

# Dare we mandate a gender balance quota?

*Not here, not now... or, yes, it is time — right here and now.*

## A quota sends the wrong message

*But we are experiencing a board composition sea change.*

BY KAREN BOHN AND SANDRA DAVIS

UNLIKE CURRENT DIALOGUE and legislation in Europe, we do not foresee U.S. authorities imposing quotas on companies to add more female board members.

For one, while female board representation among U.S. firms is not great at 15% (according to Catalyst), it is still better than Europe's 11% (per the European Commission). Additionally, a quota sends the wrong message — women should be selected to boards based on their qualifications, not because of externally imposed criteria.



American firms would be better served to pursue greater diversity of thought (including the female perspective) on their boards. Research is replete with data on companies with above-average female board membership that outperform their peers.



**I am surrounded by women** and I love it. The gender ratio in our office is 77% women to 23% men,

## Puhleeze, not here!

*Quotas, no; targeted development programs, yes.* By Thomas T. Flannery

and among senior management it is 50/50. If we had more women running countries on this planet, there would be fewer wars and far less mayhem.

That said, I am opposed to quotas. Increasingly, women are reaching the senior positions that prepare them for board service. It will be another 10 or 20 years before there is any kind of gender balance. Until then, finding and recruiting qualified and available female directors will

continue to be a frustrating process... though, thankfully, not an impossible one.

Shareholders expect nominating committees to make first-rate selections when recruiting directors. The rush to meet the deadline of a mandated quota will surely dilute those efforts. Better to keep increasing the ranks of female executives with gender-focused management development programs. The best of them will find their way onto corporate

boards, bringing with them a set of perspectives we Martians just don't have.

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Now is the time for companies to pursue more board diversity, as we are within a board composition sea change. Many corporate boards have members bumping up to mandatory retirement age. Additionally, companies increasingly prohibit their CEOs from serving on more than one external board, leaving board slots open to others.

Just as it took one person's initiative for the U.S. Supreme Court to achieve its historic 33% female membership, so too must individual board chairs champion greater diversity for it to happen. The National Association of Corporate Directors should become a more vocal advocate on this topic. And female board members and executives need to directly voice their wishes.

Co-author Sandra recently experienced this as she expressed her interest in board membership with the lead director of a large public company. After a long pause, he candidly replied: "Until now, it hadn't dawned on me to think of you, and I should have."

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**Karen Bohn** (pictured at left), a business executive with more than 25 years of corporate experience, serves on multiple public and private boards. **Sandra Davis** (right), CEO of MDA Leadership Consulting, advises corporate boards and CEOs ([www.mdaleadership.com](http://www.mdaleadership.com)). She serves on the advisory board of Liberty Diversified International.

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## Battling the fear of quotas

*Canada has an ambitious education program underway.*

BY PAMELA JEFFERY

**I**N CANADA, the Canadian Board Diversity Council has been created through a unique partnership between the Government of Canada and Corporate Canada to 1) understand and 2) address the important issue of board diversity in the public and private sectors.

The question of quotas is one that should be examined in a global context. The introduction of quotas may potentially work in some countries that have adopted this approach. We will certainly look at the results, paying particular attention to the impact on governance and organizational performance.

We know from our preliminary research that Corporate Canada has a fear of quotas. Corporate Canada has a fear of the unknown — namely, what would happen if boards began to recruit significant numbers of directors who do not "fit the traditional mold." Would this reduce the effectiveness of the board? How would the performance of the organization and shareholder value be affected?

At the root of the fear is the simple question of merit: will



**Lettie Pate Whitehead as the first:** There were a handful of women who upon the death of a husband or father came onto the board of an American corporation, most notably Marjorie Merriweather Post, who in 1914 joined the board of the frozen foods and cereal company started by her father. Other business historians point to Lettie Pate Whitehead (pictured) as the first independent woman to serve on the board of a major U.S. corporation. An Atlanta business, church and civic leader, she joined the Coca-Cola Co. board in 1934. This was a year after President Roosevelt appointed Frances Perkins as Secretary of Labor, the first woman to hold a Cabinet post. Ms. Whitehead served on the Coke board for 20 years. Her philanthropic legacy continues to this day to benefit charitable initiatives.

— James Kristie

the individual be a competent and effective director?

The Canadian Board Diversity Council is tackling board diversity by starting with the facts. We are undertaking research which we will release this fall in a first-ever Annual Report Card. This Annual Report Card will be the baseline and will contain data on representation of women, visible minority groups, Aboriginal and First Nations people, and people with disabilities on the boards of Financial Post 500 organizations. It will address best practices as well as the challenges and opportunities faced by boards and prospective new directors in

light of Canada's changing demography. We are also examining whether written diversity guidelines are in place and, if so, how they are being put into practice. Second, we are studying board diversity best practices to understand how organizations that have been successful in putting together diverse boards have accomplished this task. We hope that when the council shares best practices with other organizations that have been less than successful, this will help those organizations move along the continuum to improved board diversity.

