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NATIONAL SCIENCE FOUNDATION ADVANCE
PROGRAM FOR INSTITUTIONAL TRANSFORMATION

The Business Case for Diversity on Corporate Boards

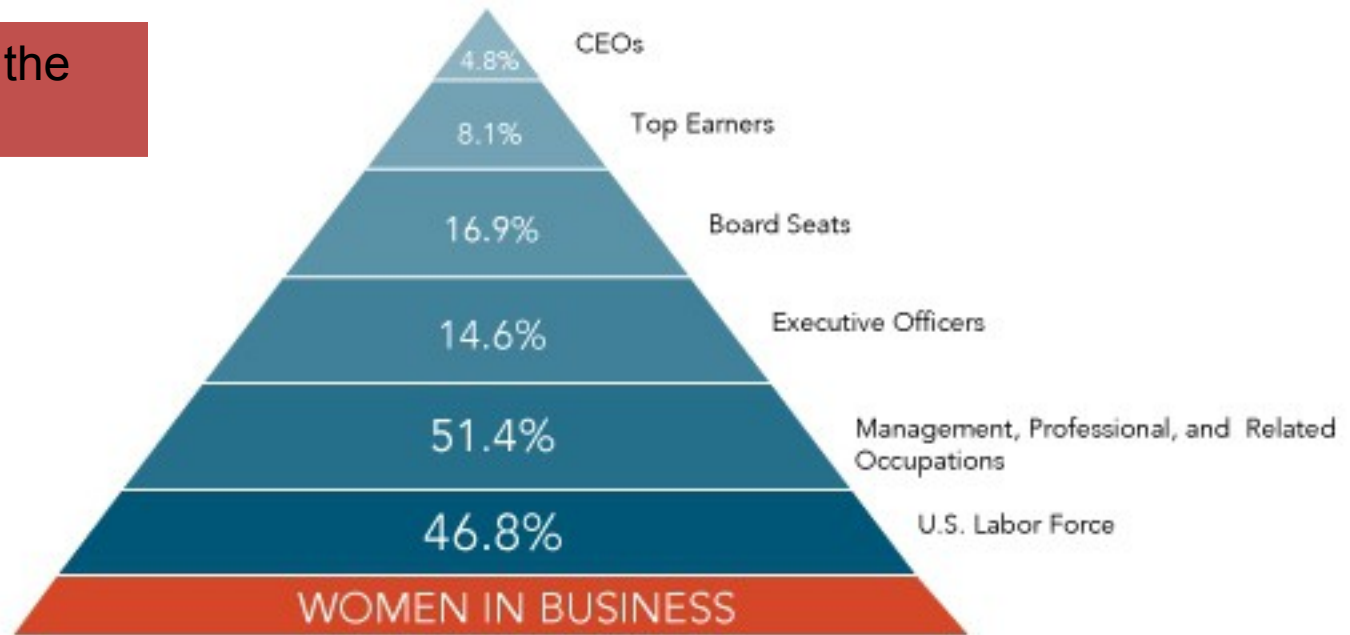
Joan M. Herbers

Professor, Ohio State

President Emerita, Association for Women in Science



Current State in the US



Sources

Catalyst, *Women CEOs of the Fortune 1000* (January 15, 2014) and additional Catalyst research and analysis.

Rachel Soares, Mark J. Bartkiewicz, Liz Mulligan-Ferry, Emily Fendler, and Elijah Wai Chun Kun, *2013 Catalyst Census: Fortune 500 Women Executive Officers and Top Earners* (Catalyst, 2013).

Rachel Soares, Mark J. Bartkiewicz, Liz Mulligan-Ferry, Emily Fendler, and Elijah Wai Chun Kun, *2013 Catalyst Census: Fortune 500 Women Board Directors* (Catalyst, 2013).

Bureau of Labor Statistics, *Current Population Survey Table 11: Employed Persons by Detailed Occupation, Sex, Race, and Hispanic or Latino Ethnicity, 2013* (2014).

Bureau of Labor Statistics, *Current Population Survey Table 3: Employment Status of the Civilian Noninstitutional Population by Age, Sex, and Race, 2013* (2014).

FORTUNE 250 Companies in 2013

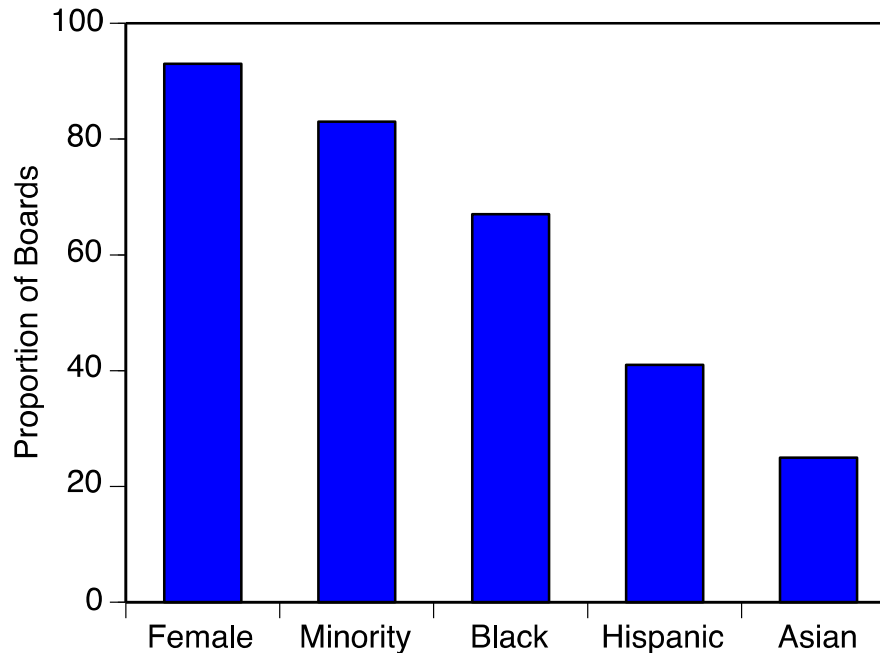
Board Composition:

