Women in the Boardroom

American
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Foreword

The American Bankers Association is always seeking opportunities to lead or partner on critical issues affecting the banking industry. This white paper, *Women in the Boardroom*, is an example of a collaboration between ABA and Bank On Women, Inc.

In the summer of 2019, board members of Bank On Women, Inc., met with senior leaders at ABA to discuss Bank On Women, Inc.'s critical mission of expanding gender diversity in the the boardrooms and C-Suites of community banks. Since that time, ABA and Bank On Women, Inc., have developed a strong working relationship focused on increasing gender diversity in the community banking space. *Women in the Boardroom* is just one example of this collaboration.

ABA thanks Bank On Women, Inc., for their critical work to expand gender diversity within the boardrooms and C-suites of community banks across the county.

Women in the Boardroom

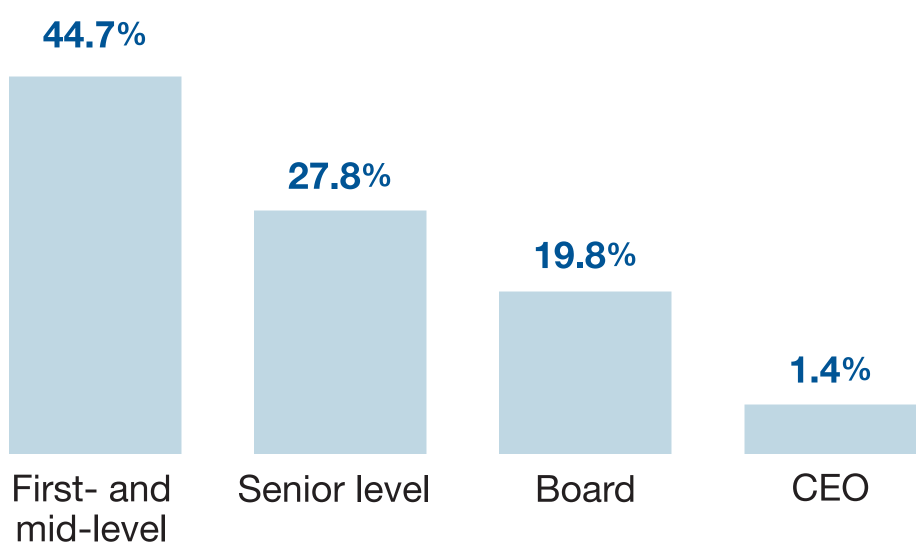
Introduction

Women represent more than half of the population, more than half of degree-holding employees and they control the majority of the buying power in American households. Yet, they are consistently under-represented on corporate boards and in C-suites. This trend extends to the financial industry where women are still struggling to find parity with men at the highest levels of leadership (see Figure 1). While the financial sector has made positive steps in recent years, more progress is needed among financial institutions of all sizes to increase the diversity of their boards of directors and senior management teams.

The Problem

As of 2018 in the banking industry, women held just 40 CEO positions at U.S. public banks, representing only 4.31% of all bank CEOs. Despite several shareholder resolutions demanding greater diversity in public company leadership, the number of women bank CEOs only grew by two people between 2013 and 2018. Additionally, most female CEOs lead banks with less than $1 billion in assets.

Percent of Women in S&P 500 Finance Industry



A variety of research has shown that while women and men enter the financial industry in roughly equal numbers, the number of women shrinks by nearly half at the middle-management level. Having fewer women in middle-management roles or higher means that fewer qualified women are available to later serve in senior leadership roles. Furthermore, according to a "Women in the Workplace 2019" study by McKinsey & Co. and Leanin.org, women are less optimistic about their opportunity to advance, and many feel steered into support roles or that they have been hired into entry-level positions with limited upward mobility.

'Board Diversity Trickles Down'

Studies have shown a positive correlation between the number of women on a company's board and the number of women holding senior positions at the company. According to the Peterson Institute, the presence of women on boards correlates strongly and positively with the presence of women in executive ranks. This correlation reinforces the necessity for banks to recruit women to their boards and into C-suite positions, and highlights the importance of creating a pipeline of female managers.

According to McKinsey & Co., companies with more than three women in senior management score higher on average across nine categories of organizational excellence than banks with no women in senior management. Performance increases significantly once companies reach a critical mass (around 30%) of women in top leadership roles. Companies with a higher percentage of women on their management committees are also the companies with the best performance. This research demonstrates the business case for professionally developing and then promoting women into the management talent pipeline at all levels.

More specifically, bank performance is positively correlated with having women in leadership roles. A Federal Reserve study found that banks perform better once they reach a critical level of board diversity. The relationship between bank performance and gender diversity becomes positive as the share of women on the board increases:

- **Efficiency:** Revenue and expense ratios increase once share of women on boards reaches around 17%
- **Profitability:** Return on assets increases once share of women on boards reaches around 13%
- **Risk-Adjusted Profitability:** An institution's Sharpe ratio—a measure that indicates the average return minus the risk-free return, divided by the standard deviation of return on an investment—increases once the share of women on the board reaches around 20%

Firms with female CEOs and/or CFOs also saw superior stock price performance compared to the market average. In the 24 months post-appointment, female CEOs saw 20% increase in stock price momentum and female CFOs saw 6% increase in profitability and 8% larger stock returns.