Obviously we believe new voices at the boardroom table will lead to better discussion, insight, and improved decision making. The council wants corporations to take action, but corporations need to know where and how to recruit diverse, competent candidates. To help educate and connect individuals with board decision makers, the council has embarked on an ambitious national education program, aimed at individuals in management, executive, and professional roles who are interested



in serving on boards. Through the program's Advanced Series for individuals with significant not-for-profit and public sector boardroom experience, they will have the opportunity to meet executive search consultants and FP500 directors, and will be taught how to prepare board résumés and board career action plans. These individuals are the talent pool for corporations to consider while the program's Introductory and Intermediate Series will create a feeder pool for the future.

**Pamela Jeffery** is founder of the Canadian Board Diversity Council ([www.boarddiversity.ca](http://www.boarddiversity.ca)). She is also founder of The Jeffrey Group Ltd., a communications consultancy, and the Women's Executive Network, a network for women in Canada and Ireland. She also founded Canada's *Most Powerful Women: Top 100*, now Canada's preeminent awards program for women.

## FROM THE ARCHIVES

## Better positioned to compete

*Sara Lee's move away from a 'dangerously narrow' board profile.* **By John H. Bryan**

*From "Allegiance to a Diverse Board," Mr. Bryan's article published in Directors & Boards [Spring 1995] when he was chairman and CEO of Sara Lee Corp.*

**In 1975, when I came to my position**, our company's board consisted of 12 insiders, plus the heads of two of our nation's major banks, and a prominent lawyer from San Francisco. As one of our initial steps, we were able to persuade the board to do a rather abrupt reorganization of itself. As a consequence, seven insiders left the board and an equal number of prominent outside businessmen soon replaced them. It was a relatively smooth change, and since that time the company has been governed by a board in which most of all the directors are persons of substantial reputation and persons highly independent of the management of the company.

The inclusion on our board of people who are from diverse backgrounds began reasonably soon after our early board reorganization. Thus, for many years Sara Lee has been governed by a board which has included a number of women, minorities, and foreign nationals.

Our board is made up of 14 outside direc-

tors (from a total of 18). The majority of these outside directors have served as CEOs of some of the world's largest firms. It is, I think, very important for a corporation to have the direction and advice of persons who have achieved success in the management of major business enterprises. In fact, it would be folly not to have a significant number of such people.

It is, I think, equally important that a board include persons who can offer the perspective of different experiences. And so today, exactly half of our outside directors are women (two), minorities (two), or foreign nationals (three). This degree of diversity has existed on our Sara Lee board for many years.

It is clear to me that a group of generally older, white male executives of the same nationality — men who have usually reached the same status in various companies — represents a dangerously narrow profile of exposure for a board in a world changing as rapidly and dramatically as ours is today. It is a world demanding aggressively creative approaches to business, and it is through diversity that much of that creativity can be found. Diversity is a major source, if not an imperative, for creativity in the future.



## If we want better governance . . .

*Diversity promotes greater vigilance and lessens the threat of groupthink.*

BY JULIE FOX GORTE

AS A LONGTIME board diversity advocate, I have heard every argument against it, and most come down to skepticism over the ability of women to do a better job of governance than men. The question implicitly assumes that today's male-dominated boards do a good job. Clearly, many don't.

Pax World has surveyed the academic literature on the financial impact of board diversity, and the majority of the studies reviewed supported the case that gender diversity is positively correlated with financial performance. The Corporate Library used the academic literature to explore why this would be the case, and reported two suggestive findings: gender-diverse boards "promote greater vigilance over financial reporting," and "diverse groups are less likely to share common assumptions that can lead to unreflective groupthink."



company U.S. board is less than 20% female; smaller-company boards are less diverse. Progress has been glacial. If we want better governance — and we do — one avenue we need to explore is the efficacy of mandating that boards have some minimum percentage of women.

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## The carrot... or the stick

*Keep the debate over quotas going so that the end goal becomes more believable.*

BY DAVIA TEMIN

IT'S AN AGE-OLD DILEMMA: Which works better, the carrot or the stick? The idealists among us will usually answer, the carrot; the pragmatists, the stick. As for myself, forever caught between the two, I answer both.

So, how does this apply to women on boards, and whether the U.S. should adopt Norway's — and perhaps France's — 40% women on boards quota?

Clearly the economic argument for 40% of corporate boards to be comprised of women is being made in many ways. It is made quoting statistics on ROI. And it has been opined that the meltdown of the last two years might not have happened in the same way if women — the ultimate outsiders and thus better able to ask tough questions — were present in higher percentages on boards. But, have these "carrot" arguments worked? Not really, since percentages have not climbed significantly in the past four years.