- 84.4% white
- 81.5% male
- 68% older than 60
- The most recent appointees are more diverse:
22.4% female and 16.8% nonwhite

Russell Reynolds Associates 2014



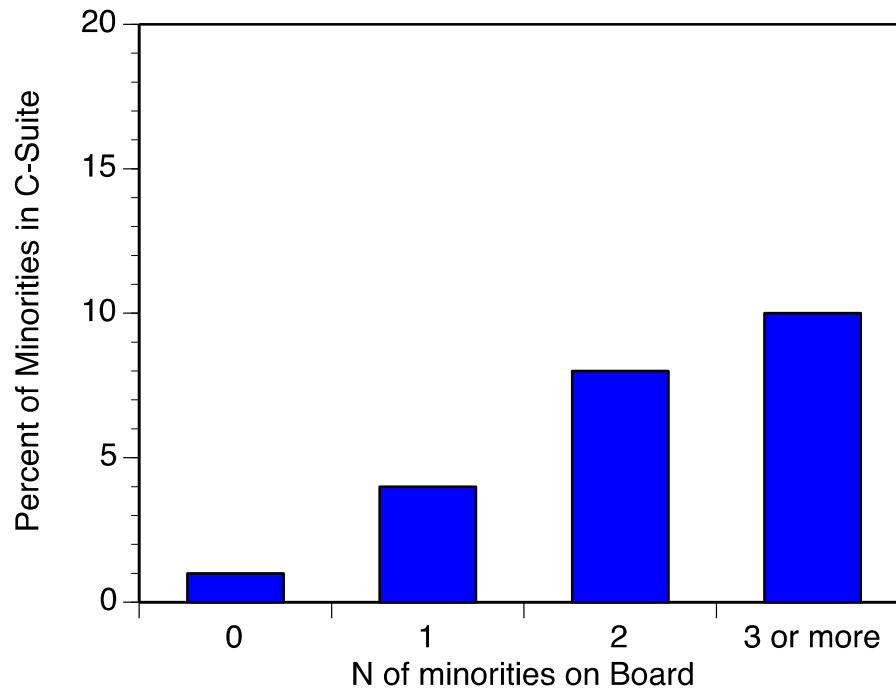
Boards with least one Director who is...



Russell Reynolds Associates 2014



Minority representation on Boards is mirrored in the C-suite



Russell Reynolds Associates 2014

So why does this matter?

Historically, arguments have focused on social justice.

However, “boosting the number of women lags behind other priorities when viewed as a social good, as opposed to an economic necessity”

Kate Taylor, *Forbes* 6/26/2012

So why does this matter?

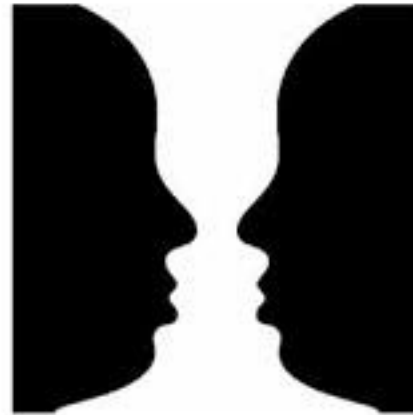
The glib answer is that we ignore talent if we only recruit from the pool of white males.

Deeper answers derive from the fundamental fact that each of us brings a unique perspective to the table



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Why is diversity important?

Scott E. Page

THE DIFFERENCE

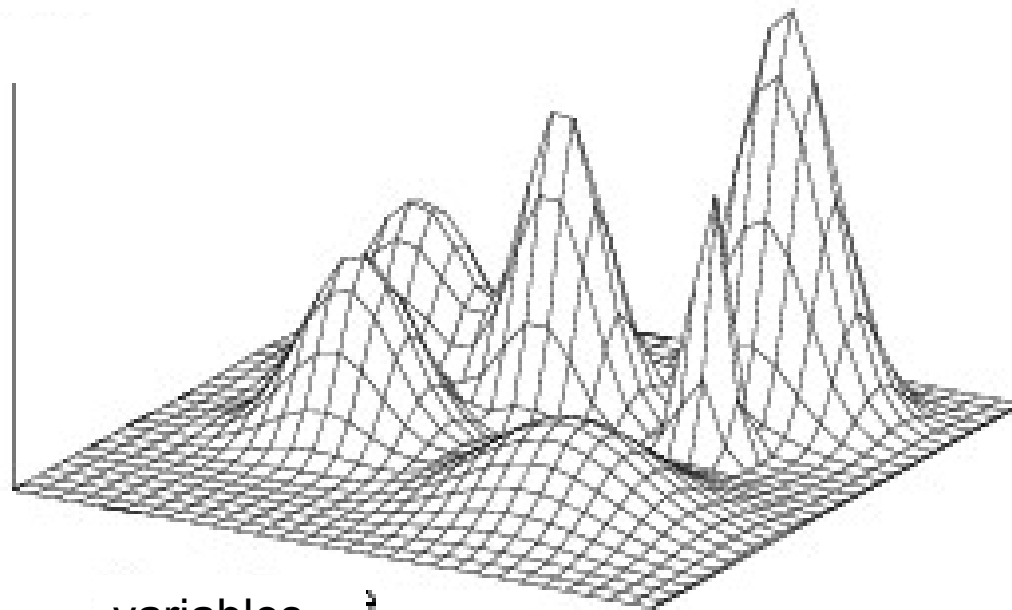
HOW THE POWER OF DIVERSITY
CREATES BETTER GROUPS, FIRMS,
SCHOOLS, AND SOCIETIES

theorem that *diversity trumps ability*:

people with lesser abilities but
diverse views will out-perform groups with
high ability who think alike

