

BoardReady

Lessons from the Pandemic: **Board Diversity and Performance**

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Foreword

When Phyllis Campbell, Charlotte Guyman, and I started BoardReady three years ago, we made it our mission to provide corporate boards with the tools, data, and talent pipeline to diversify. While recent progress on board diversity is encouraging, we remain impatiently optimistic. Progress is only as robust as our dedication to it. We sincerely hope that it will inspire boards to keep up the momentum and continue diversifying in the coming years.

Data is a vital element in diversifying boards. In an era when everything is measurable, boards benefit from seeing how diverse they are and how they compare with their competitors. That is why we created the BoardReady Index (BRI), so boards could measure their diversity across gender, race, and age, as well as diversity motivators (tenure and turnover), and benchmark against a peer set relevant to them. No single metric can fully encompass diversity, so we have created the BRI as a living metric. We reevaluate the algorithm every two years as more data becomes available and update accordingly.

I want to thank Rajalakshmi Subramanian and her team for their enthusiastic work, compiling this report. By providing sector-level insights into board diversity, we hope it highlights the very real advantages that board diversity offers. We believe the BRI score would be valuable in every boardroom, driving the diversity conversation as a key component of succession planning. In addition, as more and more states begin to pass board diversity laws, companies with easy access to their diversity metrics will benefit.

As this report demonstrates, board diversity and returns are tightly linked, particularly in times of crisis. To be sure, correlation doesn't prove causation. But with companies with more diverse boards consistently outperforming those without, board diversity is a factor that companies can't afford to ignore.

Thank you.



Deanna Oppenheimer
Founder, BoardReady

The grim pandemic that ruined so many lives and businesses in 2020 is fundamentally altering the business landscape. Many consumer behaviors and business models were upended, creating winners and losers. New data emerged that may help companies compete successfully in a changing marketplace. Of particular interest to those of us at BoardReady is data showing a compelling correlation between diversity on boards of directors and the pandemic-era performance of the S&P 500 companies they lead.

Put simply:

**Companies with
diverse boards tended
to do better in this
time of transition.**

Among the highlights for S&P 500 Companies in 2020

Gender

54%
HAD YoY REVENUE
GROWTH

Companies with more than 30% board seats held by women

45%
HAD YoY REVENUE
GROWTH

Companies with less than 20% board seats held by women

Gender

Companies with over 30% of board seats held by women outperformed their less gender-diverse counterparts in

11 OUT OF **15**
THE TOP
S&P 500 SECTORS

Age

Companies whose median director age was
55 OR LESS **65 OR MORE**



10.1%
YoY REVENUE
GROWTH

-7.7%
YoY REVENUE
GROWTH

Age

Companies whose directors had
>30 YEAR AGE SPAN



+4.6%
YoY REVENUE GROWTH

ALL OTHER COHORTS SAW THEIR REVENUE DECLINES

Race

Directors at S&P 500 companies are overwhelmingly white, which deprives society of, among other things, significant data about how companies that have racially diverse boards tend to perform relative to less-diverse boards.

+4%
2020 YoY REVENUE GROWTH

For companies with at least 30 percent of their board seats held by non-white directors

ALL OTHER COHORTS SAW THEIR REVENUE DECLINES

Perhaps these patterns shouldn't come as a surprise to people who understand how genetic diversity strengthens animals, and how a lack of diversity weakens them. In general, diversity is a good thing.

Correlation doesn't prove causation, of course. Nonetheless, it's suggestive that companies with diverse boards usually did better in the pandemic than their less-diverse counterparts, even if we can't prove why. Is it that diverse boards make companies better? Or is it that better companies tend to recruit diverse boards? Perhaps it is a bit of both. Regardless, companies lacking board diversity might reasonably consider whether they are on the wrong side of corporate history—and success.

Companies seeking to improve board diversity can turn to BoardReady for guidance. Board diversity is our *raison d'être*, and this research is driven by our belief that data is a vital element in diversifying boards. We use this data to inform how we measure board diversity using the BoardReady Index (BRI) and are prepared to help companies understand, for example, that the notion that there is a meager pipeline of qualified, diverse board candidates, is at least in part a myth.

The pattern that emerges across large sets of companies—a pattern of diverse boards guiding companies that tended to perform better—is arresting. As we'll see in the data below, which covers three recent years including 2020, better company performance and industry-sector performance during the pandemic tended to correlate roughly with increased levels of gender diversity, age diversity, and racial diversity in the composition of boards of directors.

Let's dig in.

Methodology

We looked at the performance of S&P 500 companies for the calendar years 2018, 2019 and 2020, based on data that BoardReady collected from publicly available data sources. All 500 S&P companies that reported full-year 2020 results as of May 31, 2021, were included in the analysis.

Year-over-year (YoY) revenue growth rate for a period of several years was used to measure company performance. In particular, we examined the year-over-year revenue growth rate for 2020 relative to 2019. (Sometimes expressed as “2020 YoY revenue growth rate,” it is calculated by subtracting 2019 revenue from 2020 revenue and dividing the result by 2019 revenue. For example, if a hypothetical company’s revenue grew from \$10 billion in 2019 to \$11 billion in 2020, its year-over-year revenue growth rate was 10 percent.) Unfortunately, year-over-year revenue growth rate in 2020 frequently was negative, given the pandemic. But relative measurements remain valuable indicators of performance, regardless of whether the growth was positive or negative.

Using the year-over-year revenue growth rate as a yardstick, we sought to isolate the impact that the pandemic had on the performance of companies. We looked at whether revenue-growth rates rose, dropped or held steady during the pandemic year 2020, when compared to the calendar year 2019. We made simplifying assumptions. We assumed that a company whose year-over-year revenue growth rate increased or held steady either thrived or was minimally impacted by the pandemic. Companies that saw their year-over-year revenue growth rate drop were deemed to be impacted by the pandemic-induced volatility. Furthermore, we assumed that the magnitude of the pandemic’s impact correlated with the magnitude of increase or decrease in the year-over-year revenue growth rate.



Methodology, cont'd

Before settling on using year-over-year growth rates as our metric, we first considered using either year-over-year gross profits or EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization). We chose revenue growth because the pandemic often introduced significant cash-flow challenges and other business-operations volatility that required companies to adapt quickly in ways that could impact the cost of doing business, which could in turn impact bottom-line gross profits and EBITDA. These may be transitory impacts that are less reflective of corporate performance than is revenue. We expect companies to either adapt to the new digital- and remote-centric operational models, or return to their original operational models in the coming quarters.

