Open Letter To Shareholders
Why are we leaving money on the table?

By Lynn Harris

Dear Fellow Shareholder

I have good news, and bad news.

First, the bad news: today's boards of directors largely ignore a serious business issue that reduces share price, and costs us money. Worse, they've known about the issue for years, and they've done little to solve it.

The good news: we can fix it.

What's the issue?

Research shows that companies with three or more women on their board have stronger organizational performance and healthier bottom line results. It's that simple.

Leading gender research firm Catalyst.org demonstrates a clear link between the number of female board directors and stronger corporate performance in Fortune 500 Companies.

A 2007 Catalyst report, *The Bottom Line: Corporate Performance and Women's Representation on Boards,* shows companies with more female board members outperform those with the least on:

- Return on equity (by 53%)
- Return on sales (by 42%)
- Return on invested capital (by 66%)

Likewise, research indicates that a higher proportion of women in senior leadership positions positively influences corporate performance.

In 2009, Professor Michel Ferrary (CERAM Business School, France), showed that companies with a higher ratio of women in management coped more successfully with the global financial crisis.

In the same vein, Global management consulting firm McKinsey says:

> "… companies around the world with the highest scores on nine important dimensions of organization - from leadership and direction to

> accountability and motivation - are likely to have higher operating margins than their lower-ranked counterparts...those with three or more women on their senior-management teams scored higher on all nine organization criteria than did companies with no senior-level women."

Colombia University and the University of Maryland research support the McKinsey findings.

Using data on fifteen hundred U.S. companies from 1992 to 2006, they suggest there is:

> "… evidence that greater female representation in senior-management positions leads to - and is not merely a result of - better firm quality and performance."

There's a possibility the correlation may be coincidental. But mounting evidence suggests not.

The bottom line? Gender diversity at the top means better corporate performance. Companies with at least three female board members, and more women in senior leadership roles, produce stronger-than average financial and organizational results.

Boards Fail To Take Corrective Action

In the absence of a single controlling shareholder, boards of directors are legally responsible to choose management teams and chief officers, oversee their performance and generally act prudently to increase share value.

If gender-balanced leadership is good for business (and it seems increasingly likely that it is), then directors should be recruiting more women to the boardroom, and ensuring that CEOs have good gender-balanced senior management teams.

But are they? The short answer is no.

The 2009 Catalyst Census of Fortune 500 Women Board Directors revealed that less than one fifth of companies have three or more women on their boards, and more than 40 percent have no women directors whatsoever.

At the last count, women comprised only 15.2 and 13.5 percent of board directors and corporate officers respectively in Fortune 500 companies.

The United States is not alone in having C-suite offices that belong in Jurassic Park. Canada's Financial Post 500 companies have only 14 percent female board directors, and 16.9 percent corporate officers.

Similarly, women hold only 9.7 percent board positions in Europe's top 300 companies.

The rate of progress on gender imbalance at the top of organizations is glacial. In fact, most board directors ignore the issue - at our expense.

What lies behind board directors' inaction? Perhaps they are unwilling to make way for new female board members because it could mean they themselves might have to step down? Are these directors acting in our best interest? Or looking after their own?

European Countries Lead The Way

The governments of some European countries have woken up, and are clearly unhappy about leaving money on the table. They also know the corporate dinosaurs won't change without a strong push.

Motivated by the data suggesting that more women at the top improves corporate performance, the Norwegian government passed a law in 2004 mandating that the boards of Norwegian PLCs and state-owned companies comprise at least 40 percent women.

They gave Norwegian companies two years to make the transition, and threatened them with closure if they didn't comply. As a result, Norway has increased women board directors in PLCs to 40 percent today, from 7 percent in 2003.

Other European countries are catching on. Spain passed a law in 2007 requiring 40 percent women on corporate boards by 2015; it also adopted a new code of corporate governance.

The French Government has submitted a bill that requires all companies listed on the Paris stock exchange to have 50 percent women on boards by 2015. If the bill passes, these companies are obliged to have women in 20 percent and 40 percent of board seats within 18 months and four years respectively.

The governments of Finland, Australia, Canada and the UK have also set measurable objectives to increase the numbers of women on boards.

Institutional investors get involved

Institutional investors are the latest to throw their hats in the ring.

The California State Teacher's Retirement System (CalSTRS), which has US $125 billion in investment assets, now files shareholder proposals to achieve greater diversity in the boardroom.

Calvert Asset Management Company Inc., a leading provider of sustainable and responsible investing has engaged hundreds of companies on board diversity.

In 2009, Swiss-based Naissance Capital launched the Women's Leadership Fund, because it believes it can earn higher returns by investing in companies that demonstrate 'best practice' with regard to gender diversity.

Amongst other criteria, it invests in companies with a greater than 20 percent average of women in key roles and a favorable gender policy and track record. Naissance Capital uses this strategy because it believes:

- Studies consistently show that companies with more female directors and managers exhibit higher performance
- Greater gender diversity can reduce the risk inherent in 'group think' and the male tendency towards excessive risk-taking
- Women are substantially under-represented at boardroom and management level

It's Time To Stand Up And Be Counted

If you believe, as I do, that boards of directors should be acting in our best interests, if you are unhappy about leaving money on the table, or if you would simply like to see the organizations in which you invest perform better, it's time to use your shareholder power to accelerate change.

Governments in North America show no appetite for the legislative approach taken by some parts of Europe. So it's up to us.

Ask questions. Find out how many women board members and senior leaders there are in the companies in your investment portfolio. If it's less than 30 percent, ask why. More important, demand to know what the board intends to do about gender imbalance.

If the answer boils down to “nothing much,” or you get the tired excuse that there’s dearth of suitable women candidates, flex your voting muscle to achieve accountability and change.

Share this article with your business contacts. Turn up at shareholder meetings. Write letters to boards. It’s high time to stop leaving money on the table, and to drag our board directors and senior managers out of the Stone Age and into the twenty-first century.

Lynn Harris is a management consultant and author of *Unwritten Rules: What Women Need To Know About Leading In Today’s Organizations.*