Scott Page insight

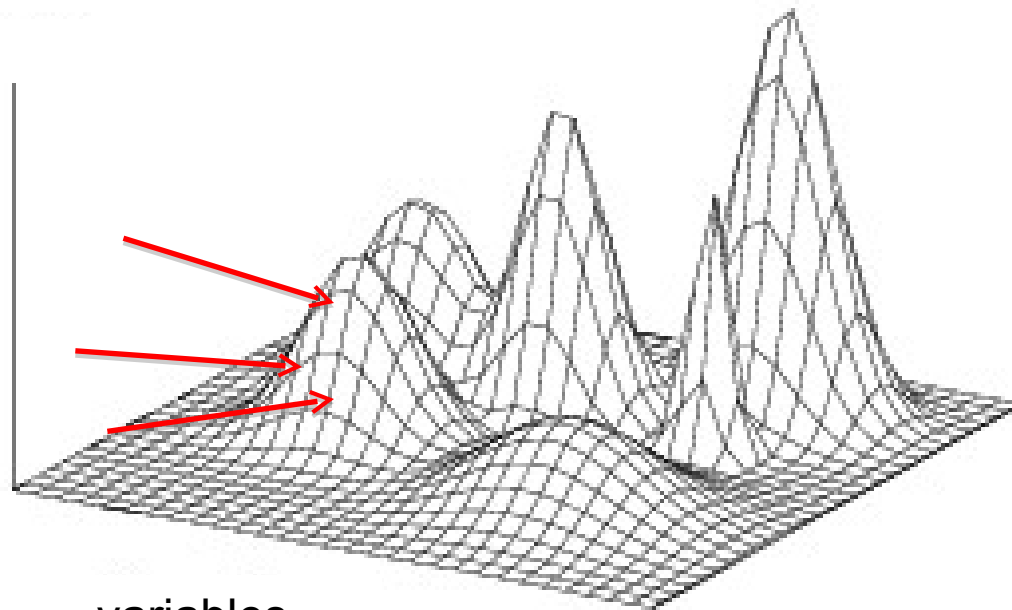
Value



variables

Three individuals with similar viewpoints

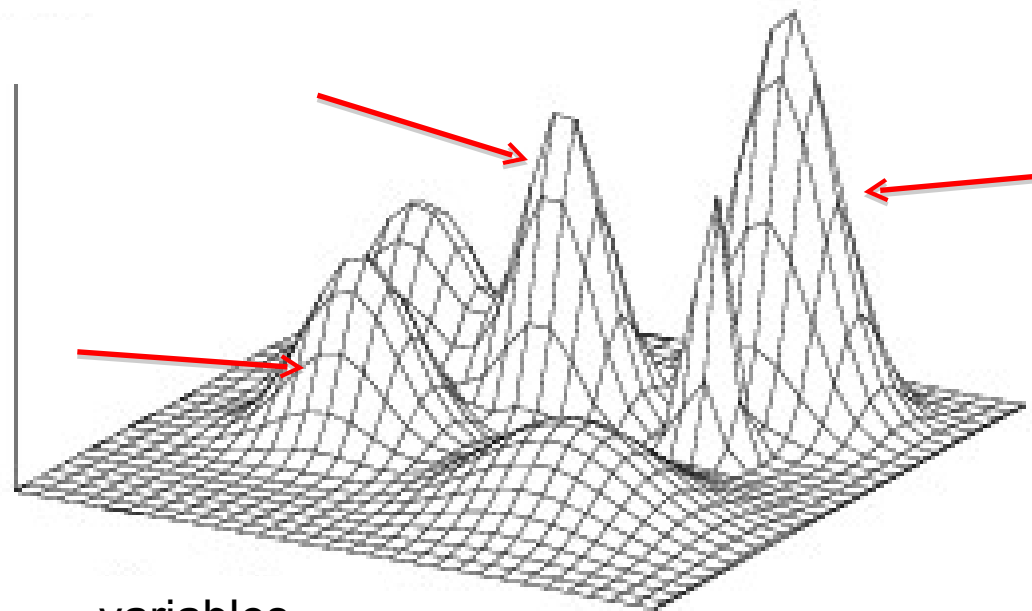
Value



variables

Three individuals with different viewpoints

Value



variables

Crowdsourcing

1906 country fair in Plymouth: what is the weight of an ox?



Crowdsourcing

787 people took guesses, which varied by more than 20%

Average guess: 1197 pounds



Surowiecki, 2004. *The Wisdom of the Crowd*

Crowdsourcing

787 people took guesses, which varied by more than 20%

Average guess: 1197 pounds

Real weight: 1198 pounds



Surowiecki, 2004. *The Wisdom of the Crowd*

Who wants to be a millionaire?

Lifelines:

call a friend

ask the audience



Who wants to be a millionaire?

Lifelines:

call a friend

2/3 correct

ask the audience

90% correct



Scott Page again

“The squared error of the collective prediction equals the average squared error minus the predictive diversity”

Translation: when the diversity of the group is high, the collective prediction is closer to the actual value

Collective intelligence

- Individuals were measured for their intelligence via a battery of tests
- A subgroup was asked to solve a problem on their own. Individual success was strongly correlated with individual intelligence

Woolley et al, 2010 Science 330: 686

Collective intelligence

- Individuals were measured for their intelligence via a battery of tests
- A subgroup was asked to solve a problem on their own. Individual success was strongly correlated with individual intelligence
- Small groups were asked to solve the same problem collectively
- Group success was completely unrelated to average intelligence of members or highest intelligence within the group

Woolley et al, 2010 Science 330: 686

Collective intelligence

The differential between group success and average individual success was called factor c , labeled collective intelligence.

Woolley et al, 2010 Science 330: 686

Collective intelligence

The differential between group success and average individual success was called factor c , labeled collective intelligence.

