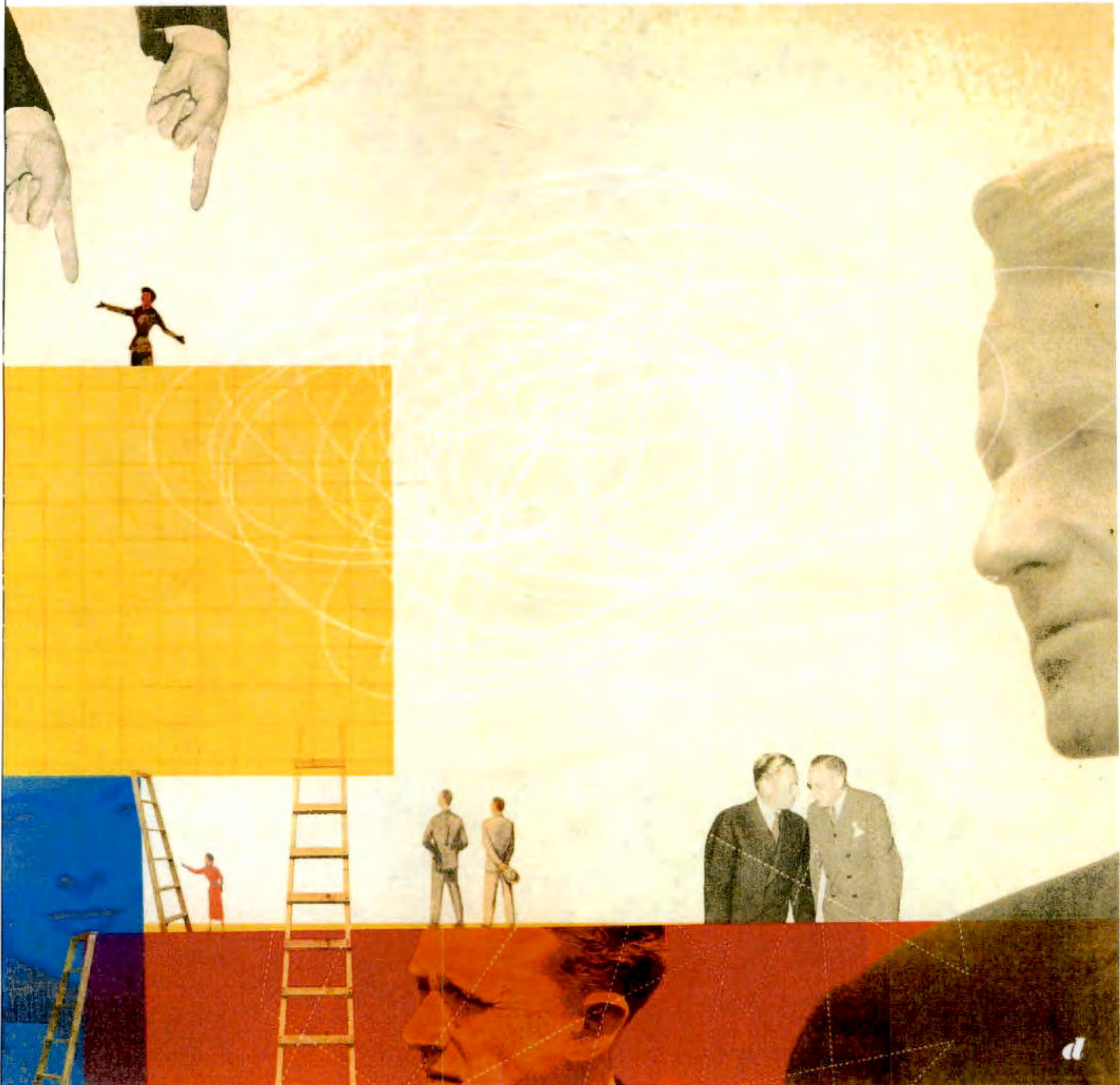
IS THE STOCK MARKET SEXIST?

Inherent market bias is one of the factors keeping women off corporate boards–until someone has to take the fall. Welcome to the Glass Cliff.

