

THE MOMENTUM MYTH: THE IMPACT OF TURNOVER ON WOMEN'S REPRESENTATION ON *FORTUNE* 500 BOARDS

MYTH: Because so many *Fortune* 500 companies are appointing women directors, women's overall representation is poised to reach parity rapidly.

REALITY: Men continue to fill the vast majority of vacant and new seats on *Fortune* boards, making women's share too small to impact their overall representation.

The level of attention given to women joining corporate boards implies that significant ground is being gained—so much so that in the near future, women's representation on corporate boards should reach parity.¹ After all, women's representation is the highest it has ever been: 16% of *Fortune* 500 board seats were filled by women in 2011.²

Yet the pace of change tells a very different story. Women's representation on *Fortune* 500 boards has actually stagnated, gaining less than two percentage points over six years.³

Men also join boards every year but at a much higher rate than women. With men already disproportionately represented on boards, the pace at which women currently enter makes it difficult for them to catch up.⁴

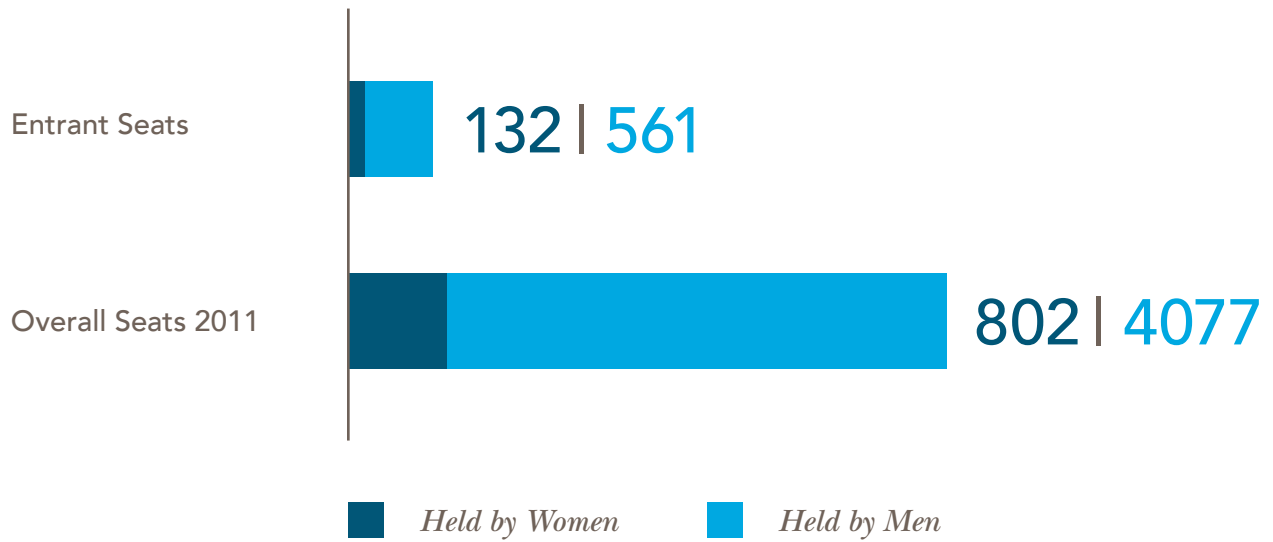
The Dilution Effect: Women Are Behind and Only Have Enough Momentum to Maintain the Status Quo

Unraveling the apparent contradiction—more women are joining boards, but women's overall representation is stuck—requires a closer look at board appointments.

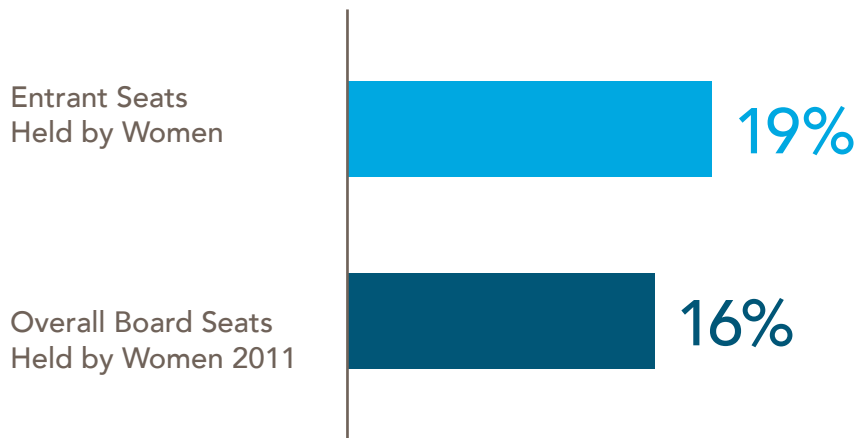
Despite the fact that filling entrant seats on corporate boards—vacancies or newly created seats—offers the opportunity to increase gender diversity among directors, women's representation is stuck. Entrant board seats represent only a small slice of the total board-

seat pie. Further compounding this dilution effect, women's share of that slice is a mere sliver.⁵ When we compare 2009 to 2011, **men filled the vast majority—81%—of entrant board seats.**⁶ Thus the initial good news—that women joined boards at a higher rate than their overall representation—only serves to prevent women from *losing* ground.⁷

