The Supply of Women for Director Roles (2,786 words)

What If Julie Daum is right? Julie Daum is the practice leader for North American Board Services at Spencer Stuart, the global executive recruiting firm. She also conducts annual surveys of the top S&P 200 firms' boards of directors including consideration of diversity on boards.

At a San Diego, CA corporate board panel last year, I asked, "Does your latest survey (covering 2004 data and showing a sizeable increase in the number of women on boards of directors to a 16% share) indicate that corporations finally were getting the message that diversity of directors was a good business strategy?"

She said that she was beginning to wonder if the problem was not so much a case of the boards of directors failing to demand more women on their boards. Rather, the real problem, she wondered, was whether there was a shortage of the supply of women interested in, and prepared to serve on, today's boards of directors.

Julie Daum has been conducting Spencer Stuart's Board surveys for more than enough years to track differences over time and to compare the pre- vs. the post-Sarbanes-Oxley environment for director recruitment. So, when Julie Daum tells me that it may be a supply problem, not a demand problem, I'm inclined to listen to her.

If she's right, then we need to be sure we focus corrective measures on the supply side – on figuring out ways to get more women willing and able to serve on major corporate boards. We should not merely continue to rant and rave at the "good ol' boys" over there on the demand side of the marketplace. We should be looking, also, at why there is a shortage in the supply of women candidates and what we could do to increase the number of qualified, competent female candidates for board service.

The Research: Spencer Stuart

In the Spencer Stuart 2006 Board Diversity Report, Daum surveyed the top 200 companies (out of the S&P 500 firms) and found that women held 16% (or 377) of the 2,357 board seats. The average board size therefore was almost 12 members per firm, and 97% of the top firms had at least 1 woman on board.

Spencer Stuart also examined the 1,000 top five executive positions in the same firms and found that women only represented 6% (or 60 women) of the highest-compensated positions. Therefore, boards of directors reached into the marketplace and managed to find 6 TIMES as many women as were available within their own economic top tiers.

Where did they find the women for their boards if not inside corporate top management? The largest share came from academia (87 women or 23%). Almost the same share was active CEOs: (83 women or 22%). Since there are only 20 active female CEOs within the top Fortune 1000 firms, clearly boards had to reach into the entrepreneurial environment in order to find these active female CEOs. Just as many (83 women or another 22%) came from "other corporate executive" levels in firms of all sizes.

Lawyers, consultants, financial managers/CFOs, retired CEOs, members of the government/military, investment bankers, and investors all represent other categories tapped by boards of directors for female talent. Noteworthy in their absence were: the accounting profession and the non-profit sector. To quote the report:

> "There has, in fact, been generally greater women and minority representation, proportional to their overall numbers, than in top corporate positions, another indication that boards are focused on adding more diverse perspectives."
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> "From what we see, most boards have gotten the message and understand that increasing diversity is just good business."

Spencer Stuart reported that of the 400 board searches which they conducted last year (2005), about one-third (or 133) were specifically "women and minority searches" as chartered by either the boards or their executives. In the five years since 2000, Spencer Stuart has placed 277 women and 150 minority candidates on boards. That means that this one executive search firm placed approximately 46 women and 30 minority candidates on top boards of directors every year, on average, for the past 5 years.

The Research: Catalyst Inc.

Catalyst Inc. completed their 2005 Catalyst Census of Women Board Directors of the Fortune 500 in March of 2006, reporting a rise from 13.6% in 2003 to a 14.7% share of women-occupied seats on top Fortune 500 boards in 2005.

For the past decade, women experienced a consistent one-half of one-percent per year increase in their share of board seats in spite of all the major investments in diversity and inclusion programs on the part of corporations; in spite of a decade of some of the most aggressive and successful anti-discrimination lawsuits in this country; and in spite of the fact that more women have been better educated and have taken on more managerial roles and responsibilities than ever before.

Another less well-known fact is that, over that same time period, the number of men on top Fortune 500 boards of directors declined by 872 men, while the number of women increased only 229 and the number of seats occupied by women increase almost exactly in tandem – by 227 seats. Thus, men gave up 4 TIMES the number of board seats as women added.

Catalyst also reported that women held only 7.9% of the highest corporate titles, 5.2% of the top earnings positions, and 1.6% of CEOs. So, the Fortune 500 firms' boards of directors had to seek out and find more women for their boards than were present within the corporate managerial top tier, just as Julie Daum found among the S&P 200.

