

# THE MOMENTUM MYTH: THE IMPACT OF TURNOVER ON WOMEN'S REPRESENTATION ON *FINANCIAL POST* PUBLIC COMPANY BOARDS

**MYTH:** Because so many *Financial Post* public 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 *Financial Post* public company boards, making women's share too small to impact their overall representation.

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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.<sup>1</sup> After all, women's representation is the highest it has ever been: 10% of *Financial Post* public company board seats were filled by women in 2011.<sup>2</sup>

**Yet the pace of change tells a very different story. Women's representation on *Financial Post* public company boards has actually stagnated, gaining less than two percentage points over eight years.<sup>3</sup>**

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.<sup>4</sup>

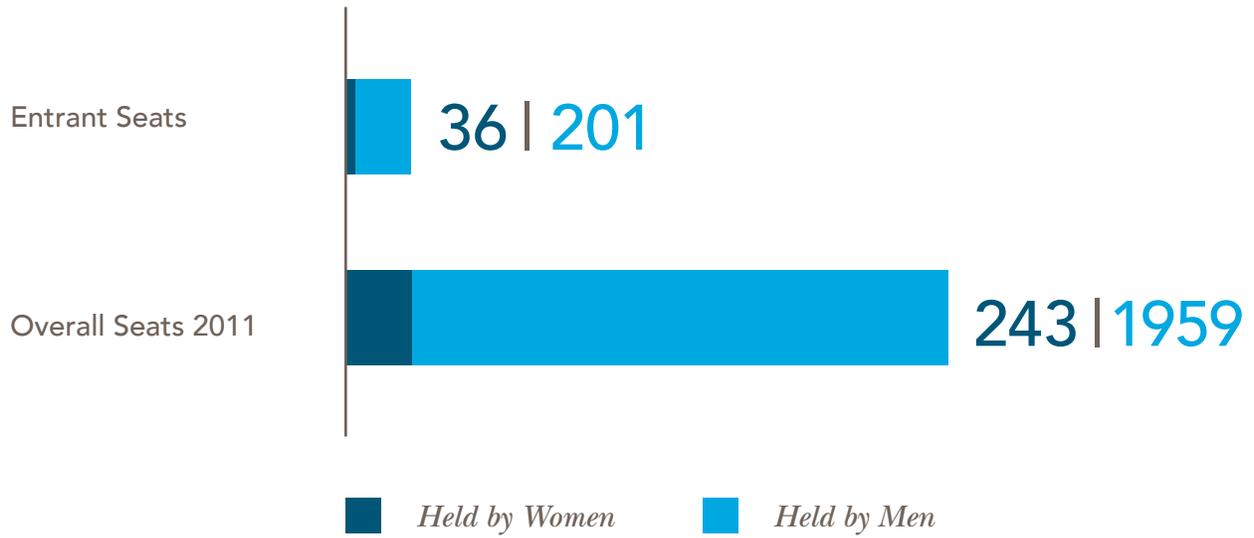
## The Dilution Effect: Women Are Behind and Only Have Enough Momentum to Maintain the Status Quo

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

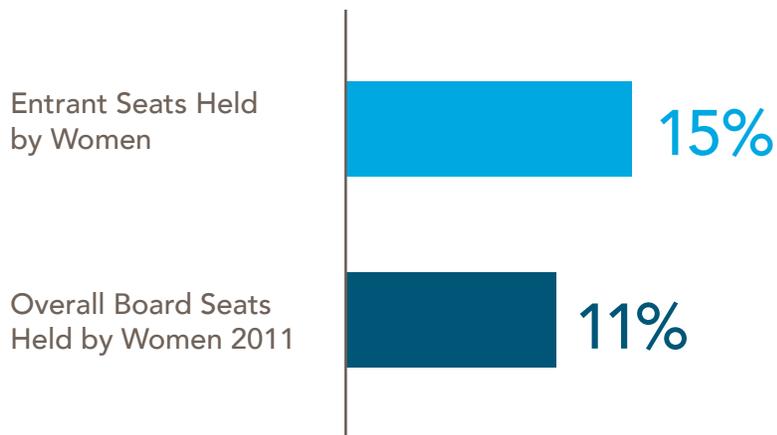
Despite the fact that filling entrant seats on corporate boards—vacancies or newly created seats—offers the opportunity to increase gender diversity among directors, women's representation is stuck. Entrant board seats represent only a small slice of the total board-

seat pie. Further compounding this dilution effect, women's share of that slice is a mere sliver.<sup>5</sup> When we compare 2009 to 2011, **men filled the vast majority—85%—of entrant board seats.**<sup>6</sup> 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.<sup>7</sup>

