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How to Get More Women in the Boardroom? Some Try Blunt Force

U.S. is lagging behind Europe, where mandates have forced corporations to boost the ratio of women holding board seats

Five of Macy's 10 directors are women, making it one of a handful of major U.S. companies to have achieved gender parity in the boardroom. A Macy's store in San Francisco. Photo: Justin Sullivan/Getty Images

By
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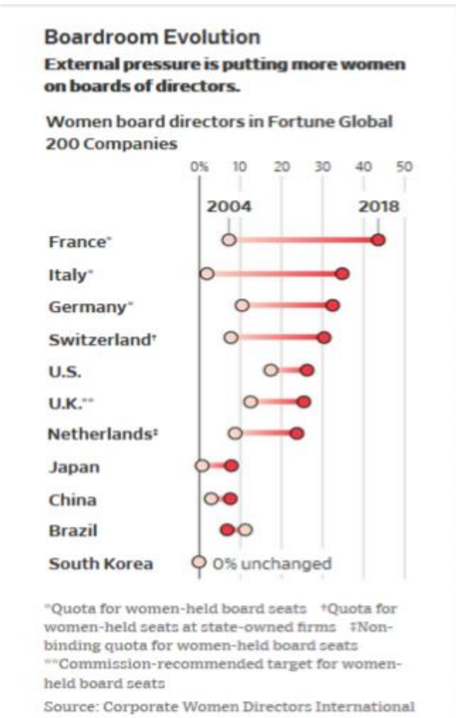
The pressure is on for companies around the world to put more women on their boards.

Diversity advocates have been making a business case for women in high-ranking roles for years. Now blunt-force measures, rather than financial arguments, appear to be moving the needle.

The U.S., once the leader in female directors, is lagging Europe where mandates have forced corporations to boost the ratio of women holding board seats.

In Italy, Germany and several other European nations, the number of women on big company boards has tripled and, in some cases, quadrupled in recent years, according to a new report by the Corporate Women Directors International, a research and advocacy group.

France passed a law in 2011 requiring that blue-chip firms fill at least 40% of board seats with women and gave them six years to meet the requirement. In that time, the share of directors at the country's biggest companies more than doubled to 43% of board representation, CWDI data show.



Sophie Bellon, chairwoman of Sodexo SA—a French food and facilities services firm founded by her father, Pierre Bellon —also joined the board of cosmetics giant L'Oréal SA in 2015. She says quotas are prodding companies to develop more rigorous processes for recruiting new directors.

"There is more energy and more thought put into how people are chosen, what kind of talent or skills companies want," she said.

The mandates, however, so far appear to have done little to increase the overall number of women in management—an outcome that proponents of the quota system hoped it will achieve.

In Norway, the first European country to set a 40% quota for women on corporate boards more than a decade ago, only 15 of the country's 200 biggest companies have a female CEO, according to Norwegian government data—roughly the same number as in the U.S. Other countries have had just a few years' experience with the boardroom quotas.

In the U.K., a government-backed, business-led commission is urging major British firms to fill at least a third of all board seats with women by 2020 and publishes an annual list of worst and best performers on that measure. Today women make up 26% of major-company board seats there.

In the U.S., several institutional investors, including State Street Global Advisors and state pension funds in Massachusetts, California and New York, are prodding companies to diversify, threatening to vote against certain board members at firms lacking female directors.

Sophie Bellon, chairwoman of Sodexo, also joined the board of L'Oréal in 2015. Photo: eric feferberg/Agence France-Presse/Getty Images

Among other benefits, they argue that a growing body of research links a greater number of women in the boardroom with stronger, long-term financial performance, while boards with no women tend to suffer more corporate governance-related scandals than average.

Studies from consultants, banks and investment research firms, including McKinsey & Co., Credit Suisse , Catalyst and MSCI, bear out the correlations. Detractors of those reports counter that it is difficult to prove female directors are the true cause underpinning more positive outcomes.

BlackRock Inc., BLK +2.12% the world's largest money manager, said earlier this year that companies in which it invests should have at least two female directors. New York State Common Retirement Fund said last month it would oppose the re-election of directors on hundreds of U.S. corporate boards with no women.

Such efforts appear to be quickening the pace of change, albeit not as fast as across the Atlantic. In the first quarter, women accounted for 32% of all new board seats at Russell 3000 companies—which represent the majority of U.S.-traded stocks—up from 29.4% for all of last year and 21.4% in 2016, according to Equilar, a research firm that gathers data on executives and boards.

“The institutional investors are definitely having an impact,” said Beth Stewart, whose firm Trewstar Corporate Board Services specializes in placing qualified women on boards.

In the first three months of the year, Ms. Stewart said she placed more women on previously all-male boards than she did in all of 2017. The common refrain she hears: “We’ve gotten enough letters. We’ve had enough pressure. We’re doing something about it.”

Even people pushing for greater boardroom diversity balk at the idea of a U.S. mandate like those in parts of Europe. Rakhi Kumar, a senior managing director at State Street, said rushing companies to comply with a quota could create new problems. “You don’t want to create unintended practices,” she said.

Instead, she said investor efforts like State Street’s were prompting real change. In the past year, State Street has put on notice more than 700 companies in the U.S., U.K. and Australia with no women on their boards. Ultimately, it voted against certain directors at more than 500 firms that it said failed to show progress in boardroom diversity. But 152 companies it contacted have since recruited at least one female director, and 34 more have pledged to do so.

Despite the recent uptick, the share of women on S&P 500 company boards rose 1 percentage point last year to 22%, according to Spencer Stuart, an executive recruitment firm. It said one big reason is the lack of boardroom turnover: The average director stays on more than eight years.

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