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Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance

By Vicki W. Kramer, Alison M. Konrad, Sumru Erkut, and Michele J. Hooper

How many women directors should be on a corporate board? The government of Norway decided the answer to this question is at least 40 percent of the board, and it requires large, publicly traded private companies to reach this goal by 2007. The U.S. is not likely to adopt any such system, but should U.S. companies care how many women serve on a board?

According to a study released by the Wellesley Centers for Women, the answer is "Yes." Based on interviews with 50 women directors, 12 CEOs, and seven corporate secretaries from FORTUNE 1000 companies the study found that a lone woman can and often does make substantial contributions. However, although two women are generally more powerful than one, it takes three or more women to achieve the "critical mass" that can cause a fundamental change in the boardroom and enhance corporate governance.

The participants in the critical mass study confirmed previous research findings that women bring value to boards. The respondents believe that women bring value by providing different perspectives, expanding the content of board discussions, raising issues that pertain to multiple stakeholders (employees, consumers, community members as well as shareholders), asking tough questions, and using their interpersonal skills to promote collaboration. But previous research has not explored what is different about board dynamics and the contributions of women when there are one, two, or three or more on the board.

Director Summary: Research has found that women bring value to the boardroom in a number of ways. But what is different about board dynamics and the contributions of women when there are one, two, or three or more on the board? A recent study investigates the "critical mass" needed to permit a board to benefit fully from gender diversity.

We were able to compare the comments of women directors, CEOs, and corporate secretaries. There were clear, sometimes stark, contrasts among boards with a lone woman, boards with two women, and boards with three women or more. The presence of three or more women not only improved the women's board experiences, but also enhanced the contributions women were able to make as board members. This study shows that simply putting one woman, or even two women, on a board does not necessarily permit a board to benefit fully from gender diversity.

One Woman on a Board

Women who have served alone, and those who have observed the situation, reported experiences associated with tokenism: being at once highly visible and invisible, being stereotyped, and being seen as representing all women.

One focus group participant said, "If you are alone, the spotlight is on you." Being highly visible, a lone woman realizes that her behavior is carefully scrutinized, and if she is cautious, she will be very careful in choosing when to speak up. "Early on, as the only woman, you have to spend more time convincing others of the credibility of your issue," another woman explained. "When you're the first one in the room, you're much more circumspect." Probably more detrimental to their ability to contribute is what one woman called "the invisibility phase"—feeling ignored, dismissed, not taken seriously, or otherwise excluded. According to another, "If you are the only one, it is clear that you are not part of the club." A male CEO said, "When you're the only one, you're an outlier in a social sense. The flavor of the discussion is a very masculine flavor."

Another male CEO pointed out that, "If you want a diverse set of views, you are not as likely to get it if a person is alone unless that person is a very strong person, so it is likely that different views won't be that well represented." And a female CEO told of serving on an outside board where she is the only woman and spending time "making sure I am heard. I may have to say things two or three times." The solo women directors were often able to resist being ignored, but to do so they had to work extra hard, get help from one of the men, or be willing to point out what was happening.

Two Women on a Board

Adding a second woman to a board helps. First, having two women in the room with different styles helps to dispel the notion that either of them is raising the "woman's point of view." Second, women tend to include each other so that they feel less isolated; two women validate each other and provide each other with a sounding board.

One perceptive CEO commented on his experience on a board with just one woman: "The woman may feel a little lonely, being the only one lining up at the ladies' room." He was the only man to mention something many women directors brought up—and that we began to call the "ladies'-room phenomenon." When the board takes a break and the men go to the men's room, a single woman has no one with whom to continue the conversation or check on her impressions. Once there are two women, that changes.

Men continue board discussions in the men's room. According to one lone woman director who went to the ladies' room at the break, the men made a decision there and failed to realize they had left her out of the process. Another woman explained that she and the other woman on her board make sure to go to the ladies' room simultaneously so that the men will not start the meeting before they return.

