



# Fulfilling the Promise: How More Women on Corporate Boards Would Make America and American Companies More Competitive

## Policy Statement



Committee for Economic Development

### Executive Summary

We urge businesses—business leaders—to make it a priority to develop the talents and advance the careers of female staff who have been identified as potential leaders. This means providing such women with the experiences and background needed to rise to the top, advocating their promotion to higher levels of responsibility, and showing visible results of these efforts. Our goal is to see more women elected to corporate boards because successful businesses of the future will be those that attract, retain, and grow talent – which requires that more women have the opportunity to succeed at all levels of the company, including the board. If American companies fail to meet the career requirements of high-performing women, they will fall behind global competitors that do.

Women today contribute in virtually all levels of work life and have been led to expect full equality in the workplace. That expectation, and the progress built upon it, is undermined when women cannot achieve equal status on the highest rungs of the corporate ladder.

The situation for the United States is urgent, as other countries move ahead with numerous efforts to provide women with greater access to board membership and other opportunities for advancement. Despite a professed desire by many companies for greater diversity and female representation, there has been virtually no improvement in recent years. American companies must use all available human talent to be globally competitive. Corporate leaders must commit to show better results.

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### Gender Composition of Corporate Boards Is Important for Global Competitiveness

Women now constitute a substantial portion of highly talented labor. They have caught up to and surpassed men in college attendance and attainment of bachelor's and master's degrees. More than one-third of new MBAs are earned by women. Companies that fail to fully utilize this labor talent will limit their own growth and opportunities for economic gain.

This report focuses on leadership at the top. We are well aware that the search for gender equity must proceed at all levels. As a business group, we know that having more women on boards will have a pull effect, leveraging more women into other upper-echelon positions. Of course, board selection is complicated and must be made on merit. But the relative lack of women in leadership positions makes us, along with many others, wonder whether merit selection currently operates as it should.

### Existing Efforts Do Not Yield Enough Progress

Certainly, things are better than they used to be, but very little has changed over the past decade. The percentage of women on all U.S. corporate boards has been stuck in the 12.1 - 12.3 percent range. On current estimates, the percentage of women on boards will never even begin to approach their percentage in the population and labor force.

### Supply Challenges

Board nominating committees often say that the small number of women on boards is due to the small number of perceived candidates in the pipeline, although our own review casts substantial doubt on the validity of that perception. The organization WomenCorporateDirectors, for example, has over 1350 members serving on over 1500 boards worldwide. It may be that nominating committees filter out female candidates by setting criteria for board membership too narrowly. The

willingness and availability of women to serve in senior leadership roles is also affected by their own motivations and choices. Seeing few female board members might be a deterrent to stepping forward. And an important set of choices for many women revolves around motherhood—if and when to have children; how much, if any, time to take off for childcare; etc.

## **Nominating Committees Do Not Do Enough to Demand Women Candidates**

Although researchers have found little evidence of overt bias in selection for board positions, many observers have commented on the tendency of individuals to associate with people like themselves, which may help explain why boards appear so homogeneous and why change is so difficult. Many board nominating committees employ search firms. And many boards and their search firms have professed commitment to recruiting women to achieve board diversity. Nevertheless, results are poor. In our view, nominating committees and search firms need to look harder and show better results.

## **Supply and Demand Problems Will Not Fix Themselves; Active Solutions Are Needed**

The lack of women directors reflects problems in both sides of the market. In normally operating markets, demand and supply imbalances are automatically corrected as buyers and sellers adjust to prevailing prices. The market for board directors, in particular female directors, may not fully fit the standard economic model, and normal self-correcting mechanisms of a market may not be very effective. Thus, we need to examine policy solutions—primarily private-sector solutions—that could be effective at correcting the gender imbalance.

## **Advocating for Talented Women**

A report that addresses gender representation in U.K. companies, The Davies Report, recommends several actions to improve gender balance on corporate boards. Unlike some other European nations, they do not opt for quotas. Nor do we. We do, however, agree with the spirit of the Davies Report, which embraces softer forms of targeting, goal setting, and disclosure. Businesses operate more effectively when they have well-defined goals with accountability for reaching targets. We encourage U.S. businesses to consider adopting and voluntarily reporting on stretch targets for the nomination and election of women to their boards.

Dissatisfaction with weak results from traditional mentoring programs has contributed to interest in more aggressive “sponsorship” programs that go further to identify women with high potential and connect them with sponsors who will help promote their career development. Sponsorship is intended to be “a long-term, hands-on commitment to encouraging, fighting for and creating advancement opportunities for

high-potential individuals.” We would expand sponsorship programs by challenging senior executives, men in particular, to take responsibility for developing, grooming, and *advocating* for talented women within their companies. This means giving such women the experiences necessary to become effective board members.

Another approach, particularly for nominating committees, is to work with executive search companies to ensure full consideration of a talent pool that includes women. Many top search firms have stated a desire to be inclusive and search widely for potential female candidates for senior executive and board positions. Many have pledged to do so in other countries, and they should affirm that pledge in the U.S. market. Nominating committees are in the position to insist that search firms make the desire for gender balance a reality by demanding to interview female candidates. They can, for example, ask their search firms to examine established lists of potential women directors.

## **Conclusion**

America’s adaptability and cultural diversity have historically been sources of significant strength in its economic development. Compared to many other countries, particularly in Europe and Asia, the United States has gained from its ability to integrate culturally diverse groups into positions where they could contribute significantly to economic growth and development. Women, too, have been integrated into the workforce in unprecedented numbers. Despite these gains, the potential is much greater. The United States is not now a global leader in creating opportunities for women; it has ample room for improvement.

This is not a problem that will fix itself. America’s business leaders should understand that they need to use all available talent to succeed in today’s global competitive markets, and such talent increasingly will come from women. In other countries, such as the United Kingdom and Australia, male business leaders have taken a leading role in promoting better gender balance on boards. We challenge U.S. companies and their leaders to examine their practices against the best in class; they should ask what they will do to advance women, and they should be transparent in setting targets and measuring results.



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