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Kimberly A. Whitler
Deborah A. Henretta

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Why the Influence of Women on Boards Still Lags

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BY KIMBERLY A. WHITLER AND DEBORAH A. HENRETTA

ALMOST ALL FORTUNE 500 executive boards now include at least one woman, and many have two or more. The average board among these companies is made up of nine men and two women — double the number of female board members in 2006. While these gains are promising, they appear to be slowing. Last year, the overall number of female corporate directors in the Fortune 500 actually dipped slightly.

Why the apparent flattening? It's not because women haven't performed well in their board roles. Indeed, many executives are convinced that having more women as directors improves performance. A.G. Lafley, who has served on a number of boards including Procter & Gamble (as chairman), General Electric, and Legendary Entertainment, tells us that in his experience, women add important perspective: "I believe the advantages of diversity and, more broadly, inclusion, are relatively well-known and for some of us confirmed by experience. More creativity, more innovation, more inquiry, more and broader experiences to draw on, better problem-solving, greater ability and willingness to suspend judgment and work together to find a better 'third way.' I have seen this not only on large public corporate boards, but also in small private startups and not-for-profits."

A range of consultants and academics have demonstrated that boards with more gender diversity are more innovative, more strategically minded, and generally more effective. A 2012 study by McKinsey & Co. of 180 publicly traded companies in France, Germany, the United Kingdom, and the United States found that companies in the top quartile of board diversity (with diversity defined in terms of both gender and nationality) saw return on shareholder equity that averaged 53% higher than that of companies in the bottom quartile. Their margins were also 14% higher than those of the companies with the least diverse boards.

Our research has led us to believe that the reason women aren't making more rapid inroads is that few have reached the most influential board leadership positions. Although more women are on boards now than 10 years ago, very few have been promoted to a post that would give them influence beyond their seat at the table.

"There are three layers of progress for women," explains former Xerox Corp. CEO Anne Mulcahy, who currently sits on several Fortune 1000 boards. "There's the *breaking in* part of getting onto boards. Then there is the *critical mass* part of getting more than one woman on each board. And then there is the *influence* part

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of getting women into leadership positions where the real power resides."

By leadership positions, Mulcahy is referring not just to the board chair and lead independent director roles. The real work of boards gets done in committees, she says, and not all committees are created equal. There is "an unwritten, unstated hierarchy of power," Mulcahy notes, and most of the executives we interviewed confirmed her observation: Beyond the board chair and the lead independent director, those chairing the audit, compensation, nominating, and governance committees hold the real power positions. After these power committees, she notes, "comes everything else: infrastructure, risk, finance, sustainability, corporate relations, and so on."

Leaders of committees set the agenda for decision-making and therefore wield more power than other directors. In the committees generally acknowledged to involve heavier lifting — especially audit, nominating/governance, and compensation — their power can meaningfully change the course of events. They have built-in influence over important board decisions such as who the next CEO will be, who comprises the slate of future board members, how executive compensation is structured, and more.

The story of women on boards is, thus, a mixed one. Yes, the raw numbers have changed substantially over the past decade. But the lack of ascension to key leadership board positions once women have taken a seat on the board is limiting their influence and impact. This, in turn, can have a negative effect on the prospects for continued growth in female board participation.

Our analysis of the 2016 Fortune 500 companies affirms that women are still underrepresented in power roles. Just 6% of board chair positions at these companies are occupied by women. In nearly half (45%) of those cases, a woman occupies the chair role by virtue of being the company's CEO. This effect is even more striking among the very largest companies. In the Fortune 100, two-thirds of the women in chair positions are also CEO. And for those boards that have a lead independent director (not all boards do), we find women occupy the role just 10% of the time.

In the committee chair positions, the numbers start to look better. According to 2016 data, 58% of boards have at least one woman chairing a committee. But this is not the case with the most powerful committees. For instance, only 21% of nominating/corporate governance committees are chaired by women. Even less common are women chairing audit committees (18%), compensation committees (13%), or executive committees (5%).

Where are the rest of the women chairs? "It has been my experience and observation that females often chair the sustainability and corporate relations committees and not the audit, compensation, or nominating and governance committees," says Stephanie Burns, former CEO of Dow Corning Corp. and now a director on multiple boards. The evidence supports Burns' observation: On corporate responsibility/public policy/patient safety committees, women hold the chair position 38% of the time. Women also chair sustainability/innovation committees 25% of the time.

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When Women Are in Power Roles

The correlation between women holding powerful board roles and overall board representation is clear. Similarly, when women lead a board, there tend to be more women in other powerful board roles. In companies where women occupy the board chair role, the percentage of women who chair at least one committee is higher, the percentage of women leading the compensation and audit committees is higher, and the average percentage of women on the board increases from 20% to 28% overall.