Gender

To evaluate the impact of gender diversity on company performance, we grouped companies into three cohorts:

- (a) those in which women occupied 30 percent or more of the board seats (referred to as companies with “higher gender diversity”);
- (b) those in which women held between 20 and 30 percent of seats (referred to as companies with “moderate gender diversity”), and
- (c) those in which women held less than 20 percent of the seats (referred to as companies with “lower gender diversity”).

We settled on these cohorts because each had a statistically significant sample of companies within the S&P 500. And we recognize that the terms “higher” and “lower” are relative, and that a company with “high” gender diversity would have women holding well more than 30 percent of its seats.

Age

The impact of age diversity was evaluated based on the median age of directors, as well as the age span of directors on board. Age span was calculated by subtracting the age of the youngest director from the oldest director on a company's board.

Race

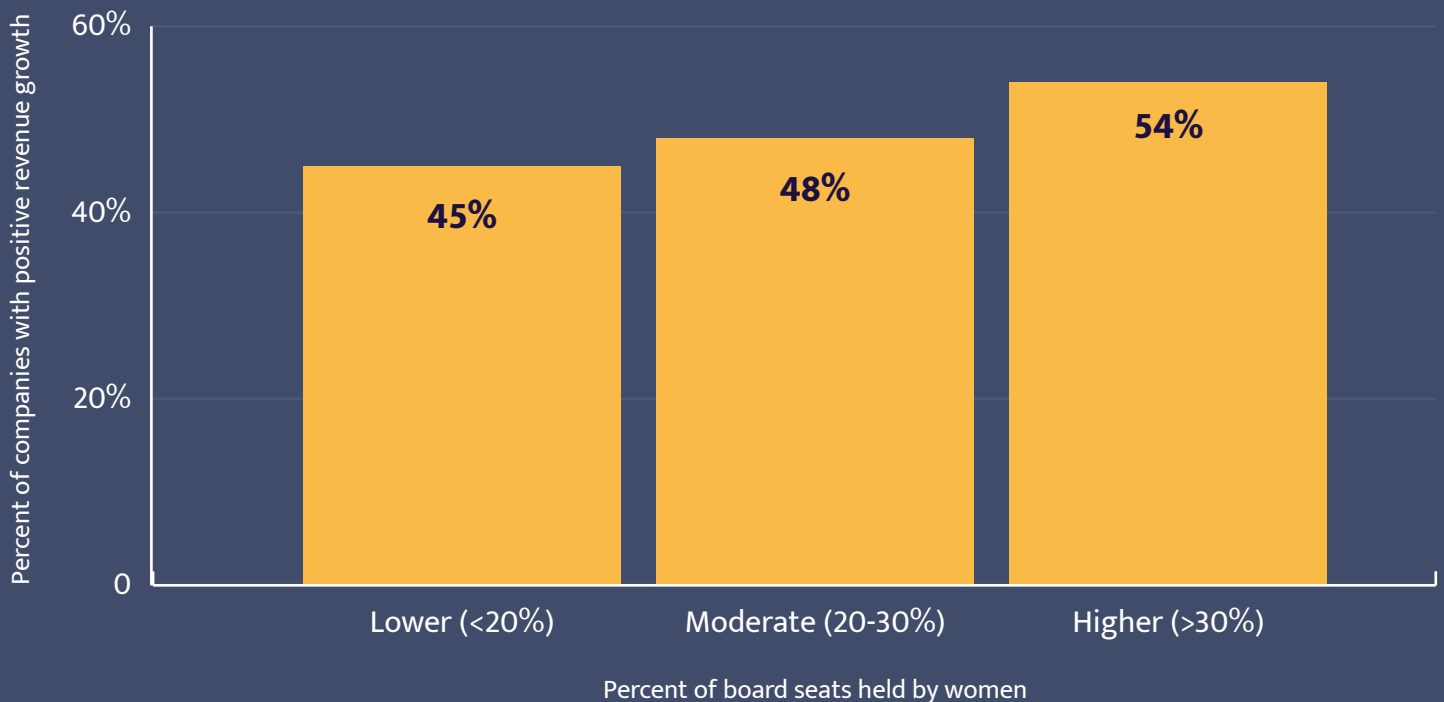
Unfortunately, our understanding of the impact of racial diversity was limited by the low representation of racially diverse directors on S&P 500 company boards. Nonetheless, we grouped companies based on the percent of seats held by non-white directors to evaluate the implications.

Gender Diversity and 2020 Company Performance

When we looked at companies with higher gender diversity, we found that 54 percent of them delivered positive year-over-year revenue in 2020.

In contrast, positive results were achieved by only 45 percent of the companies with lower gender diversity.

How Many Companies Saw Their Revenue Grow in 2020?