Researchers were surprised that it was *not* related to

- Group cohesion
- Group motivation
- Group satisfaction

Woolley et al, 2010 Science 330: 686

Collective intelligence

Factor c , collective intelligence, was a function of

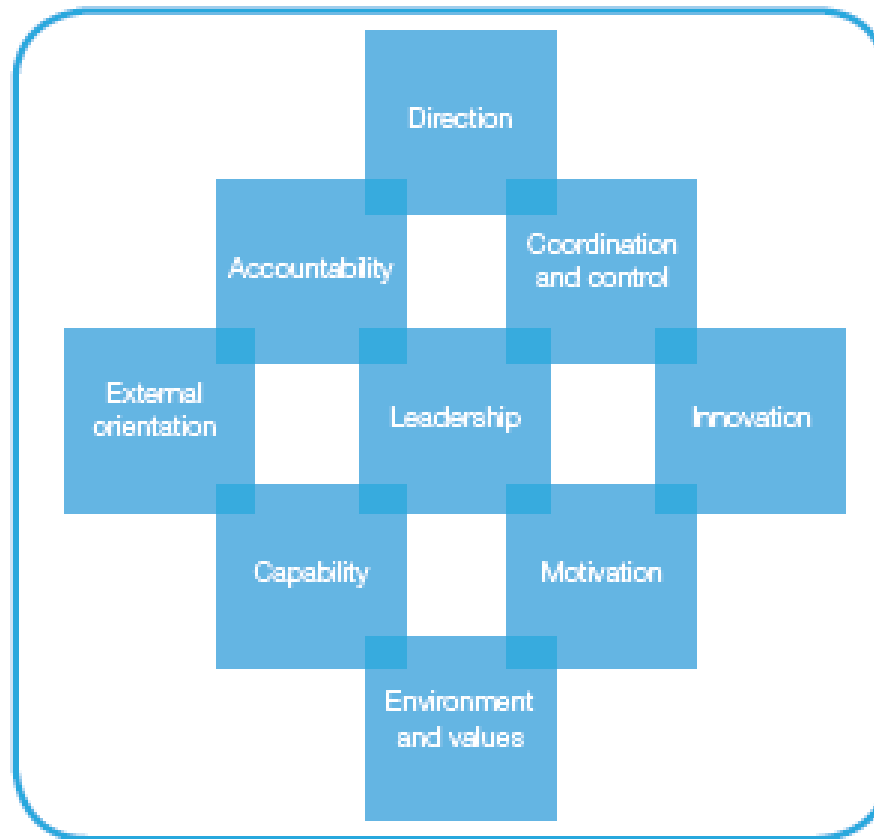
- Social sensitivity among group members
- Extent to which all group members spoke in the exercise
- Proportion of females in the group

Woolley et al, 2010 Science 330: 686



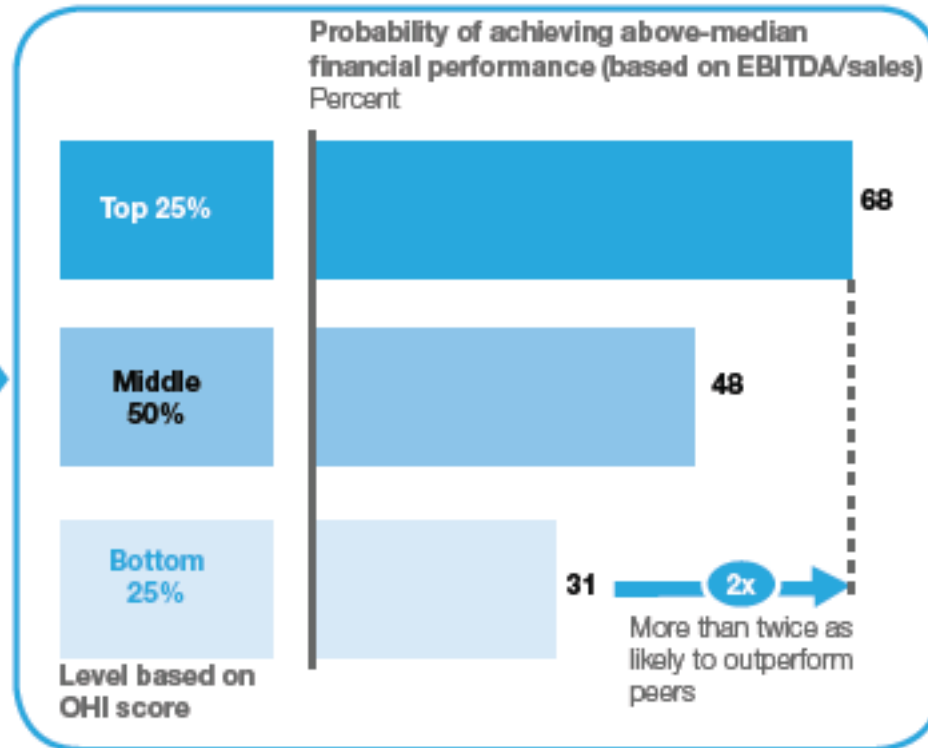
So what does any of this have
to do with business?