Independent of whether or not a woman is the board chair, the trend holds. When women lead the nominating or governance committees, on average, there are 21% more women on the board. When a female chairs the audit committee, there are, on average, 18% more women on the board. Whether the relationships are causal or not, the correlation is strong.

Mulcahy shared a story about being on a board where a woman chaired the science and technology committee: "I watched her fight — and fight hard — to get another female scientist/technologist onto the board." The woman's efforts ultimately carried the day, and the new female member joined, but according to Mulcahy, only her powerful position as chair made it possible. "Without her strong advocacy and her position, it never would have happened."

Mulcahy's own takeaway from that experience is a reminder that women need other women to act as sponsors, particularly on a board dominated by men. "If no women are in lead positions, or represented on nominating/governance committees, there may not be outspoken advocacy for other women," she said. "Decisions fall into the retired-male-CEO world."

Of course, when women have more influence on boards, they aren't using it primarily to bring in more women. Our theory is that some of the increase in female representation that coincides with having women in power roles occurs because experience and exposure to women in different board roles increases their male colleagues' comfort.

Within Our Power

Maggie Wilderotter, former CEO of Frontier Communications Corp., believes it's only a matter of time before women gain more influence. "I think women are underrepresented in leadership roles because they haven't paid their dues yet," she says. "They are the new kids on the block and need to earn their right to be in a committee chair or board leadership role."

While we agree that tenure is a factor, we believe that companies can do a number of things to make progress faster:

Encourage more measurement of female board members' influence. Measurement and scrutiny bring about change: It's worked that way in the long fight to raise the number of women on boards, and it can work that way in helping them earn more powerful roles on the board. Mulcahy sees the same opportunity to boost influence by increasing transparency, "not just in showing how many women are on boards, but in calling out how many women are in leadership roles." Ideally, she says, some objective source would take on the accountability to refresh the data annually and publish trends analysis.

Recruit women with the right backgrounds to serve on power committees. While many women tapped for a board seat have had illustrious careers, they have not necessarily been dedicated to work that would prepare them for a finance or an audit committee. "One woman on one of my boards held an important White House appointment," Dow Corning's Burns recalls. "While she is very smart and a good contributor, her experience base likely doesn't qualify her" to take on a power role in a corporate board. Contrast this with Sue Redman's experience of being recruited to a board and rapidly advancing to the chair of its audit committee, despite being its first female member. The former CFO of Texas A&M University, Redman chalks up her rapid rise to the Sarbanes-Oxley Act of 2002, which had just specified "you had to have a finance expert on the committee and they had to have had prior experience preparing and auditing financials and had to be a CFO or an auditor."

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Focus new board recruits on a powerful destination. We should not assume that women being recruited onto boards arrive with a thorough understanding of board dynamics and a clear game plan for how they will make their mark. Coaching from experienced board members is important once women reach the board level, as they need advice and guidance on the best path to power.

Encourage women to mentor other women. Women's networks exist at every level of management — why not at the board level? Stephanie Burns, now a director at HP Inc., observes that "it would be great to have forums where directors could share experiences and talk about business/governance challenges." Some such forums do exist, and with corporate support, they could expand.

Place women on the nominating and governance committees. A number of directors we interviewed specifically pointed to nominating and governance as important assignments for women directors. These two committees tend to have a lot of seasoned and experienced directors, who tend to be predominantly men. Because their networks are likely primarily composed of men, they are more likely to nominate men for board candidate slates.

Base chair selection on merit. Finally, it makes sense to put some pressure on boards to improve selection processes for committee chairs, which at best are seen as tenure-based (rather than merit-based) and, at worst, are seen as the casual, unreflective workings of old boys' clubs. On various occasions, as a manager and as a board member, Redman observed that "the determination of potential was not based on evaluations but based on subjective factors that made the men more comfortable."

Women's advocates have been fighting to increase gender diversity on boards for decades. Progress has been made, but there is a long way to go. We have identified one primary reason in this article. For real, lasting change that wins companies the full benefits of gender-diverse decision-making, boards need to look beyond inclusion and toward influence.

Kimberly A. Whitler *(@KimWhitler) is an assistant professor of business administration at the University of Virginia's Darden School of Business. Previously, Whitler spent nearly 20 years in general management and marketing roles.* ***Deborah A. Henretta*** *(@DebPG) is an independent board director serving on four public boards — Dow Corning Corp., Meritage Homes Corp., NiSource Inc., and Staples Inc. — and several not-for-profit boards. Henretta is also a senior adviser to SSA & Co. Previously, she spent 30 years at Procter & Gamble Co., where she held a number of executive positions. Comment on this article at http://sloanreview.mit.edu/x/59301.*

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