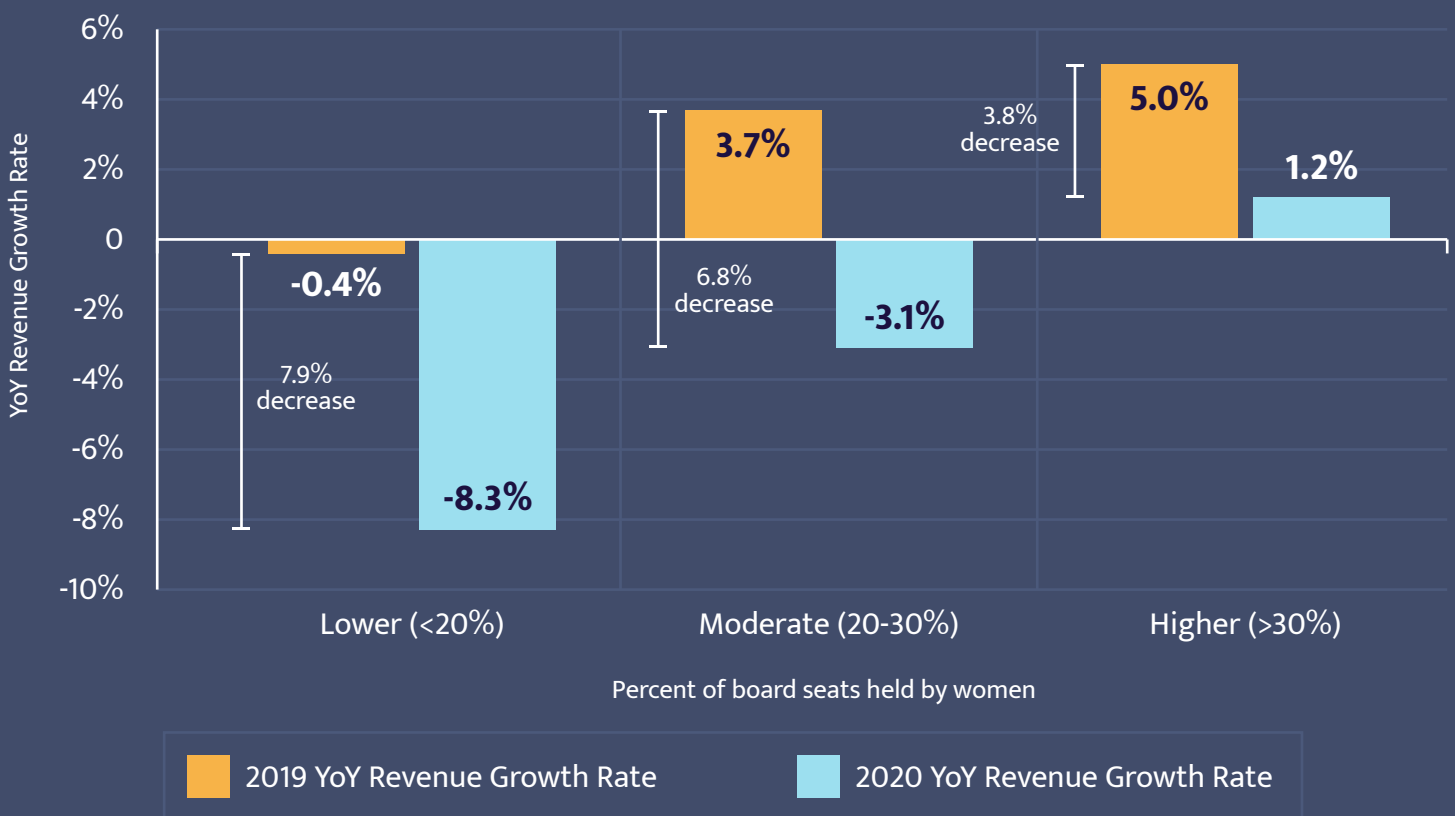


It goes without saying that the pandemic was hard on many businesses. Revenue for all of the 500 companies combined was lower by \$225 billion for 2020 than it had been in 2019. But among the 194 companies with higher gender diversity, year-over-year revenue grew overall by \$58 billion (1.2%) versus a \$283 billion (3.9%) drop for companies with lower gender diversity. Though the combined revenue across the 500 companies is not the best measure of performance, it helps to quantify the magnitude of the revenue gain and loss across the different groups of companies.

Gender Diversity and Year-over-Year Revenue Growth Rate

Year-over-year revenue growth for 2020 tended to be higher for companies with better gender balance on their boards.

YoY Revenue Growth Rate by Gender Diversity



Companies whose boards had lower gender diversity, saw their growth rate plunge from negative 0.4 percent in 2019 to negative 8.3 percent in 2020. This was a decline in growth rate of 7.9 percent. Companies whose boards had moderate gender diversity, saw their growth rates fall almost as much, from 3.7 percent growth rate in 2019 to minus 3.1 percent in 2020, a 6.8 percent reduction. Companies whose boards had higher gender diversity saw their growth rate fall from 5.0 percent in 2019, to minus 3.1 percent in 2020, a drop of only 3.8 percent.

Gender Diversity and 2020 Sector-Wise Performance

We analyzed sector-wise performance for each of the top fifteen sectors (by revenue size) that have at least ten companies in the S&P 500. Within each sector, we looked at the year-over-year revenue growth rate for 2020 by grouping companies into two cohorts: (a) companies with less than 30 percent of their board seats held by women, and (b) companies with at least 30 percent board seats held by women. We settled on two cohorts for the sector-wise analysis versus the three used earlier, to ensure that we had a statistically significant sample of companies within each sector and cohort. In the table below, the cohort of companies within each sector that performed better are shaded green and the ones that performed worse are shaded red.

Companies with higher gender diversity outperformed their less-gender-diverse counterparts in eleven of the top fifteen sectors.

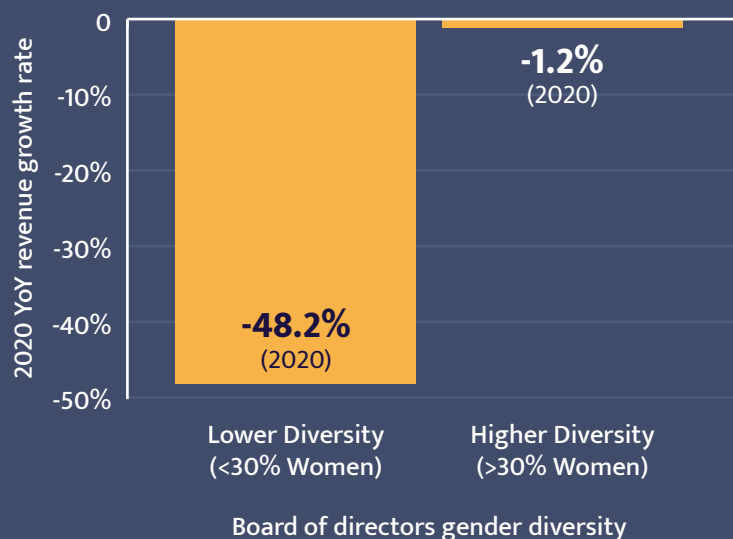
YoY Revenue Growth Rate for 2020			
Sector	All Companies	LESS Than 30% Board Seats Held by Women	AT LEAST 30% Board Seats Held by Women
Retail	12.3%	9.9%	14.4%
Healthcare Services	10.6%	15.9%	7.5%
Healthcare Technology	7.0%	-1.3%	8.6%
Energy	-34.1%	-35.1%	-33.5%
Computer Software	13.7%	7.7%	14.9%
Food & Beverage	-0.6%	0.1%	-2.1%
Banks	-0.9%	-11.4%	2.2%
Insurance	-10.2%	-19.4%	1.1%
Computer Hardware	1.5%	4.7%	-4.0%
Biotech & Pharma	4.7%	4.5%	4.8%
Media & Entertainment	-2.9%	-2.2%	-3.1%
Transportation & Logistics	-26.5%	-48.2%	-1.2%
Automotive	-11.1%	-11.3%	-10.7%
Utilities	-2.8%	-2.9%	-2.8%
Aerospace & Defense	-12.8%	-18.1%	-9.7%