BY KATIE GILBERT
ILLUSTRATION BY DAVID VOGIN

In a spiral notebook dedicated to lists of her short- and long-term goals, Judi Spaletto tidily records her three-, five-, and 10-year plans. She knows what she wants from her career, and it has largely worked for her–until one day, three years ago, when she decided she wanted to join a corporate board of directors.

Over the past 20 years, Spaletto has held upper-management positions in the



Chicago offices of three Fortune 500 companies. She holds a Ph.D. from Argosy University (where her research focused on Big Data), she teaches in the Lake Forest Graduate School of Management, and she sits on the boards of four non-profits. She is more than sufficiently prepared to join a corporate board of directors, the group that helps determine a company's strategy and advises its executive team. But Spaletto has come to learn that the route into many directorship positions—"Joe asks his friend Dave from the golf course," she quips—eludes her well-honed powers of planning and dogged persistence.

Look at it one way, and the fact that Spaletto is a woman might have been considered an advantage in her search for a boardroom position. Studies suggest that boards that include women tend to ask more questions before making big decisions, are less likely to overhype performance in statements to investors, and pay lower bid premiums for their acquisitions. But in practice, bias against women in corporate leadership positions makes it difficult for women to ascend to companies' upper echelons—with one notable exception:

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when those companies are about to falter. Given the predictability of these gender patterns and the glacial pace of progress in the other direction, several countries have acted in the last decade to enforce mandatory quotas, aiming to create something closer to gender equality within corporate boardrooms.

The hunt for a directorship led Spaletto to apply to attend a seminar offered by Boardroom Bound, a national organization that offers programs to improve board inclusion and maintains a National Candidate Database of boardroom-ready individuals, including women with credentials so compelling they couldn't possibly be passed over for board appointments in favor of men.

Yet they are, consistently and disproportionately. Among public companies in the United States listed on the S&P 500, only 19 percent of directors are women. Worldwide, women hold 17.3 percent of directorships, according to an analysis by Morgan Stanley Capital International of the more than 1,600 companies listed in the MSCI World Index.

Spaletto was looking for a board seat; instead, she found many women who share her frustration. In June 2014, she launched the Chicago committee of 2020 Women on Boards to help push for 20 percent female board representation. Starting last summer, Spaletto spearheaded a campaign to pass a resolution making Illinois the second state in the country, after California, to urge its public companies to appoint specific numbers of female directors. The resolution passed the Illinois House in May.

These feel like wins, but they fall short of extirpating the long-rooted bias against women in corporate leadership. These roots wind through corporations and drive deep into the throngs of investors who help move share prices. Several studies indicate that investors punish companies by selling stock when women are brought on board.

In a 2011 paper published in the *North Carolina Law Review*, Harvard sociologist Frank Dobbin and then-Harvard Ph.D. candidate Ji Wook Jung showed that, between 1997 and 2006, institutional investors like banks and investment firms tended to sell shares in the 400 U.S. firms the researchers tracked after women were appointed to their boards. The researchers found no link between female director appointments and actual company profitability, and concluded that unconscious bias was to blame. Similarly, a group of psychologists from the University of Exeter in the United Kingdom published a study in 2010 revealing that, among the 100 companies with the highest market capitalization on the London Stock Exchange between 2001 and 2005, companies with all-male boards enjoyed a 37 percent boost in stock valuations relative to peer companies where there was at least one woman director. Again, the researchers found no objective performance gaps between these groups of companies, and blamed the behavior on widely held prejudice.

A 2012 study from business and finance professors at Exeter and the University of Bath analyzed the market's reaction to news that U.K. company directors planned to trade their own shares—typically important news for investors—and found a muted reaction when the seller or buyer of the stock was a woman. (This despite the researchers' finding that female directors' trades ultimately offered the better stock tips.)

Investors seem to assume that board directors come in one default setting—male—and any deviation from that norm feeds a perception in the market that something's wrong at a company, explains Alex Haslam, one of the psychologists from the University of Exeter who published the 2010 study. (Haslam is now a professor of social and organizational psychology at the University of Queensland.) Tangled up in that bias may be a warped bit of truth: Haslam and his co-author Michelle Ryan have shown in various studies that women are more likely to be appointed to leadership positions that carry an increased risk of failure. In their research, the only time study subjects were more likely to favor a

woman's résumé over a man's was when the hypothetical position involved heightened levels of crisis. For real-life examples of what they've termed the "glass cliff" in action, Haslam points to the tenures of Carly Fiorina at Hewlett-Packard, Mary Barra at General Motors, and Jill Abramson at the *New York Times*. For a 2015 example, see Ellen Pao's resignation at Reddit.