However, having two women does not always cause significant change. Women and men are still aware of gender in ways that can keep the women from working together as effectively as they might and the men from benefiting from their contributions. On boards with two women, some female directors reported negative experiences with being categorized, stereotyped, ignored, and excluded that are similar to those faced by women on boards where they serve alone. According to one, "The other woman director and I— we came on at the same time—feel that some things are discussed outside of the meetings." Another told of a time when the board was looking to add another person and had passed around a résumé with a picture of a woman. "One man said, 'We should set her aside because we already have two women on the board.' When a man's résumé came around, I pulled it out and said, 'We'd better set him aside too. We already have two bald men on the board.'"

When there are only two women, they are often careful not to be seen as too supportive of each other. "If there are only two women and they sit next to each other, the

Women Struggle for Seats in the Boardroom

By Amy Osler

The progress of women in corporate boardrooms and executive suites at Chicago's largest 50 public companies suffered a setback in the past year, according to the recently released ninth annual Chicago Network Census. The 2006 report shows that the representation of women declined for the first time since the initial report was published in 1998.

The Chicago Network tracked women in key leadership positions—board members, executive officers, and top earners—based on fiscal year 2005 proxy filings. After nine years of data, the Census shows that highly qualified women remain largely untapped for leadership roles: The ratios of women directors and women executive officers each decreased by nearly one percentage point to 13.8 percent and 14.6 percent, respectively. A total of 37 companies (74 percent) have no women top earners, up from 35 in 2005.

"The numbers are discouraging," said Cheryl Francis, chair of this year's Census, who serves on three public company boards. "Women are losing ground, while companies fail to take advantage of half of the talent pool. This is a huge missed opportunity given the growing body of evidence that shows that companies with higher numbers of women in leadership have better financial results."

The Chicago boardroom and executive suite numbers broadly reflect disappointing results in other major cities, according to a survey by the InterOrganization Network (ION), a national network of executive women's organizations in Atlanta, Boston, California, Chicago, Detroit, Florida, Philadelphia, and Milwaukee.

With higher performance linked to greater numbers of women senior corporate officers, what might explain the challenges facing women? "After Sarbanes-Oxley, every potential director is facing greater scrutiny," says Sheila Penrose, chairman of the board of Jones Lang LaSalle, who serves on three other public boards. With companies looking increasingly for directors with financial and operating experience, Penrose adds that this "has made it harder for women to get on their first board than five years ago."

A breakdown of the Chicago data shows that 46 of the Chicago 50 companies are holdovers from 2005. Of these companies, 35 selected one or more new board members in the last year. Seven companies filled a board position with a woman. However, women aren't keeping pace. Out of 59 total men think the women are conspiring," said one woman. Another commented that she and the other woman "try not to sit together because we don't want to look like the 'women's contingent.'"

Three or More Women on a Board

Having three or more women in the boardroom seems to result in a definite shift. The presence of women becomes normalized and removes gender from being a concern. "Three women is mainstream," one woman director said. With three, many women feel less constrained about associating with other women, more comfortable about being themselves and raising issues that concern them, and less pressured to work so hard to prove themselves. One woman explained: "Three is like three legs on a stool. Strong. It is clear you are not there because of gender but because of talent. You feel that way. You feel free to say, 'Let's go shopping.' It is OK to be a female person because you know you are there because of your talents."

The women's increased willingness to be vocal and to raise different issues benefits the board. A CEO observed, "As there were more women, the first woman became more active. They were all more active as the number of women increased. It's a group dynamic. When you bring on one of any demographic group, they're trying to figure out how they fit. With more, that's not an issue."

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The presence of more women at the table also begins to change the way the men communicate and behave. Women's tendencies to collaborate, to ask difficult questions, and raise issues start to become the boardroom norm. "The men are learning to be more inclusive, asking whether anyone else has any comments, and so on," said a female corporate secretary on a board that went from two, to three, and now four women directors. A woman director described a change in dynamic "to be much more collaborative with the management team. It felt like people were people; you weren't treated like a woman. You get more of the expertise of the directors." And a woman corporate secretary reported that "people talk differently now that there are more women… . It is much more conversational and less hierarchical and, as a result, all the directors get better information."

new directors, 13.6 percent were women (8 women and 51 men)—lower than the current overall representation of women on boards and despite a larger pool of director positions.

There were some silver linings in the otherwise gloomy findings of the Chicago Census. Only two companies reported having no women directors, down from six last year. Four companies reported that more than 25 percent of their board members were women. While the numbers remain small, women of color made up 3.9 percent of director positions, up from 2.8 percent, for those companies reporting.