Gender diversity in sectors that performed poorly in 2020: Transport and Energy

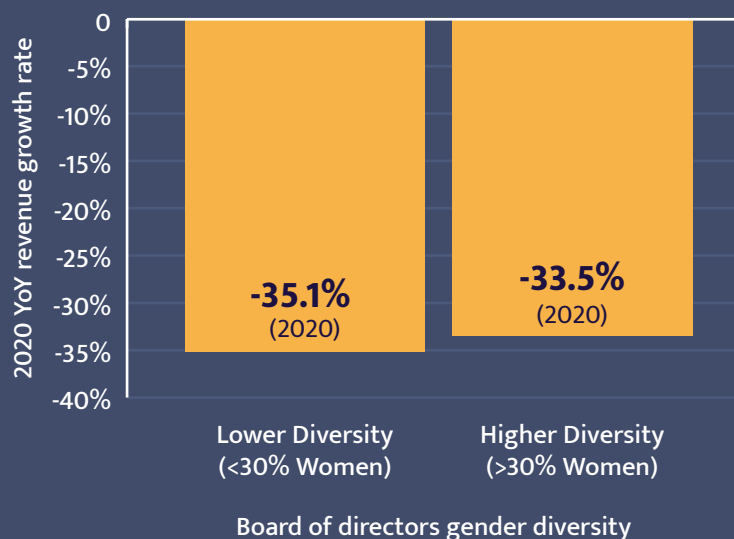
The two largest sectors in the S&P 500 that performed poorly overall are Transportation and Energy.

However, transportation companies with higher gender diversity saw their revenue decline slightly by 1.2 percent. Meanwhile, companies with lower gender diversity saw 2020 year-over-year revenue decline by a whopping 48.2 percent.

**Gender Diversity & Revenue Growth
(Transport & Logistics)**



**Gender Diversity & Revenue Growth
(Energy)**

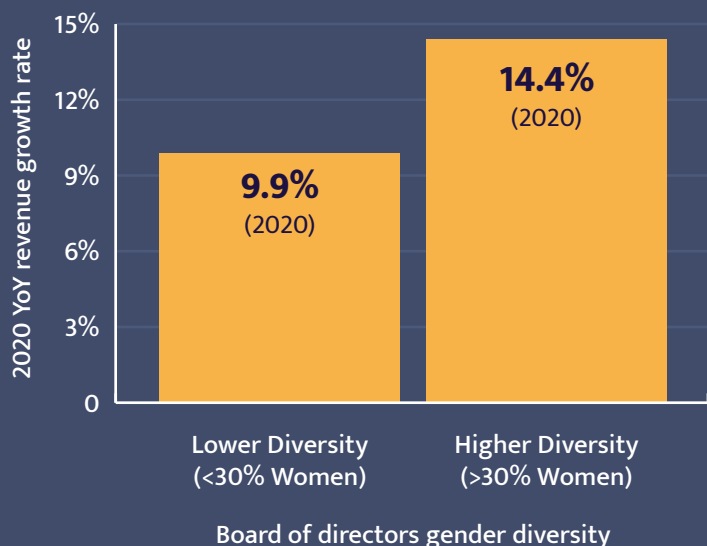


Though the differences were less stark for the energy sector, companies with higher gender diversity saw their revenue growth rate drop by 26.3 percent from 2019 to 2020, versus a deeper 39.0 percent drop for companies with lower gender diversity.

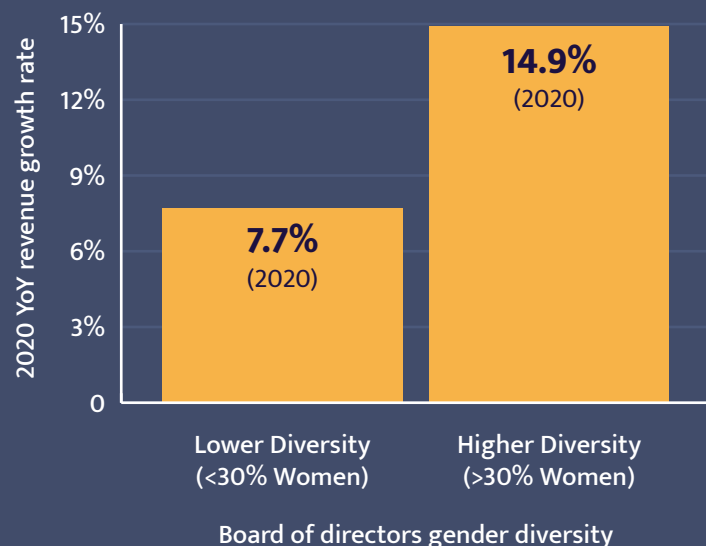
Gender diversity in sectors that performed well in 2020: Retail and Computer Software

Two sectors in the S&P 500 that performed well in 2020 are Retail and Computer Software. Retailers with higher gender diversity saw their revenue grow by 14.4 percent year-over-year in 2020, while retailers with lower gender diversity grew by 9.9 percent. Computer Software showed a similar trend, with companies with higher gender diversity growing 14.9 percent, versus a 7.7 percent increase for their less-gender-diverse counterparts.

Gender Diversity & Revenue Growth (Retail)



Gender Diversity & Revenue Growth (Computer Software)



The differentiated performance is striking, even if we don't know why it is so.

Companies with more gender-diverse boards perform better, and those that perform better have more gender-diverse boards.