McKinsey Organizational Health Index





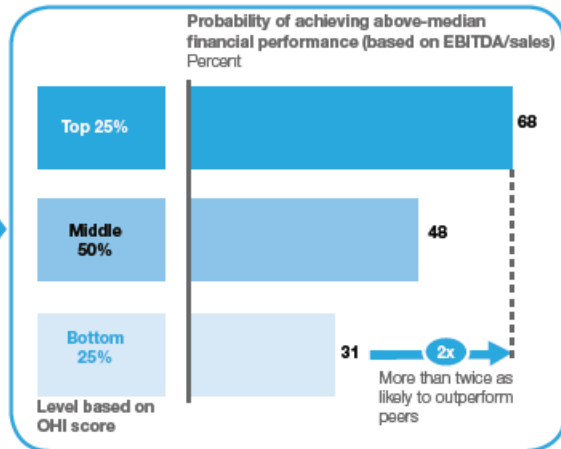
McKinsey Organizational Health Index





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McKinsey Organizational Health Index



Companies with 3 or more women in top positions scored higher than peers

McKinsey Women Matter (2013)

Companies in the top quartile of women representation on executive committees relative to those with no women at the top

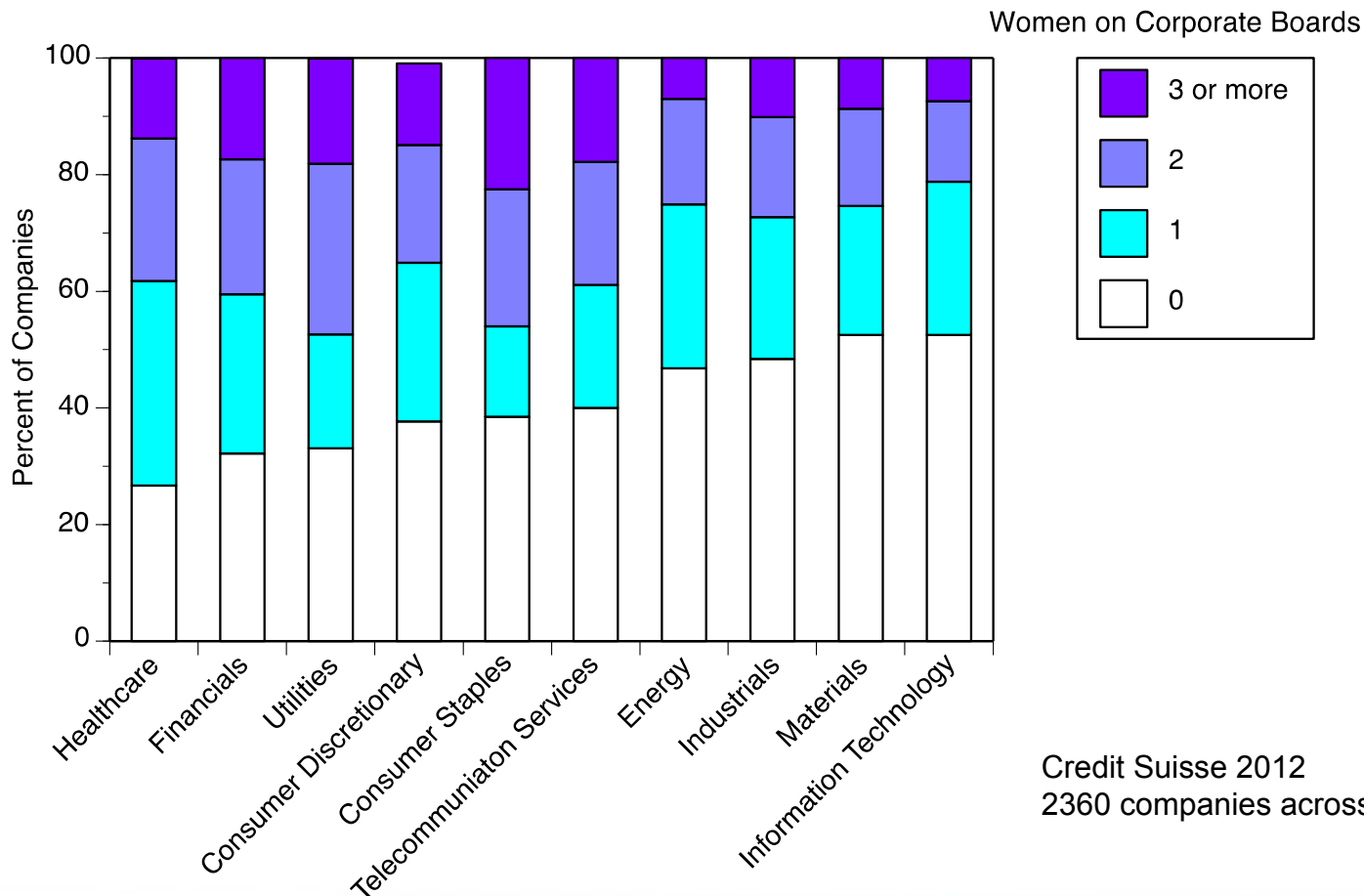
- reap a 47% higher return on equity
- earn 55% more before interest and tax

More data from Catalyst:

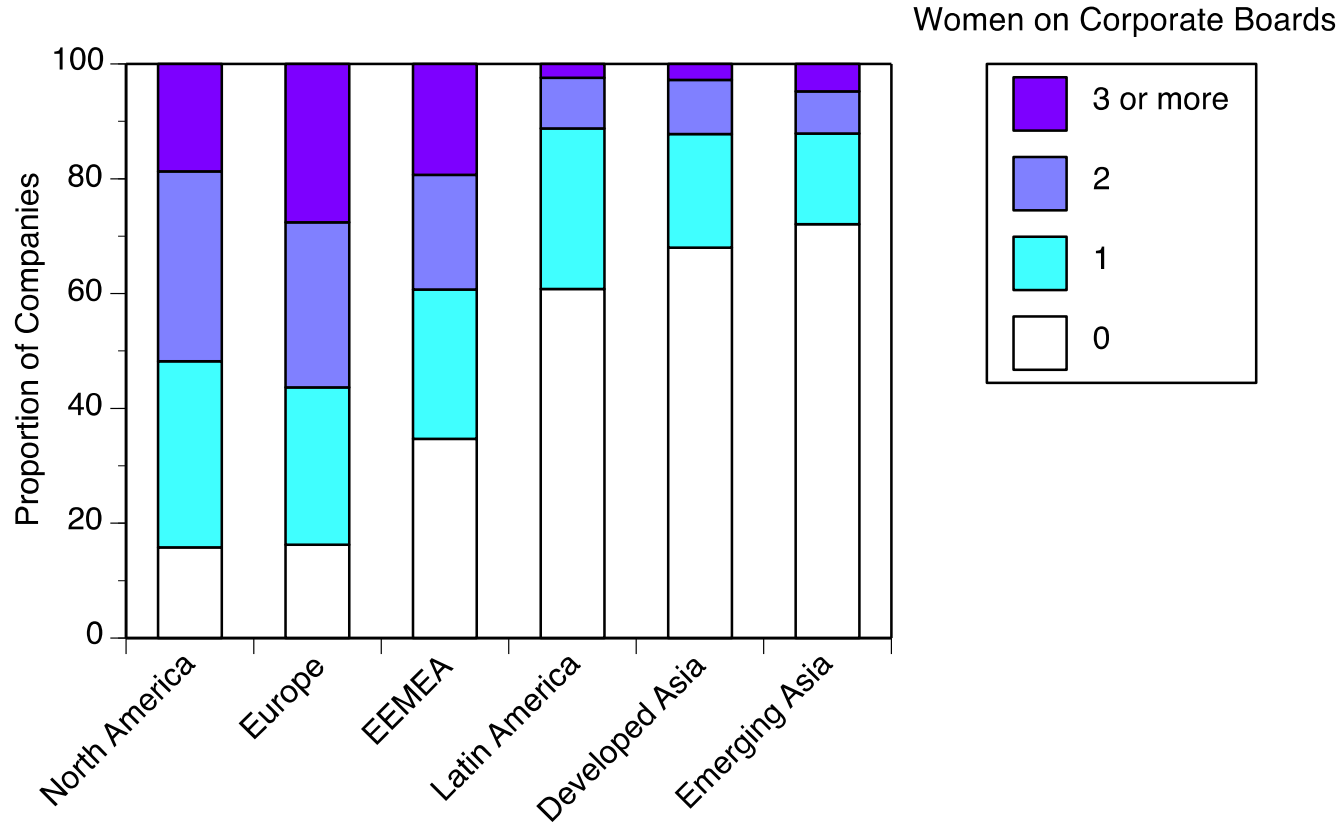
Companies in the top quartile of women’s representations on the board experienced a 26% higher return on invested capital than those with no women



Let's unpack this a bit



Credit Suisse 2012
2360 companies across the world



The good news

Across all work sectors and geographic regions, women’s participation on corporate boards has increased from 2005 – 2011

Even so, IT lags other sectors and Europe leads other regions

What about profits?

- Credit Suisse studied global companies across regions and sectors, dividing them into small cap and large cap
- Compared share price performance from Dec 2005 to Dec 2011 (*spanning the recession*)

Share price performance

- From Dec 2005 to July 2007, the relative share price for both large and small cap companies was slightly higher in companies with no women on the board
- From Aug 2007 through December 2011, companies with women on the board did much better

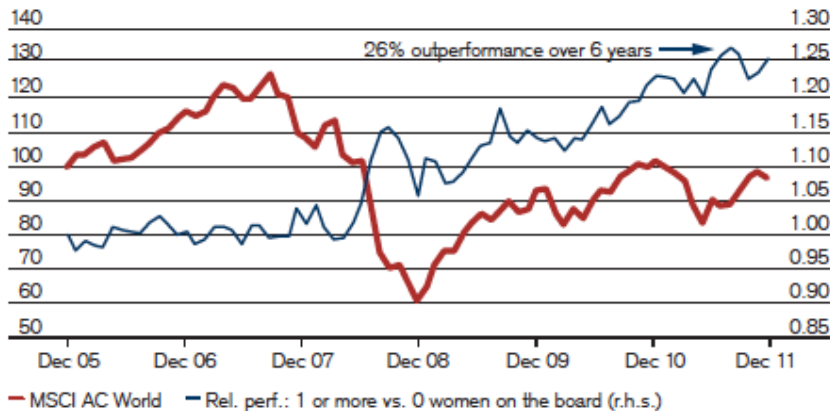


Relative performance of companies with women on the Board

Relative share price performance of all companies (with market cap > USD 10 bn)*

Source: Thomson Reuters, Credit Suisse

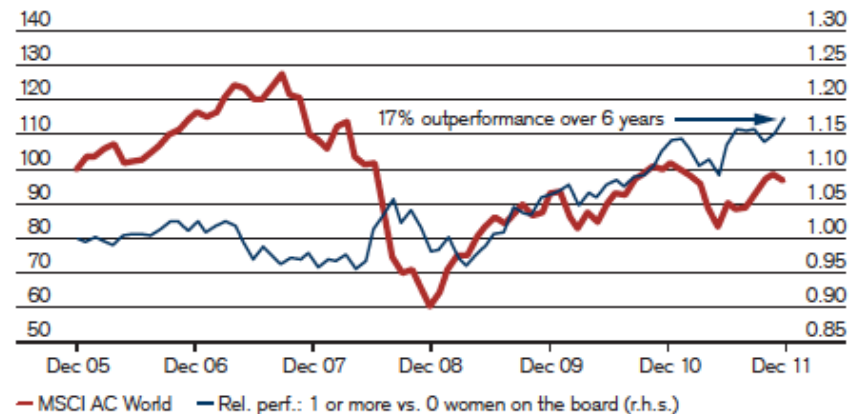
* Performance of stocks with some female board representation divided by the performance of stocks with no women on the board, where all stocks have market capitalization greater than USD 10 bn



Relative share price performance of all companies (with market cap < USD 10 bn)*

Source: Thomson Reuters, Credit Suisse

* Performance of stocks with some female board representation divided by the performance of stocks with no women on the board, where all stocks have market capitalization less than USD 10 bn





The bottom line

ROE: 0 vs. 1 or more women on the board

Source: Credit Suisse





How might you explain this effect?