FINANCIAL POST PUBLIC COMPANY TURNOVER ANALYSIS: COUNT OF BOARD SEATS



FINANCIAL POST PUBLIC COMPANY 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 *Financial Post* public company boards is only sufficient to give women enough momentum to keep even with, but not surge ahead of, their overall representation on *Financial Post* public company boards.<sup>8</sup> 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.<sup>9</sup> Given the benefits diversity can bring to a board,<sup>10</sup> diversity should be treated as an important qualification for board service,<sup>11</sup> and nominating committees should be encouraged to consider recruiting from the vast pool of potential women board director candidates.<sup>12</sup> While recruiting and onboarding new directors can be costly, companies also need to consider the missed opportunities and hidden costs of a homogenous board.<sup>13</sup>

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 273 public companies included in the 2011 *Catalyst Census: Financial Post 500 Women Board Directors*, women filled 10.3% of board seats. Liz Mulligan-Ferry, Morgan Friedrich, and Sabra Nathanson, *2011 Catalyst Census: Financial Post 500 Women Board Directors* (Catalyst, 2012); Laura Jenner, Monica Dyer, and Lilly Whitham, *2007 Catalyst Census of Women Board Directors of the FP500: Voices From the Boardroom* (Catalyst, 2008).
  - 3 Mulligan-Ferry, Friedrich, and Nathanson; Jenner, Dyer, and Whitham.
  - 4 Catalyst compiled a list of all companies common to the 2009, 2010, and 2011 *Financial Post* 500 lists, after accounting for name changes and merger and acquisitions activity. Due to movement into and out of the *Financial Post* 500 list each year, there were a total of 225 public companies in this study. We limited our analysis to public companies due to our Census methodology, which employs a verification process for private companies, Crown corporations, and cooperatives and limits comparability of public to non-public companies; see *2011 Catalyst Census: Financial Post 500 Women Board Directors—Appendix 1: Methodology* for more information. Analysis is based on gender diversity data from the

2011 Catalyst Census: Financial Post 500 Women Board Directors and 2009 Catalyst Census: Financial Post 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 11% (237 entrant seats out of 2,202 total board seats in 2011). Women’s share of the turnover rate was 2% (36 entrant seats out of 2,202 total board seats in 2011).
- 6 Men filled 201 of 237 entrant seats (85%).
- 7 Among the 225 companies included in this analysis, women filled 15.2% (N=36/237) of entrant seats. As a result, women’s overall representation increased from 10.7% (N=232/2,173) in 2009 to 11.0% (N=243/2,202) of total board seats in 2011.
- 8 Catalyst, *Increasing Gender Diversity on Boards: Current Index of Formal Approaches* (2012); Spencer Stuart, *Canadian Spencer Stuart Board Index: Board Trends and Practices of Leading Canadian Companies 2011* (2011). This phenomenon is made even more likely by research that shows that, for U.S. firms, 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); Korn/Ferry International, *Corporate Board Governance and Director Compensation in Canada: A Review of 2011* (December 2011); Spencer Stuart.
- 10 Catalyst, *Why Diversity Matters* (2012).
- 11 Institute of Corporate Directors, *Diversity in the Boardroom: Findings and Recommendations of the Institute of Corporate Directors* (December 2011).
- 12 Institute of Corporate Directors; Catalyst, *The Supply Problem Myth: Financial Post 500 Boards* (2012); Catalyst, *The “Think Director, Think CEO” Myth: Financial Post 500 Companies* (2012).
- 13 Annalisa Barrett, *Board Turnover—Company Analysis* (Equilar, 2011); Catalyst, *Why Diversity Matters* (2012).