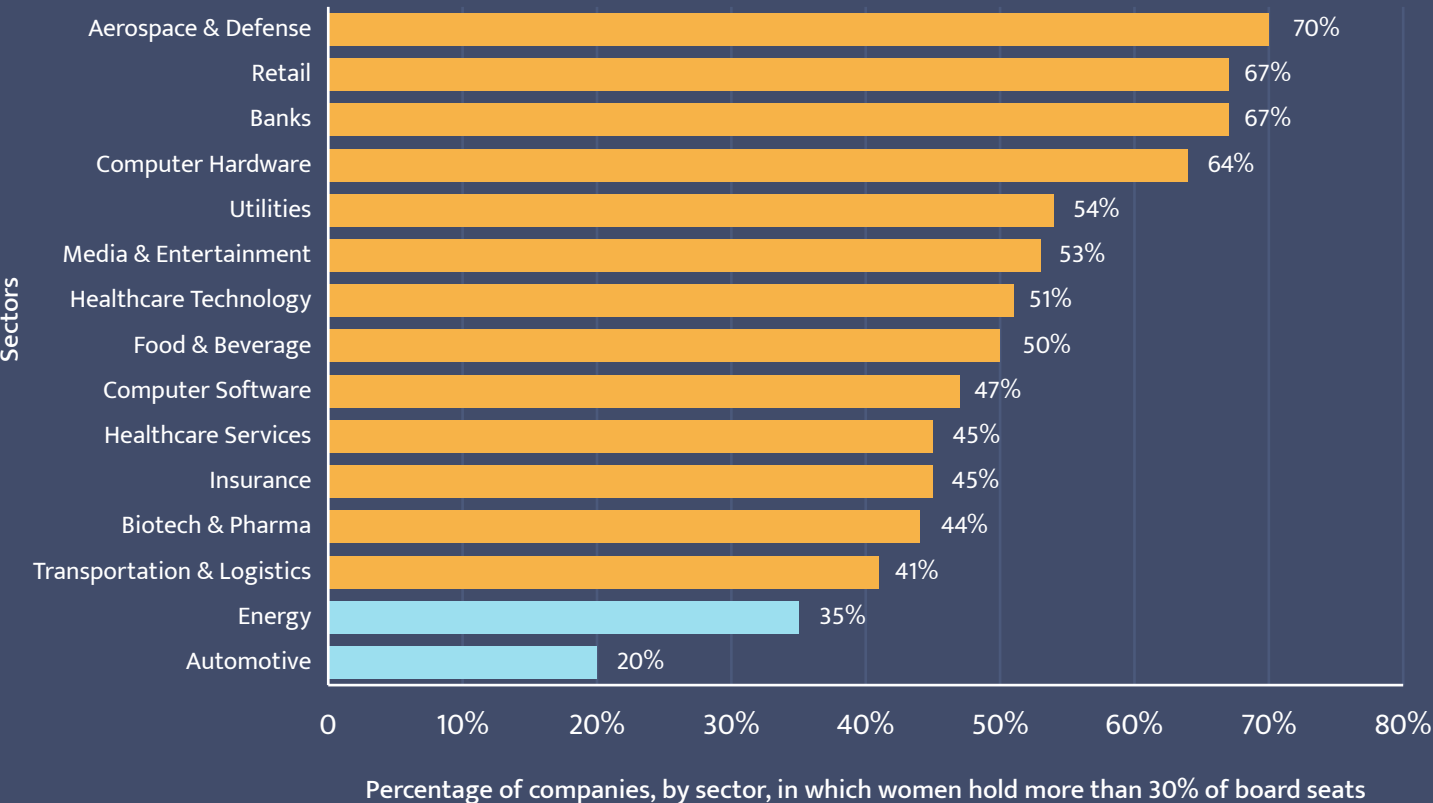
At the very least, the data seems to suggest that making boards more gender-diverse does not reduce the performance of the companies they govern. A skeptic might argue that the higher-performing companies with more-diverse boards conceivably could have done even better if their boards had more white males, but this seems far-fetched given the correlations observed between diversity and performance.

Gender Diversity by Sector

Some sectors have made significant strides to bridge the gender-diversity gap in boards, but others have fallen short—in fact, there is wide variance. Aerospace and defense, banks, and retailers are doing relatively well. More than 60 percent of companies in these sectors have good gender diversity with more than 30 percent of board seats occupied by women.

While less than 40 percent of automotive and energy companies have boards on which women hold at least 30 percent of the seats.

How Top S&P 500 Sectors Compare in Board Gender Diversity

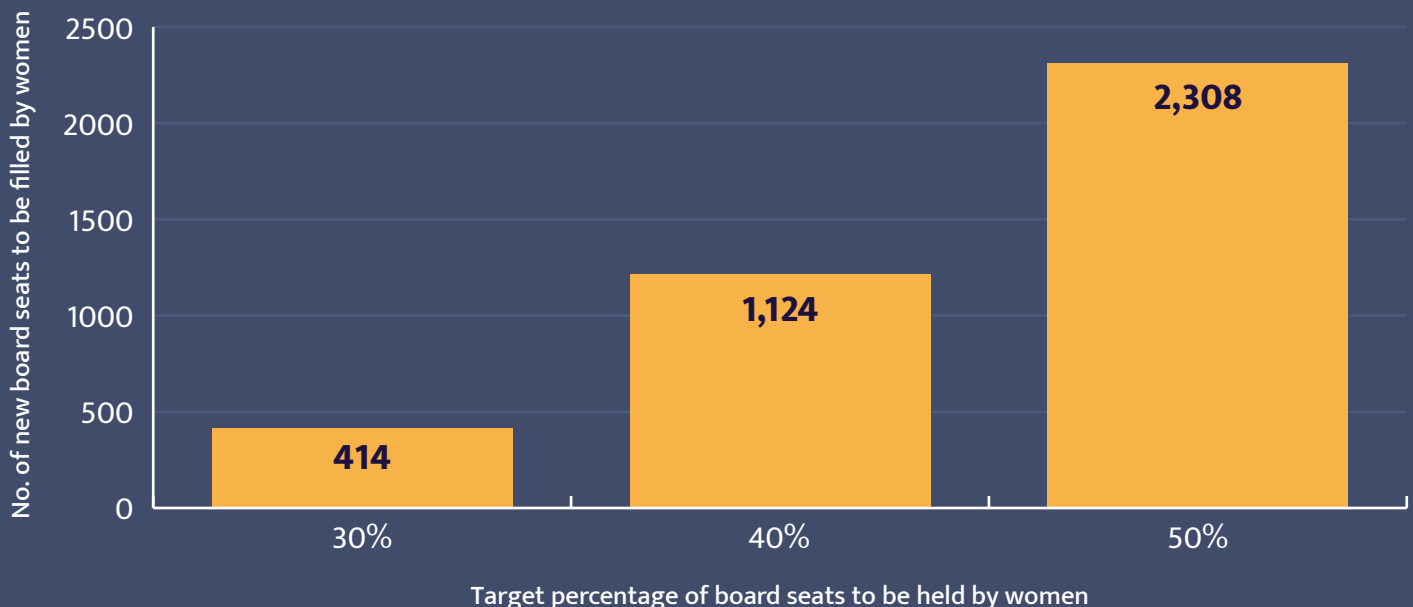


That some sectors do so well, relatively speaking, suggests that it is possible to find qualified women to serve on boards. In sectors that lag, the lack of diversification is often attributed to a limited pipeline of qualified candidates. But how many new female board members would it take to make big strides in improving gender balance?

