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Board Diversity Issues Don't Fade Away After 8 Seconds (or an IPO, Apparently)

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In spite of the company's largely female user and revenue base, Snap's public filings revealed that only one of its nine directors, Hearst Magazines chief content officer Joanna Coles, is a woman. We note that one director, Intel Security Group senior vice president Christopher Young, is African American, and that Ms. Coles and Mr. Young are two of the Board's three lowest-paid directors, with Ms. Coles' total 2016 compensation clocking in at about one tenth of Mr. Young's. Since Ms. Coles' stock options were less than 20% of the average annual stock awarded to the board's highest paid director, the company's IPO would have multiplied that gap. Snap claims that its SEC filings did not reflect a grant that Ms. Coles received in January 2017, but makes no claim about whether the grant brought Ms. Coles' compensation in line with that of other directors.

Snap is not alone. Even before Twitter's financial performance began to slip, its IPO was marred by disappointment about its entirely white, male board. Women hold only 20% of board seats at the largest U.S. public companies, including the last 100 technology companies to file for an IPO. Total women and minority board membership was only 31% in 2016 (a modest increase from prior years), and Deloitte estimates that women and minorities will not reach 40% representation on corporate boards until 2026. The Government Accountability Office calculates that it could take more than 40 years for men and women to have equal representation on corporate boards. This delay may be partly institutional, but it is also the result of overt bias among existing board members: a recent PWC study of Fortune 500 companies found that most of the men who make up those boards do not believe that board diversity improves company performance or board effectiveness. More than half believe that women should take fewer than 50% of board seats, and over a third believe that there are not enough qualified female candidates to fill those seats.

We have published on the importance of diversity in corporate boards before, addressing topics such as how to get more women on corporate boards, increasing global public pressure on companies diversify their boards and recommendations for SEC diversity disclosure rules. And the link between diversity in corporate leadership and financial performance is increasingly clear. In 2015, McKinsey & Company found that boards in the top quartile for gender diversity were 15% more likely to outperform those in the bottom quartile, and boards in the top quartile for ethnic diversity were 35% more likely to outperform those in the bottom quartile. Among U.S. companies, every 10% increase in racial and ethnic diversity on senior executive teams correlates with a 0.8% rise in earnings before interest and taxes (EBIT). McKinsey attributes the improvement in performance to diverse companies' ability to attract top talent, improve customer orientation, keep employees happy and make better strategic decisions. The Harvard Business Review notes that gender diversity among corporate boards leads to a professionalization of corporate board membership and a more formal approach to board succession planning.

As the business case for diversity becomes stronger, some countries have legislated the issue, mandating that women fill at least 30-40% of board seats. Norway, Spain, France, Iceland and Germany have made significant progress toward their markers, but other indicators of gender equality in business have lagged behind, including gender pay equality and women in executive roles. Still, the raw numbers make a compelling case for quotas: a 2016 study found that countries with mandated quotas had nearly double the average percentage of women on corporate boards. In contrast, the U.S. favors sunlight as the best disinfectant for leadership-level homogeneity: in June 2016, in response to public statements by Chair White, the SEC staff published a recommendation that the Commission strengthen its disclosure rules to require specific disclosure of corporate diversity policies and disclosure of the gender and ethnic make-up of boards and executives.

Independently, U.S. investors are making their own push for board diversity. State Street Global Advisors (SSGA), a money management firm with stakes in more than 3,500 companies, issued a statement this week promising to use its voting power to hold corporate boards accountable for improving gender diversity among their ranks. SSGA publicized its new policy with an art installation on Wall Street, where the iconic Charging Bull now faces an equally fierce and "Fearless Girl". Several other leading funds, including Morgan Stanley Investment

Management Inc. and T. Rowe Price Associates, Inc., support diversity proxy proposals that would ask companies to specifically commit to seeking board diversity; others avoid an explicit vote but push for diversity behind the scenes. Many U.S. companies are taking note of investor pressure and voluntarily adopting a 30% target for female board participation.

Ultimately, though, increasing diversity among corporate boards will require increasing diversity at every level of corporate leadership. A survey of Fortune 500 boards reported that nominating committees typically look to former CEOs for potential board candidates; a group that includes only 4% women and 1% African Americans. The Economist's glass-ceiling index reports that women occupy just over a third of well-paid and high-status jobs and still make, as a group, only 85% of men's earnings. To build diversity at the executive and board levels, companies must make diversity a priority at every level.

Happy International Women's Day.

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