What is driving this difference?

- Better companies are more inclusive companies
- A more diverse group arrives at better outcomes
- Including women brings different leadership skills
- They tap deeper pools of talent

What is driving this difference?

- Including women brings companies closer to their consumer base
- Corporate governance is better
- Risk-taking behavior is reduced

Quotas for women on boards

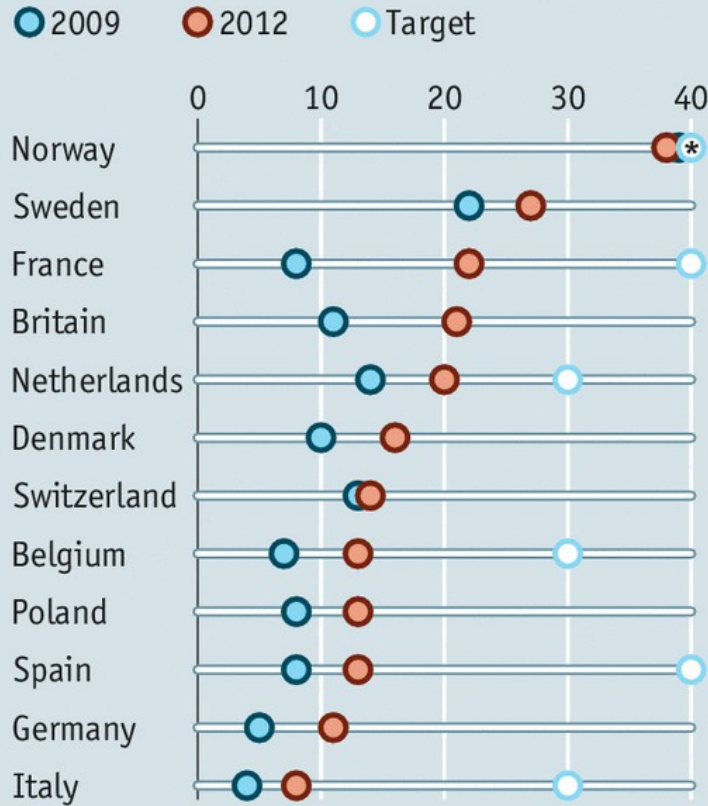
- Norway
- Spain
- France
- Italy
- Iceland
- Belgium
- The Netherlands
- Malaysia
- Germany (2 months ago): target of 30% by 2016



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Supervisory-board directors

Big publicly listed companies', % female



Source: Russell Reynolds Associates *40% quota since 2008

What happened in Norway?

- Few large corporations and only 414 publicly traded companies
- Government involvement in corporate structure
- Board members are elected by employees
- Egalitarian society: father parental leave is now 12 weeks, and maternal leave up to 47 weeks

- In Norway, all government boards and committees must have at least 40% women and 40% men
- In 2002, Minister of Trade and Industry Ansgar Gabrielsen decided *unilaterally* to mandate 40% women on corporate boards
 - Deadline of 1 January 2008
 - Noncompliance would result in either closure or delisting from the Oslo Stock Exchange

The aftermath

Business leaders, media, investors and many women descried the new regulation:

“Women will be second-class board members”

“We cannot find qualified women”

“Women are not interested in board work”

But

- 1)the government supported its Minister
- 2)“Golden Skirts”, a parallel to WELD, was quickly set up by women in business
- 3)By the January 1, 2008 deadline all companies were in compliance



In 2010 company executives said

Achieving gender parity was actually not difficult

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Achieving gender parity was actually not difficult
and it

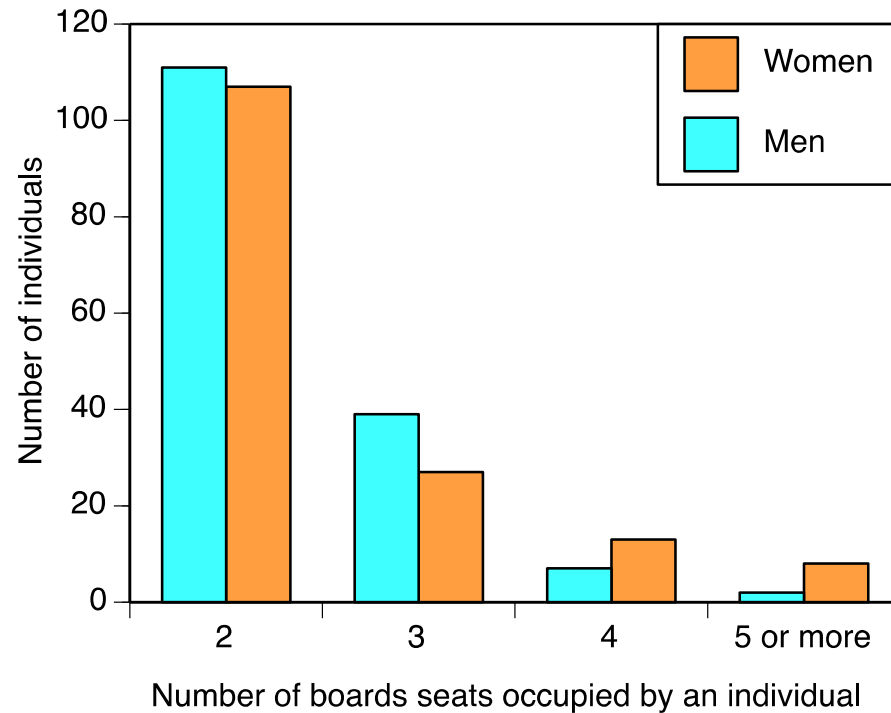
Increased pre-meeting preparation of members

