

## EXECUTIVE SUMMARY

Corporate governance reform has been a hot topic for a number of years. Congress, the Securities and Exchange Commission, the media, and large shareholders have been pressuring corporations to improve their governance. In the face of the public failure of companies such as Enron and WorldCom, some boards have been accused of being asleep or at least acquiescent, often focusing on short-term earnings and permitting runaway CEO compensation. While many companies are demanding more competent directors, the traditional pool of directors is no longer adequate to meet the need for independent, outside board members required by Sarbanes-Oxley and other reform guidelines – particularly since CEOs are limiting the number of boards on which they serve. Nominating committees and search firms are enlarging the scope of their search for qualified directors and dipping into new pools of candidates, including women. Yet some of the largest companies still have no women directors, and of those that do, only a small percentage have more than two women directors. The most recent Catalyst report (*2005 Catalyst Census of Women Board Directors of the Fortune 500*) indicated that women held only 14.7 percent of all *Fortune 500* board seats. Among the *Fortune 500* companies, 53 still had no women on their boards, 182 had one woman, 189 had two, and only 76 had three or more women directors.

Does it matter to corporate governance whether women serve on a board? If so, does it make a difference how many women serve? Is there a critical mass that can bring significant change to the boardroom and improve corporate governance?

Based on interviews and discussions with 50 women directors, 12 CEOs, and seven corporate secretaries from *Fortune 1000* companies, we show that a critical mass of three or more women can cause a fundamental change in the boardroom and enhance corporate governance.

Our study extends current research and writing on corporate governance, particularly work that draws attention to the importance of boardroom behavior and dynamics. In addition to employing critical mass theory, we build on research on minority and majority influence on group decision-making as well as tokenism theories.

### *Women Directors Make a Difference*

We find that women do make a difference in the boardroom. Women bring a collaborative leadership style that benefits boardroom dynamics by increasing the amount of listening, social support, and win-win problem-solving. Although women are often collaborative leaders, they do not shy away from controversial issues. Many of our informants believe that women are more likely than men to ask tough questions and demand direct and detailed answers. Women also bring new issues and perspectives to the table, broadening the content of boardroom discussions to include the perspectives of multiple stakeholders. Women of color add perspectives that broaden boardroom discussions even further.

*How Many Women Constitute a Critical Mass on a Corporate Board?*

The number of women on a board makes a difference. While a lone woman can and often does make substantial contributions, and two women are generally more powerful than one, increasing the number of women to three or more enhances the likelihood that women's voices and ideas are heard and that boardroom dynamics change substantially. Women who have served alone and those who have observed the situation report experiences of lone women not being listened to, being excluded from socializing and even from some decision-making discussions, being made to feel their views represent a "woman's point of view," and being subject to inappropriate behaviors that indicate male directors notice their gender more than their individual contributions.

Adding a second woman clearly helps. When two women sit on a board, they tend to feel more comfortable than one does alone. Each woman can assure that the other is heard, not always by agreeing with her, but rather, by picking up on the topics she raises and encouraging the group to process them fully. Two women together can develop strategies for raising difficult and controversial issues in a way that makes other board members pay attention. But with two women, 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.

The magic seems to occur when three or more women serve on a board together. Suddenly having women in the room becomes a normal state of affairs. No longer does any one woman represent the "woman's point of view," because the women express different views and often disagree with each other. Women start being treated as individuals with different personalities, styles, and interests. Women's tendencies to be more collaborative but also to be more active in asking questions and raising different issues start to become the boardroom norm. We find that having three or more women on a board can create a critical mass where women are no longer seen as outsiders and are able to influence the content and process of board discussions more substantially.

*Impact on Corporate Governance*

Having a critical mass of women directors is good for corporate governance in at least three ways.

- The content of boardroom discussion is more likely to include the perspectives of the multiple stakeholders who affect and are affected by company performance, not only shareholders but also employees, customers, suppliers, and the community at large.
- Difficult issues and problems are considerably less likely to be ignored or brushed aside, which results in better decision-making.
- The boardroom dynamic is more open and collaborative, which helps management hear the board's concerns and take them to heart without defensiveness.

This paper has important implications for improving corporate governance. It shows that diversity is an issue of governance and that increasing the representation of women on every board is a good governance issue. It also supports the value of moving beyond CEOs, who still tend to be white males, when looking for board candidates. And it shows