Women on boards in 2005 held, on average almost exactly the same number of seats apiece as they did a decade ago (1.34 seats per women today vs. 1.5 in 1995). But, there are two distinct groups that make up that 1.34 average number of board seats per women: the first group includes the 479 women who sit on only 1 Fortune 500 board; the second includes the 140 women who sit on an average of 2.5 boards apiece.

93 women hold 2 seats each
31 " " 3 " "
12 " " 4 " "
3 " " 5 " " and
1 woman holds 6 board seats.

Catalyst also concluded that the problem was “too few women in the pipeline,” but they determined that the supply problem was due to “barriers to women’s advancement” and “discrimination that slows women’s advancement”. Thus, even though boards reached out and found more women than were available within the corporate ranks, Catalyst concluded that it was still the fault of corporations that women were not staying “in the pipeline.”

The Implications

If the real problem is a shortage of the <u>supply of female board candidates</u>, then we need to ask more and different questions about what could be constraining the supply.

Are women being “pushed out” in fact? Or are women making conscious choices to get out of the pipeline? Are they leaving by choice? Are they “opting out?” Or are they “copping out?” Are women pursuing a demonstrably better career path in entrepreneurship? Are they making a better return on their investment of time and resources somewhere else?

Are they evaluating the costs and prices? Are they making decisions based on complete market information? Did they actually encounter barriers to entry? Or were they discouraged by perceptions of risk? Or were other factors at play?

The supply of female candidates for boards is derived, in part, from the supply of women among the top ranking corporate positions: the top 5 highest-compensated executive positions within corporations. Some suggest that women don’t stay around and reach the top rungs of corporate ladders where they could contribute to the supply of talent for the director pool. What is the cause?

Sharon Allen, CEO of Deloitte-Touche, one of the top 4 accounting/auditing firms in the U.S., reports that her concern lately has focused on the tendency of talented and competent women to “opt out” of the career track that would take them to the top levels of corporate power and ultimately to board level positions.

Today, we see the same “opt out” patterns in law firms, in securities firms, in accounting firms, and in management consulting firms. Apparently, all of the historic investment in corporate diversity is not enough to persuade and entice women to stay for the long-haul.

What is the problem on the supply side? Is it because women perceive the risks of a top corporate position to be too great? Do they perceive the rewards to be inadequate or inappropriate? Are women negotiating for the rewards they value? Or are they just jumping ship because they have the discretionary income that makes it possible to pursue alternative paths?

Alternative Strategies

Almost 3/4ths of the experience reported by women on boards of directors at Fortune 1000 firms is corporate experience. Thus, if women are not sticking around long enough to get that caliber of experience, anymore, then the supply of women on boards will have to come from elsewhere.

A primary source of the supply of female candidates for boards is derived from the supply of women in angel and venture capital firms. Investment bankers with a stake in successful entrepreneurial firms, IPO candidates or M&A targets all are highly likely to participate in the top management and shareholder representation at boards of directors.

Yet, women represent only 8.7% of the angel investor market, according to the University of New Hampshire Center for Venture Research and only about 3-5% of the venture capital market according to the Kaufman Foundation. If women are not active in the investment community, then women will not be represented on the boards of new investment entities.

Another source of supply of female talent for board roles is the pool of female CEOs and top executives among majority-owned women-owned businesses. Presumably, in their own companies, women have the ability to reach the top rungs on their own terms, without the demand problems that might limit them at corporations. And corporate boards have tapped women heads of their own corporations.

In California, alone, there are an estimated 900,000 women-owned businesses. In the greater On average, barely 2% of these earn a million dollars or more in revenues a year, so there are about 18,000 California women-owned businesses entrepreneurial firms where women, themselves, could be building their own boards to help them grow and thrive. Yet only 13.6% of these top dollar women-owned businesses even have a board of directors, according to the Center for Women's Business Research.

Yet another source of supply of females for boards of directors is the talented supply of female graduates from business schools, law schools and accounting programs who have acquired knowledge of the purpose of boards, of governance, and how boards function from their educational programs.