I wish that carrots were sufficient. They are not. But sticks

are unrealistic.

Our U.S. corporate culture abhors any stray or "needless" rules added to what is already an overwhelming multitude. So, I daresay that a quota (stick) will never happen here. *But*, the serious conversation about a quota might be extremely useful. Because the more we *discuss* the vision, the more we make the motion, debate, argue and posture, the more the vision takes hold of our subconscious.

In fact, new neuroscientific research tells us that the more often you repeat an assertion, even a lie, the more people believe it to be true. It is called "source amnesia," and it explains the truism in my business of marketing, media, and crisis management that you never repeat a false allegation while you are answering it. The more you repeat it, the more power you give it, and the more people believe it to be true.

Put in context of the question at hand, that means the more we debate — in our boardrooms, Congress, industry convocations, online, and in publications — the idea of a quota, the



# Tap this pool

*Boards — not societal pressure — should drive needed change.*

By R. William 'Bill' Ide

**Boards are responsible** for maximizing shareholder value and assuring that its stewardship duties to the public in areas such as health, safety, and financial reporting are fulfilled. Yet, they fail to do the best by too often leaving the large talent pool of women out of their ranks. To fully understand and maximize the company's performance within its marketplace, work force, and other critical arenas, boards need the best talent and perspectives available, but most settle for less — with few, if any, women on the board.

Women understand women's needs and thoughts as customers and employees better than men. Women have important emotional intelligent skills that men cannot match, and they provide a relatively



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untapped pool of experiences and intelligences that would also greatly enhance boards. Europe is considering quotas to remedy this failing. Self-redress by U.S. boards is preferable, but it will take significant leadership by progressive companies and shareholders who can see the great 'value add' of more women serving on boards. If they do not act quickly, society may do it for them in due time.

more believable and resonant the idea becomes. And whether or not we eventually pass such legislation, the vision will take stronger root.

So, I do not think that passing legislation will work in the U.S., but I do think that discussing the idea will. Boards should be made up of 40% women — *pass it on!*

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# Let the market rule

*Politics is impatient, but don't jeopardize the public interest.*

BY FRED SMITH

**S**UPPORT FOR DIVERSITY on corporate boards has become customary. But voluntary change is no longer viewed as adequate. In 2003, Norway enacted a law mandating 40% of corporate board members be women.

Including women in politics has long been a Nordic tradition — Gro Harlem Brundtland became the first (and youngest) Norwegian Prime Minister way back in 1981. But there are important differences between politics and business.

Governments need diversity to legitimize their ability to exert coercive power, but firms have only the power granted them by consumers. Whether women or men, Catholics or Protestants, engineers or accountants, would strengthen a board's ability is

best determined by consumers via competition.

Corporations are specialized entities organized to meet specialized human needs. Corporate boards seek to ensure that top managers effectively coordinate the firm's employees to achieve that task. As John Micklethwait and Adrian Wooldridge document in *The Company*, modern corporations have been extremely effective in aligning the self-interest of employees to advance human welfare.

Not surprisingly, proponents see the Norwegian law as a "great success." But, a recent University of Michigan study notes that the law has reduced corporate performance. The reasons are unclear, but underperformance cannot be eliminated by the stroke of a pen.

Technological and institutional innovations have reduced the biological pressures for differentiated sex roles, with great success (note how the proportion of women in MBA and legal programs has exploded in recent decades). But politics is impatient. Still, the Norwegian experience suggests that forcing women into the boardroom poorly serves the public interest. It is far better to strengthen competition and allow the market to determine what firms do — and with whom they select to do it.




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# Women on boards in France

*With a quota law under review, companies step up their recruiting.*

BY SOPHIE L'HELIAS

**F**RENCH COMPANIES languished in the bottom tier of European board gender diversity surveys, year after year, with barely 10% of women on boards.

Inspired by Norway, France's parliament proposed to impose a 40% gender quota on company boards by 2016, with an obligation to reach 20% by 2013. Noncomplying companies would see their board elections nullified, dramatic though less drastic than Norway's threat to liquidate companies.

While there is consensus on the need to close the board gender gap, there is no consensus on quotas. The regulatory initiative came as a shock to business, which lost credibility after making repeated empty promises to address the issue. Moreover, the financial crisis tarnished business' image and reduced its political leverage.

With the law still under review, and in what some perceive as a move to avoid regulation, French companies began recruiting women on their boards en masse during the 2010 proxy season, with a 50% increase in women directors of France's largest companies in the CAC 40, according to Proxinvest ([www.proxinvest.fr](http://www.proxinvest.fr)).



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Leading the pack are Axa, BNP-Paribas, Bouygues, Michelin, PPR, and Vivendi, who now count more than 25% of women directors on their boards.