FORTUNE 500 TURNOVER ANALYSIS: COUNT OF BOARD SEATS



FORTUNE 500 TURNOVER ANALYSIS: PERCENT OF BOARD SEATS HELD BY WOMEN



Sustained, Deliberate Action Is Necessary to Produce Meaningful Growth in Women's Share of Board Seats

Even with some companies prioritizing board diversity, the current velocity of women joining *Fortune* 500 boards is only sufficient to give women enough momentum to keep even with, but not surge ahead of, their overall representation on *Fortune* boards.⁸ The tipping point for meaningful change has not been attained, and it is clear that more *widespread, deliberate, sustained action* is required for a significant increase in women's representation to occur.

Action starts with maximizing the number of opportunities to increase board diversity by using procedures commonly in place for most boards: annual performance evaluations, declassification, and limits on service.⁹ Given the benefits diversity can bring to a board,¹⁰ diversity should be treated as an important qualification for board service,¹¹ and nominating committees should be encouraged to consider recruiting from the vast pool of potential women board director candidates.¹² While recruiting and onboarding new directors can be costly, companies also need to consider the missed opportunities and hidden costs of a homogenous board.¹³

The findings, views, and recommendations expressed in this report do not necessarily reflect the views of the funding organizations.

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- 1 Catalyst, *Increasing Gender Diversity on Boards: Current Index of Formal Approaches* (2012); Jim Kristie, "The Rostering of New Directors," *Directors & Boards E-Briefing*, vol. 8, no. 5 (May 2011).
 - 2 Among the 497 companies included in the *2011 Catalyst Census: Fortune 500 Women Board Directors*, women filled 16.1% (N=888/5508) of board seats. Rachel Soares, Baye Cobb, Ellen Lebow, Allyson Regis, Hannah Winsten, and Veronica Wojnas, *2011 Catalyst Census: Fortune 500 Women Board Directors* (Catalyst, 2011); Catalyst, *Catalyst Quick Take: Women in U.S. Management* (April 2012).
 - 3 Catalyst, *Catalyst Quick Take: Women in U.S. Management* (April 2012).
 - 4 Catalyst compiled a list of all companies common to the 2009, 2010, and 2011 *Fortune* 500 lists, after accounting for name changes and merger and acquisitions activity. Due to movement into and out of the *Fortune* 500 list each year, there were a total of 436 companies in this study. Analysis is based on gender diversity data from the *2011 Catalyst Census: Fortune 500 Women Board Directors* and *2009 Catalyst Census: Fortune 500 Women Board Directors* reports. A board seat was labeled as "entrant" if the director who held it was present in 2011 but not present in 2009. An entrant seat can, therefore, either be a brand new seat (i.e., expansion) or a vacancy of a previously filled seat (i.e., replacement).

- 5 The turnover rate was 14% (693 entrant seats out of 4,879 total board seats in 2011). Women's share of the turnover rate was 3% (132 entrant seats out of 4,879 total board seats in 2011).
- 6 Men filled 561 of 693 entrant seats (81%).
- 7 Among the 436 companies included in this analysis, women filled 19% (N=132/693) of entrant seats. As a result, women's overall representation increased from 15.6% (N=762/4,888) in 2009 to 16.4% (N=802/4,879) of total board seats in 2011.
- 8 Catalyst, *Increasing Gender Diversity on Boards: Current Index of Formal Approaches* (May, 2012); Spencer Stuart and Corporate Board Member, *2012 Boardroom Diversity Survey Summary Report* (2012). This phenomenon is made even more likely by research findings showing that after a woman departs from a board, the likelihood of another woman joining rises significantly. See Kathleen A. Farrell and Philip L. Hersch, "Additions to Corporate Boards: The Effect Of Gender," *Journal of Corporate Finance*, vol. 11, no. 1-2 (March 2005): p. 85-106.
- 9 Bonnie W. Gwin and Carolyn Vavrek, "Three Critical Questions You Should Ask About Your Board Evaluation," *Directors & Boards* (Fall 2011): p. 68-70; Re-Jin Guo, Timothy Kruse, and Tom Nohel, "Activism and the Move toward Annual Director Elections," *The Conference Board Director Notes* (December 2011); National Association of Corporate Directors, *2011 NACD Public Company Governance Survey* (2011).
- 10 Catalyst, *Why Diversity Matters* (2012).
- 11 Amanda Gerut, "The Push For Board Diversity Reaches Fever Pitch," *Agenda*, July 30, 2012.
- 12 Gerut; Catalyst, *The Supply Problem Myth: Fortune 500 Boards* (2012); Catalyst, *The "Think Director, Think CEO" Myth: Fortune 500 Companies* (2012).
- 13 Annalisa Barrett, *Board Turnover—Company Analysis* (Equilar, 2011); Catalyst, *Why Diversity Matters* (2012).