In addition, investors in companies with more gender equality in the top ranks believe those companies are more likely to innovate and less likely to attract negative regulatory attention. And when companies in the financial sectors voluntarily disclose gender diversity figures that are better than expected, stock prices go up.

Best Practices for Boosting Gender Equality

The business case is clear that financial institutions should work toward building more diverse and inclusive boards and senior management teams. While a significant amount of progress is yet to be made, banks can continue working to move more women into board director and senior leadership positions by following these best practices:

- **Create sponsorship opportunities**. Mentorship occurs when a senior leader advises their protégé; sponsorship occurs when a senior leader promotes their protégé to others. Sponsorship accelerates career advancement since employees with sponsors are far more likely to say they have opportunities to grow and advance. Women are typically over-mentored and under-sponsored throughout their careers. Board members and C-suite executives should identify talent at all levels and be open to sponsoring high-potential women and not exclusively sponsoring men.
- **Use gender-neutral wording in position descriptions**. Women tend to not apply for positions that use masculine-coded language since this is an indicator that a woman would not be successful in seeking the position. Be judicious in listing the skills and abilities required for the job, as compared to preferred skills, and limit the number of requirements. Computer software can analyze the position description and flag gendered terminology such as ambitious, competitive, decisive, fearless, driven, etc.
- **Advertise roles outside of the "usual" channels or networks**. Qualified female candidates may emerge through latticed career paths instead of traditional linear career paths, have made their career in a different sector of the financial industry or worked solely in finance but for companies outside the financial sector. Broadening the search for qualified candidates will ensure a more diverse slate.
- **Follow the Mansfield Rule**. The Mansfield Rule is the evolution of the Rooney Rule: instead of interviewing one candidate from an underrepresented group, which resulted in tokenism, the slate of candidates should have two or more women. When two or more candidates from the same underrepresented group are on the interview slate, their gender is no longer a barrier to equal consideration.
- **Prime interview panels, performance reviews and promotion reviews**. Establish clear and specific evaluation criteria before the review process begins and use a structure interview process. With the skills for the position uppermost in the thoughts of the reviewing panel, gender is less likely to become an unconsciously disqualifying criterion.
- **Practice objectivity**. Use objective criteria for assessing skills and abilities when reviewing a diverse slate of similarly qualified candidates for leadership positions. For example, the discussion of candidates should center around whether an individual possesses the skills needed for the position.

- **Remove bias.** Train evaluators on understanding and recognizing unconscious bias. Reviewers should have an awareness of both positive and negative stereotypes around gender, race and age; they should also be made aware of successful women on other bank boards and in C-suite positions; and they should have personal knowledge of what their own biases might be.

- **Cultivate and assign interrupters**. Designate an individual or individuals involved in the candidate review process to call out bias when they see it. For example, if one interviewer makes a comment about a female candidate's appearance, the interrupter would advise the rest of the panel to disregard this comment as biased and refocus the panel on the candidate's skills.

As banks seek to recruit qualified talent, Bank on Women, Inc.—a nonprofit organization dedicated to educating the community banking industry on the importance of adding women to the board and C-suite—is working to build a database of potential director candidates. This resource can assist recruiters in developing diverse candidate slates for banks.

A $700 Billion Opportunity

As banks work toward addressing the gender gap within their own institutions, it's also a good idea to evaluate how they are serving women customers. Women are business owners and job creators. Women-owned businesses are growing at rates that far exceed male-owned businesses. This creates a lending opportunity for banks, especially since female business owners report that their greatest challenges are lack of capital and cash flow.

The pace of business creation in the last year is the fastest since 2002: 1,821 net new women-owned businesses were started per day between 2017 and 2018. Employment at women-owned businesses is up 21% over the last 11 years, while employment at all businesses is down 0.8% for the same period. Women-owned businesses employed 9.2 million employees in 2018.

Research suggests that growth in employment revenues begins to surge among women-owned businesses when they reach $250,000 in revenues. Supporting businesses on the cusp of crossing this threshold or who have crossed it would accelerate the growth of larger women-owned businesses.

On the consumer side, women make 85% of the consumer decisions in their households and provide the primary income for greater than 40% of U.S. households. This presents core deposit and fee income opportunities for banks. And with a significant generational wealth transfer expected to occur in the years ahead, wealth management fees create another income opportunity for banks.

In all, the potential for $700 billion in growth in deposit accounts from women represents a substantial opportunity for banks to market their products and services to women and ensure that they have boards and senior management teams in place that understand the financial needs and challenges of women consumers.