Assessing the Gender-Diversity Pipeline

Our analysis suggests that if the S&P 500 companies were to collectively add 414 board seats and fill them with women, each of the company boards could achieve 30 percent gender diversity.

How Many More Women Would It Take on S&P 500 Boards to Reach Gender-Diversity Targets?

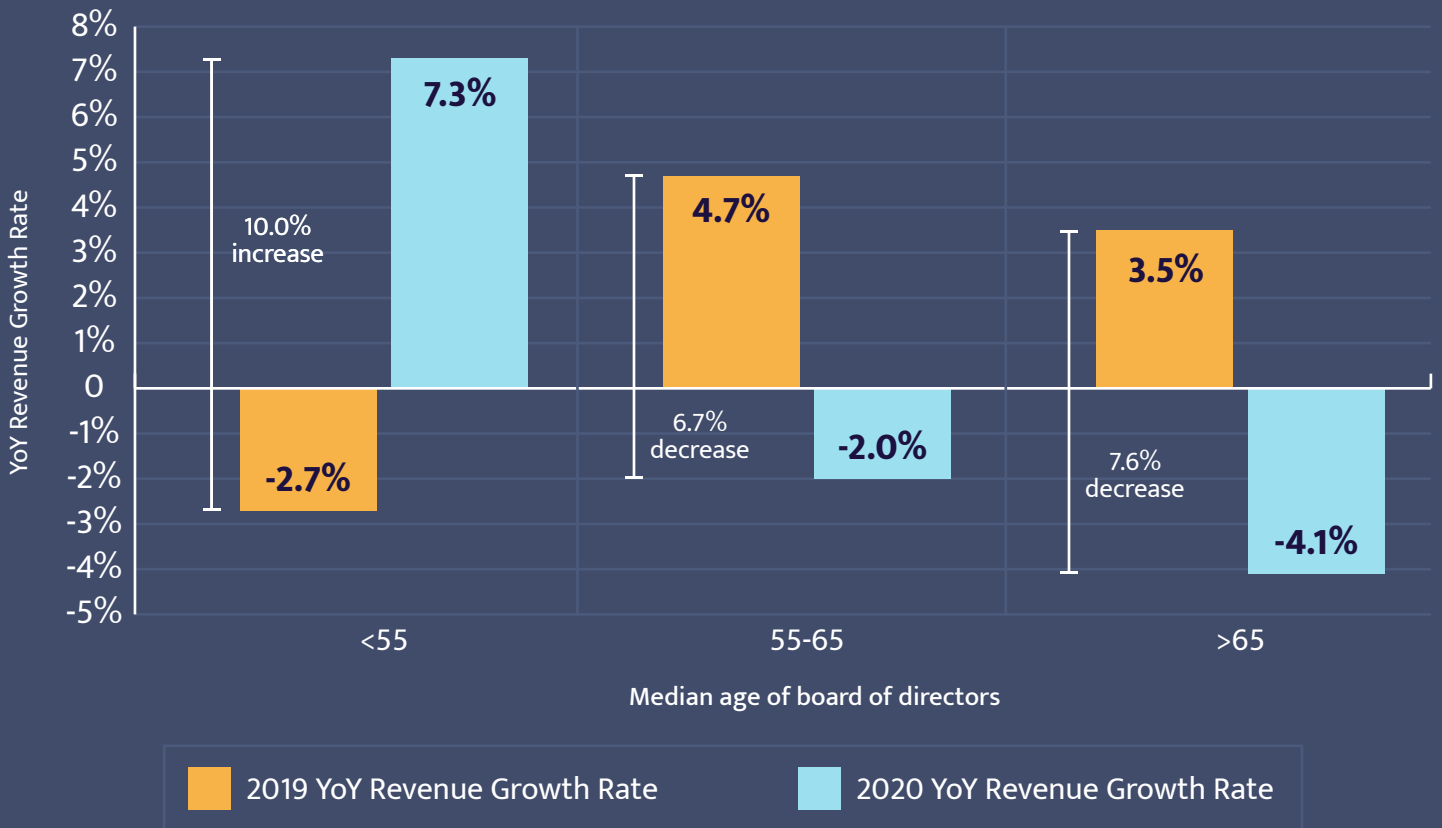


For perspective, 414 happens to be exactly the number of board seats in those companies that are held today by men who are named John (187), Robert (162), or Charles (65). Given that the United States is a nation of nearly 330 million people, finding 414 additional qualified female board members—even in a relatively short time frame—should not be an insurmountable challenge. A board composed of people with diverse backgrounds can draw its members from many realms, not just the corporate ladder. But even the corporate ladder is reasonably well stocked with women. The S&P 500 companies have a total of about 1,100 female officers who are not members of any S&P 500 boards, and U.S. public companies collectively have about 9,000 female officers who are in that position. We're not suggesting that all of these women belong on S&P 500 boards. We're suggesting that some of them do—and that there is a pipeline of exceptional female talent.

Median Director Age and 2020 Company Performance

Median ages of board directors also correlate with how companies performed during the first pandemic year.

YoY Revenue Growth by Median Age of Board (Years)



Companies with a median director age of less than or equal to 55 years saw their growth rate increase from negative 2.7 percent in 2019 to 7.3 percent in 2020. This was an increase in growth rate of 10.1 percent.