For there to be a big jump in the numbers of both women directors and executives, change must be driven from the top and pushed throughout the company, according to interviews with Chicago business leaders. The senior executives spelled out a series of specific action steps that include: creating a diverse board; developing a pipeline of talent with strong representation of women; encouraging and guiding women to networking opportunities; determining and addressing the reasons women are leaving an organization; tracking recruitment, retention, and promotion of women; and holding managers accountable, through pay and evaluation, for increasing the representation of women leaders.

"There are clear, proven practices that must be embraced by the board, the CEO, and, indeed, the entire organization," said Chicago Network Chair Ellen Carnahan. "From requiring that succession plans include women and diversity to developing a pipeline of talent, there is a role for everyone to play if women are to make significant and sustainable gains."

In the end, the Chicago Census suggests that companies that fail to bring women into highly visible and influential roles will falter. Sara Lee CEO and Chicago Network member Brenda Barnes says "How can a company compete in today's marketplace if they don't use half of the workforce? To me it's about getting the best talent available and to get the best talent, you cannot exclude 50 percent of the pool. You cannot win that way."

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Ed. Note: The Chicago Network 2006 Census, including the corporate census and the nonprofit census, can be found online at www.thechicagonetwork.org.

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Numbers are Important

A few of the respondents questioned whether ‘critical mass’ is a percentage or a number. After saying that three women on a board “starts to look like a normal setting,” one woman thought the percentage might matter more than the absolute number. On most U.S. boards today, three women constitute a significant percentage because a typical board has between nine and 12 directors, and board size has been going down. But overall, the pattern of results suggests that it is having three or more women on a board rather than a certain percentage that makes the difference.

One woman director’s comments capture this well: “If there is only one woman, and that woman is a more reticent sort, she may be less willing to speak up and in some way less effective; in addition, the rest of the board (all male) tend to view her as symbolic of all women. If you add one more woman, you start to adjust that balance. If the two women work well together, you can adjust it hugely. If there are at least three women, the likelihood is very good that at least two will work well together and can have impact beyond their numbers.”

The study shows that, with three or more women, a board is much more likely to experience the positive effects and contributions to good governance that women can bring into the boardroom. Women’s contributions help boards fulfill responsibilities to multiple stakeholders and help create a boardroom dynamic in which board members work together collaboratively while encouraging tough questions to be asked.

Action is Necessary

Unfortunately, only a small percentage of U.S. companies have reached a critical mass. Only 76 FORTUNE 500 companies had three or more women directors, and only 189 had even two, according to Catalyst’s 2005 study. Research by ION, a national network of eight executive women’s organizations, continues to show that smaller companies tend to have fewer women on their boards. There continues to be active resistance. One participant in the critical mass study reported that she hears board chairmen or CEOs say sometimes, “We already have one woman,” a statement that makes her “shudder.”

To improve board governance, boards should actively seek qualified women board members and should not be satisfied with just one or two women on their boards. To change the numbers, nominating committees should not try to be “gender-blind.” They should recognize that gender diversity improves governance and that increasing the number of women is an important objective. They should insist that search firms bring them diverse slates of candidates that always include qualified women. If they do, they will improve the quality of governance. ■

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Ed. Note: The full report of the Critical Mass Project is available through the Wellesley Centers for Women (www.wcwonline.org).

DirectWomen: Women Attorneys and Board Diversity

DirectWomen, an initiative of the American Bar Association, the ABA Section of Business Law, and Catalyst, Inc., is a program specifically designed to identify, develop, and support women attorneys in order to provide qualified directors for U.S. companies, while promoting the independence and diversity required for good corporate governance.

The inaugural *DirectWomen Institute* will be held March 29-30, 2007, with an opening reception on the evening of March 28. The Institute will feature a faculty of experts on corporate governance, as well as experienced women directors, and will address topics including the roles and responsibilities of the director and the board; the fundamentals of financial statements; today’s legal and regulatory environments; and much more. Institute participants will also have the opportunity to network with women currently serving on U.S. corporate boards, as well as top representatives of executive search firms.

For details on DirectWomen or the DirectWomen Institute visit www.directwomen.org.