Norway's unusual governance practices explain in part how the country closed the gender gap so quickly. Boards are exceptionally small, with five members on average, and do not limit the number of board seats a person can hold.

France limits the number of board seats a person can hold to five and has larger board sizes on average. Filling the estimated 2,700 board seats with women in such a short period of time presents more of a challenge for French companies.

While some companies considered reducing their board size, others expanded their director search internationally, making geographic diversity an unintended consequence of promoting women on French company boards.

# A legislated quota? I wouldn't object

*But there are other solutions as well.*

BY SUSAN COLANTUONO

**I** WAS A CHILD when Bill Russell made the team and began to play for the Boston Celtics. Fans and pundits rued the day, claiming that no one would watch a black man play basketball. How wrong they were! Bill Russell helped to permanently break the color barrier in Boston basketball.

As in sports, you have to make the team to be elected to a director position. "Tryouts" for board positions include two common screens — relevant functional expertise and executive-level success. These are screens that women are increasingly positioned to pass. While the numbers of Fortune 1000 women CEOs are small, there are significant numbers of women who are CEOs of smaller firms, presidents of business units, CFOs, chief/general counsel, chief information/technology officers, chief marketing officers, and chief HR officers.

But to make the team you must first be invited to the tryouts.

And this is where women run into a nearly insurmountable hurdle — and the one that the idea of quotas addresses. When existing board members, who are nearly exclusively male, are formally or informally involved in the nominating process, they tend to recommend candidates who are men with whom they are comfortable. It is not surprising, but it does create a self-perpetuating cycle. And debunks the idea that director selection is a meritocratic process.

The only way to break a self-perpetuating cycle is radical change. This is what Norway had the guts to do with positive results.

Is a legislated 40% quota the answer for the U.S.? I wouldn't object — though others will, and vociferously. But there are other solutions as well. Women directors say that once there are three of them on a board, there is a positive change in the dynamics and potential for future women to be appointed. Getting more women to CEO positions also works.



## Adapt the proven Norwegian solution

*It's a pragmatic move to bettering corporate performance.*

By Linda K. Bolliger

Nations such as Norway are using legislation to successfully increase the number of women sitting in corporate boardrooms. Further research indicates that while many of these company bottom lines increased, their stock prices went down. The latter fact was attributed to investor disbelief that a board quota would have a positive affect on profits. They were wrong!

Norway's experience sug-

gests that its investment in pushing the diversity envelope forward via a board quota illustrates two dynamics: 1) Women's perspectives, when included in boardrooms, are often responsible for increased revenue; and 2) investor acceptance of the first dynamic will inform future investment strategies.

Hence my position is for America to adapt the proven Norwegian solution to a lack of

diversity in the boardroom. A board quota will accelerate the rate by which highly qualified women receive an opportunity to serve as board directors, which will benefit America's bottom line. Given the present status of our economy, it's a pragmatic move in the right direction.

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generation business leaders, and the Boardology Institute that prepares them as candidates for board service ([www.boardroom-bound.biz](http://www.boardroom-bound.biz)).

Many U.S. boards with the highest percentage of women directors are led by women.

Instead of trusting today's self-perpetuating system, let's figure out a way to get more women to the tryouts! If it takes goals, targets, or (that loathsome word) quotas, who cares?

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## Diversity of boards – how do we get there?

*The CalPERS '3D' initiative is one determined effort.*

BY ANNE SIMPSON

AT THE California Public Employees' Retirement System, we don't support quotas. But we do support — as strongly and as firmly as we possibly can — diversity on corporate boards in the broadest sense: diversity of gender, race, age and, perhaps most important, depth of experience, skills and knowledge.

Our view of director diversity is simple: It is a gateway to discovering new and vibrant talent, and a way to refresh boards and improve risk and returns.

We don't think quotas are a guarantee of a reinvigorated board. But we do think companies succeed best when individuals willing to challenge the traditional ways of doing

things are sitting in the directors' chairs. We want team players, yes; but we also ardently seek the kind of dynamic diversity of thought and skills that makes groupthink impossible. We want leaders.

But where do you find them? And, once you do locate them,

how do you get them into the boardroom? It takes determined, concerted effort. That's why we're working, along with our colleagues at the California State Teachers' Retirement System, to construct a diverse database of candidates, what we call our "3D" initiative (Diverse Director Database).

When it's eventually launched, we hope to attract potential directors who have the knowledge and ability to make a difference, the *crème*



*de la crème* candidate based on a profile that meets a board's requirements and complements the existing board skill sets. It's also why CalPERS is diligently implementing targeted initiatives to see that majority voting is established throughout the corporate world and working to ensure that the SEC creates effective rules concerning proxy access.

Creative, skilled directors, not stringent quotas, are the mark of diversity, and CalPERS is committed to finding them and helping them succeed. They're needed now more than ever.

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