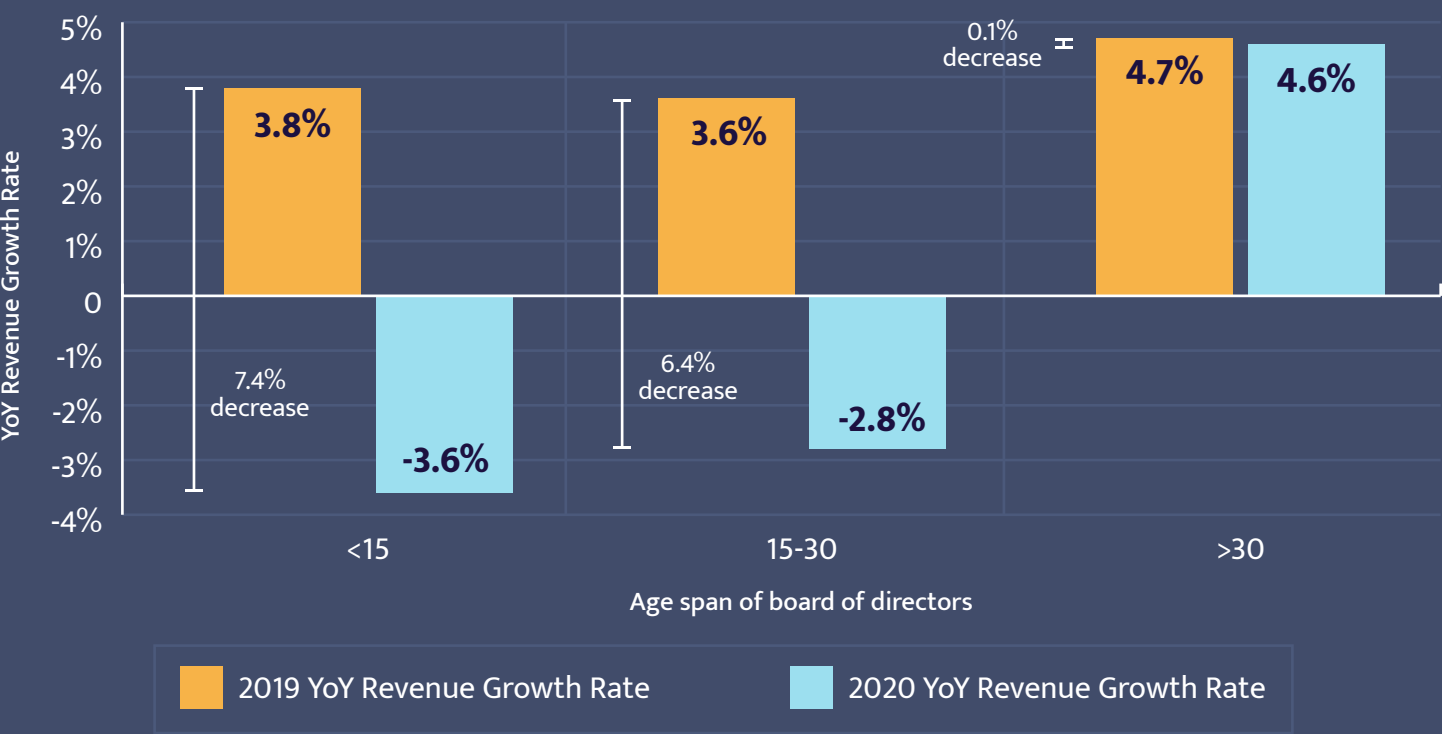
Companies whose boards had a median director age between 55 to 65 years saw their growth rates fall from 4.7 percent in 2019 to minus 2.0 percent in 2020, a 6.7 percent reduction. Companies with a median director age of over 65 saw their growth rate fall from 3.5 percent in 2019, to minus 4.1 percent in 2020, a drop of 7.6 percent.

Director Age Span and 2020 Company Performance

Though companies with a lower median director age performed better than their counterparts, this does not necessarily suggest that board members above a certain age contribute less effectively. More likely, it reflects a presumed advantage for boards whose members have diverse ages.

We observed that companies with a director age span of less than 15 years among their directors saw their growth rate decline from 3.8 percent in 2019 to minus 3.6 percent in 2020. This was a decline in growth rate of 7.4 percent. Companies with a director age span between 15 to 30 years saw their growth rates fall from 3.6 percent in 2019 to minus 2.8 percent in 2020, a 6.4 percent reduction. Companies with a director age span of more than 30 years saw their growth rate hold steady from 4.7 percent in 2019, to 4.6 percent in 2020, a very slight decline of 0.1 percent.

YoY Revenue Growth by Age Span of Directors (Years)