An examination of business, law, and accounting programs shows a dearth of governance training. The wealth of executive education programs available nationwide, dedicated to "director training and certification," requires board appointment as a prerequisite for attendance in many cases. The ISS-certification of director training is intended to help the corporate governance score – rather than educate the next generation of governance leaders.

At several events organized throughout Los Angeles, panels were held to educate and inform women in business about how boards are built, how they perform, how directors are recruited, and what are the expectations of directors. At these events, a common theme during the Q&A from the audience demonstrated that attendees had little or no knowledge about boards, had insufficient education and training about board functionality, and had little personal or direct experience with any board or director. The subject of boards appeared to be almost a foreign language to the women attending – even women in executive positions or women with their own successful entrepreneurial businesses.

If women have no knowledge of boards, the purpose of boards, the benefits of boards, then why would they aspire to build boards for their own firms or to be on boards? What do we need to do to educate women about the utility and opportunities of boards of directors for their own entrepreneurial firms?

Finally, another frequently mentioned method of recruiting women for board leadership roles is by way of senior female director "mentorship" programs.

It would be possible to add 208 net new women to boards of Fortune 500 firms if the 140 women currently serving on multiple boards identified and mentored just 1 new woman to take over each of their seats in excess of 1 board seat per women. That would produce a 34% increase – putting us significantly on the path to greater board diversity.

Even if those 140 female directors were to limit themselves to just 2 board seats each, they could pursue replacements among the most qualified associates or – as the Norwegians say – go "pearl diving" into the mid management development ranks at the top 5 positions and just below in the companies where they serve as directors. That effort would result in 68 net new female directors. That would mean a 10% increase.

Clearly, since boards of directors have shown enough confidence in these women to name them to multiple boards, it should follow that their boards would have confidence in them to nominate qualified female director candidates to follow in their high heel steps.

Interviews with experienced female directors have revealed their frustrations with finding educated, experienced, and corporate-ready women to follow in their footsteps. Experienced female directors cite pre-requisites such as common sense, diplomacy, a sense for the corporate culture, breadth of operational and P&L experience, exposure to global corporate challenges, and a track record that includes ever-increasing management and operations responsibilities.

Experienced female directors see too many female candidates interested in board roles as part of a "lifestyle change," or as a "retirement strategy," rather than the rigorous career challenge it is. They're looking for competent, knowledgeable women – they're finding women who are not quite ready for prime time board service.

Interviews with female director candidates often show they have little or low regard for the male hierarchical leadership or they have been frustrated by male-dominated organizational bureaucracies. The women describe personal experiences with biases, prejudices, and animosities in their corporations which they have not dared to confront or remedy. They state that they perceive the risks of remaining in corporate life to be too many and too great.

Potential female candidates do not tap into the director training program opportunities which are open to non-board members, in many cases, because their corporations have not underwritten that particular career development aspiration. Other females pursue lower cost accounting and finance training in the belief that such "brushing up" of their skill sets somehow would bolster their board director preparedness.

Some female candidates perceive director roles to be part of an "entitlement" of their gender because so much research and so many newspaper and magazine articles argue that women have been excluded, rather than tell them the hard truth that women might possibly be failing to prepare themselves for the seriousness of true corporate governance roles and responsibilities.

So, along with all of the many diversity programs at corporate America, where we address the demand side from corporate boards, perhaps we also need to look at the supply side of the marketplace and challenge women to consider the consequences of their decisions to:

- stay the course toward top corporate management roles,
- grow their firms to be multi-million dollar enterprises,
- form boards of directors for their own entrepreneurial businesses,
- invest their wealth in angel or venture funds so that they will have a say in the future of new enterprises, and
- invest in their own personal management development program.

Conclusion

To the hammer, every problem looks like a nail. If we only focus on one side of the challenge for the women on boards marketplace, we will fail to see opportunities elsewhere, on the supply side of the marketplace.

As Julie Daum correctly surmises, the challenge is how to ensure that there is a large pool of talented, competent women available - on the supply side – experienced, knowledgeable, able, as well as ready and willing to serve on the boards of directors of tomorrow's firms – large, small, entrepreneurial, and women-owned businesses alike.

There are several alternative strategies available to us, provided we don't merely focus only the same old proposals. It is entirely possible that corporate diversity programs have taken us just about as far as they possibly can go without substantive change also occurring elsewhere – in the hands of talented women who can and could prepare themselves for director roles and responsibilities.