It's possible some investors recognize that a woman's appointment to a leadership position may hint at pre-existing trouble within a company. But even a hyper-perceptive market understanding of the sexist dynamics within companies wouldn't explain the degree of bias that researchers have uncovered.

"Our paper shows that the short-term market reaction can really be taken for what it is, because it really just reflects a bias that the markets have," says Rajesh Tharyan, a professor in the Center for Finance and Investment at the University of Exeter and one of the co-authors of the 2012 study. "Even the so-called smart money seems to have this gender bias."

Over the past several years, a growing list of countries has determined that quotas mandating gender diversity on boards are the most straightforward corrective to the corporate world's underrepresentation of women—and to endemic market prejudice. In 2003 Norway became the first country in the world to roll out such a law, requiring that 40 percent of its publicly traded firms' directors be women; when Norway implemented the law, a mere nine percent of directors were women. Since then, Belgium, Finland, France, Germany, Iceland, India, Israel, Italy, Kenya, Quebec, and Spain have passed quotas of their own.

In 2008, when Norway started enforcing the quota aggressively, the business world began responding positively. In the winter and spring of 2011, Aaron Dhir, an associate professor of law at Osgoode Hall Law School of York University, checked in with directors of Norwegian corporate boards to see how they were faring post-quota. Over the course of 23 in-depth interviews, Dhir learned that early resistance to the law had largely given way to general acceptance, even praise for the quota's positive influence on boardroom discussions.

Corporate Leader: Judi Spaletto's gender might have been considered an advantage to companies looking for new board directors if not for widely held prejudices against women on the corporate scene.

PHOTO COURTESY OF JUDI SPALETTO

"There was a real sense that the quota had had this broader social effect by redistributing power in Norway," says Dhir, who in April 2015 published his findings in *Challenging Boardroom Homogeneity*. "Before the quota, board directors in Norway were selected largely as they are in other places—by tapping into existing social networks of board members, and those networks tended to be male and closed to out-group members. Because of the quota, there was no choice but to break out of those existing networks."

Dhir believes that the legal response was necessary to effect the shift toward more diversity, and that voluntary initiatives don't provide the force necessary to counter the implicit biases in the market and within companies. Tharyan echoes Dhir, adding that enforced gender diversity could undercut the present prejudice: If women weren't as anomalous in companies' top levels as they are today, the market would cease panicking at each female board or executive management appointment as though it were a yeti sighting. Gender could fade into the background in trading decisions.

In the U.S., gender quotas à la Norway aren't likely given the constitutional and political barriers they would face. That said, U.S. regulatory bodies don't shirk the boardroom diversity discussion altogether: Since 2010, the Security and Exchange Commission has required public companies to annually disclose how they consider diversity in their board nomination processes.

But in writing this rule, the SEC declined to define "diversity." In Dhir's examination of financial statements from a sampling of the country's largest companies over the rule's first four years, he found that they included socio-demographic factors (gender, race, and ethnicity) in disclosures on board diversity only half the time. "Mostly, they were defining diversity in terms of a director's prior experiential background," Dhir says. He argues that, as they stand, the SEC rules only hurt gender equality, because they offer corporations the moral license to consider their gender-, race-, and ethnicity-free definitions of diversity complete. His suggestion: Re-write the SEC's diversity definition with these factors included, and require companies to explain in their annual statements why their boards aren't more diverse if they persist as primarily white and male.

Still, a tweak to SEC disclosure rules isn't likely to provide the disruption these researchers say is needed to curb the deep biases women face in the corporate world. As one of Dhir's interviewees, a female Norwegian public board director, put it to him: "If ... a new category of society shall be given power, someone will have to give away that power.... And that is not an easy thing to do."

KATIE GILBERT is a freelance writer based in Chicago. **@KT_GILB**

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