Added to quality of discussions

Created a less competitive atmosphere

Led to more informed decision - making

And women sit on multiple boards



But there is still work to be done

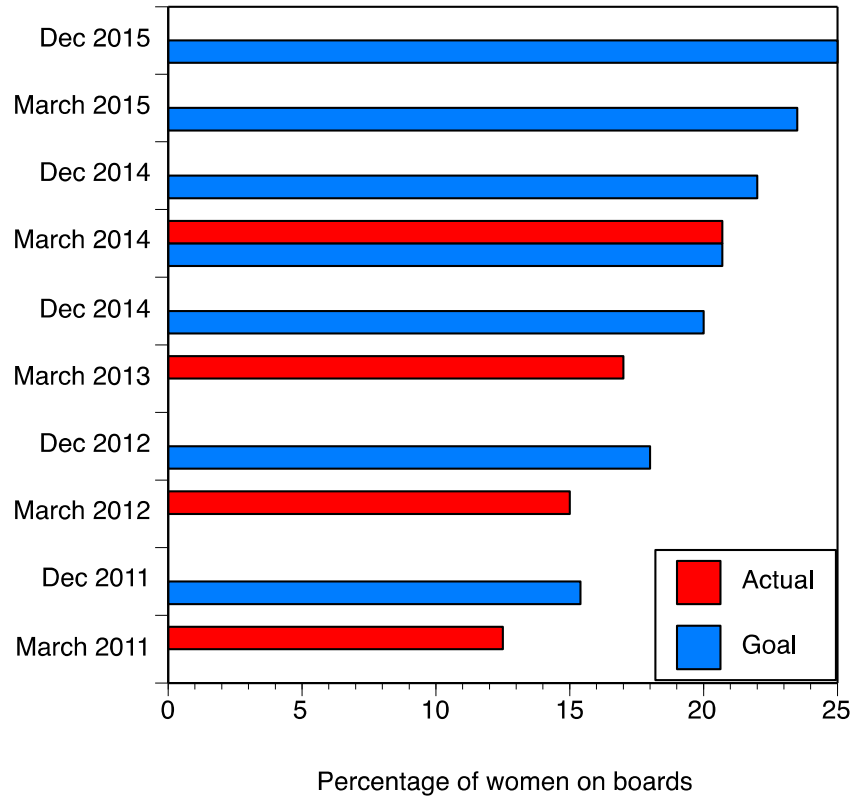
- Only 3% of women board members are board chairs, while 32% of the men are chairs
- Employee representatives are 2x more often male than female
- The women board members are younger: they have replaced the young men, not the old boys

A different approach: the UK

- rejects quotas altogether
- Instituted an annual review of FTSE 100 boards
- The Davies report, first offered in 2011, gives data every year on makeup of corporate boards
- In 2011, they set a target of 25% by 2015



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The Davies report 2014

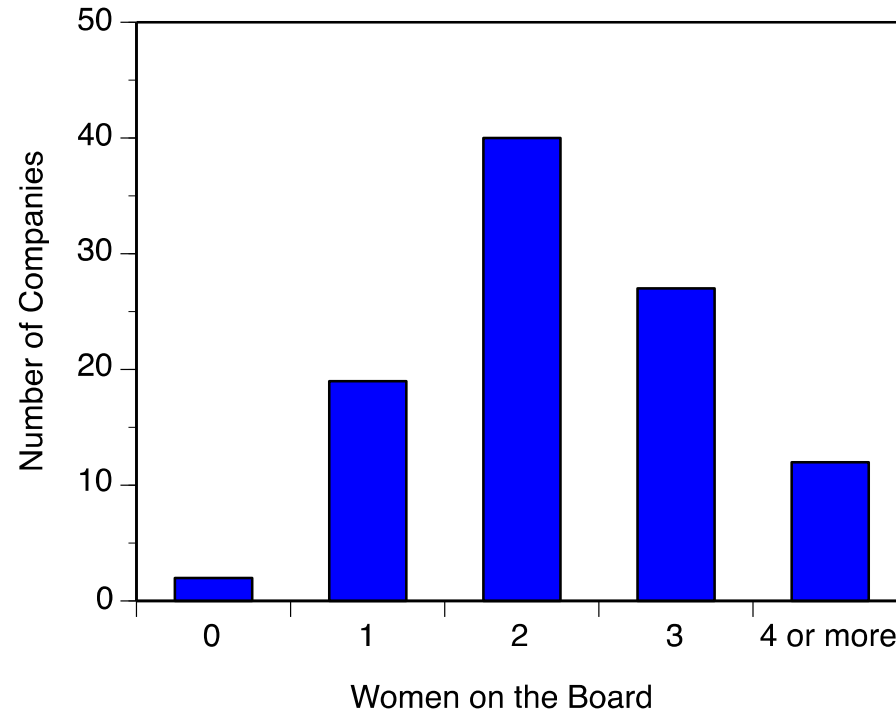


In 2011, 21% of the FTSE Board were all male



In 2011, 21% of the FTSE Board were all male

2014



The FTSE 250

- Progress has been made, but the data are not as encouraging
 - Currently 15.8% women
 - 19% have all-male boards and 22% have only one woman
- The Davies report names names and makes recommendations for future progress

What about here?

Lots of verbiage about the issue

- The SEC in 2009 requires corporations to report on how they consider diversity in their nominating committees — but allows companies to define diversity
- Committee for Economic Development report (2012) makes recommendations but *sets no goals*

Some efforts

- Thirty Percent Coalition **Goal: 30% by 2015**
- 2020 Women on Boards **Goal: 20% by 2020**

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- Thirty Percent Coalition **Goal: 30% by 2015**
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- The Alliance for Board Diversity tracks progress by gender and ethnicity. Four organizations, including Catalyst, Executive Leadership Council, Hispanic Association on Corporate Responsibility, and Leadership Education for Asian Pacifics



Thanks for your interest!
Any questions?