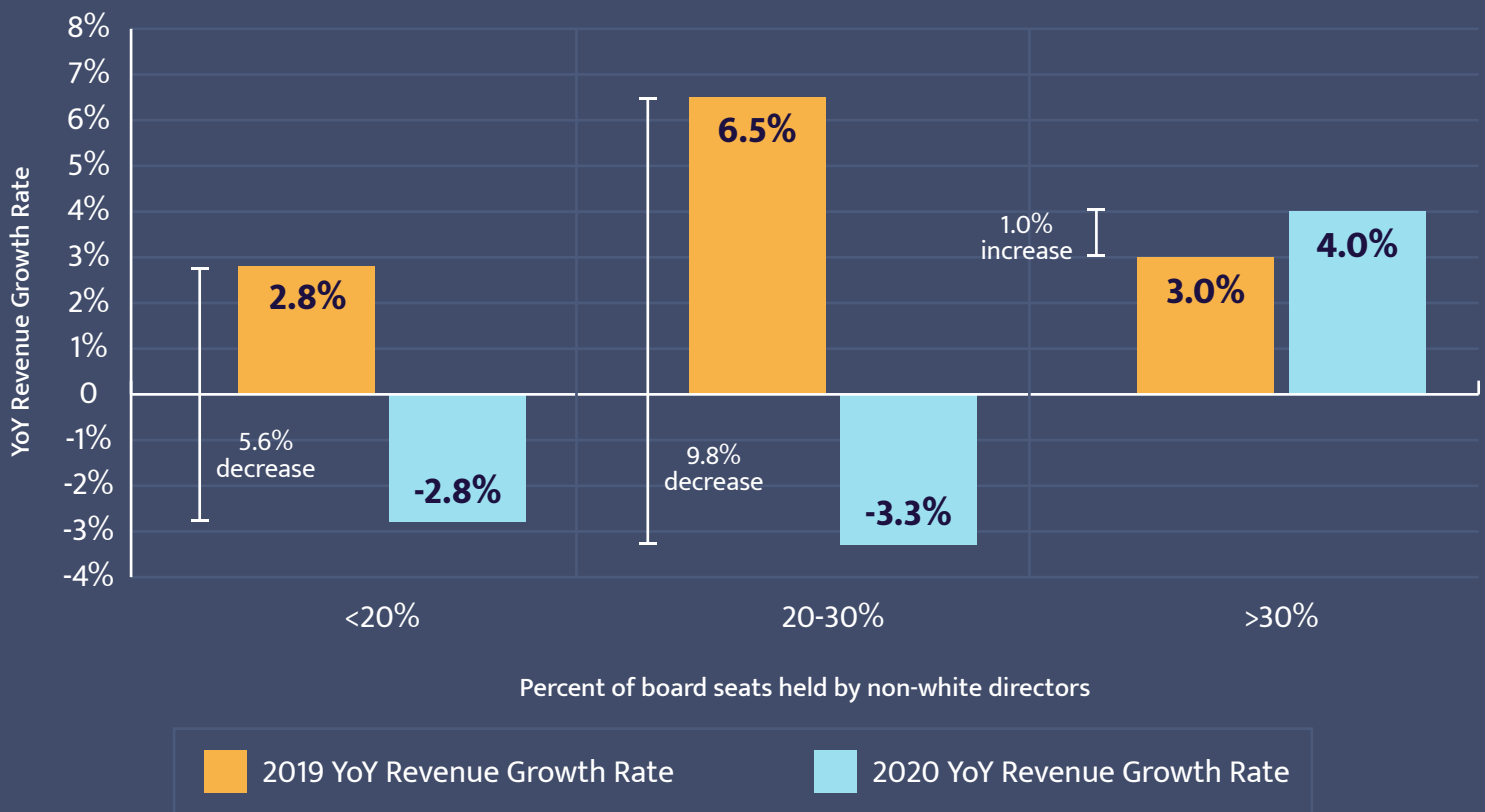


In short, companies with multi-generational boards performed better than their less-diverse counterparts during the pandemic in 2020.

Racial Diversity and 2020 Company Performance

Less than a third of companies in the S&P 500 have boards in which non-whites occupy at least 20 percent of their seats.

YoY Revenue by Percent of Board Seats Held by Non-White Directors



This diversity desert impacted our ability to do a statistically significant analysis of racial diversity on performance. Despite this limitation, we observed that companies with less than 20 percent board seats occupied by non-white directors saw their revenue growth rate decline from 2.8 percent in 2019 to minus 2.8 percent in 2020, a 5.6 percent decline. Companies with between 20 to 30 percent board seats occupied by non-white directors saw their growth rate drop from 6.5 percent in 2019 to minus 3.3 percent in 2020, a steep 9.8 percent decline. Companies with 30 percent or more board seats occupied by non-white directors performed better than the less diverse counterparts with growth rates increasing from 3.0 percent in 2019 to 4.0 percent in 2020, a modest 1.0 percent increase in growth rate.

Summary

The data shows a strong correlation between board diversity and performance. Companies (and whole sectors) with diverse boards usually did better in the pandemic than their less-diverse counterparts, when measured by revenue growth. At the same time, companies and sectors that did better in the pandemic usually proved to have relatively diverse boards. We cannot conclusively infer that board diversification is a superpower that companies can use to improve their financial performance. But the proliferation of diverse boards at high-performing companies—and their relative success in weathering the pandemic—might be a strong enough clue to make board-diversity laggards wonder whether they are missing something.

On a practical level, It may not matter much whether companies do better because they have diverse boards or, alternatively, whether better companies tend to choose diverse boards. Either way, diversity and high performance go hand-in-hand.

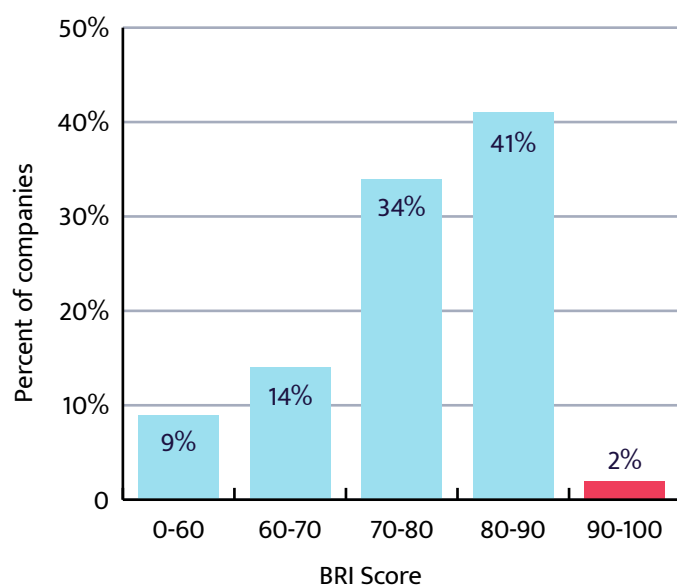
About BoardReady, and the Board Ready Index (BRI)

At BoardReady, we view diversity as not just a matter of fairness but as both a societal and a fiscal responsibility. We believe that in a fast-paced, volatile world, companies that invest in and make diversity a priority at all levels—including at the board level—will tend to be among those that thrive. Diversity benefits the individuals involved, but it benefits the enterprise even more.

Data collected in this study is being used to refine the algorithms that power the Board Ready Index (BRI) which is revised every other year based on our findings. The BRI is a benchmark that helps companies visualize their board's diversity, compare it against their peers', and map out their progress toward their own board diversity aspirations. The index is calculated based on the gender and racial diversity on boards along with the median age, age span and tenure of directors.

Best-in-class companies achieve a score of 90 or higher, but as the chart below shows, only 2 percent of companies manage that today.

While more than 40 percent of companies have a BRI of 80 or better, which is good, 57 percent of companies still have boards with a BRI of less than 80.



Acknowledgments

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About the Author



Rajalakshmi Subramanian is the co-founder, COO, and VP of Engineering at Pro.com, which offers a technology platform for the home-improvement industry and has been, in recent years, one of the nation's largest general contractors. This role is the latest in a career spent driving “digital transformation,” in which conventional products and services are reimaged for the digital world. She was a pioneering member and leader of teams that helped develop Amazon's online Marketplace and Amazon Web Services (AWS), and she has led teams in Amazon's Kindle group and at Yahoo Finance. During an interim period, Rajalakshmi returned to her native India to co-found and be CEO of a technology company. “Raji” is passionate about creating dramatically improved customer experiences, building large-scale businesses, and improving organizational diversity.