K. Dittmar. “[The Changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation.](#)” *Quarterly Journal of Economics*. Vol. 127(1), pp. 137-197.

64 Nita Bhalla. “[Indian Firms Mock Gender Diversity as Boardroom Deadline Passes: Analysts.](#)” *Reuters*. April 1, 2015.

65 Christopher F. Karpowitz, Tali Mendelberg, Lee Shaker. “[Gender Inequality in Deliberative Participation.](#)” *American Political Science Review*, Volume 106, No. 3. August 2012.

66 Joe Hadfield. “[News Release: Study: Why Women Speak Less When They’re Outnumbered.](#)” Brigham Young University. September 18, 2012.

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