VOTING FOR MEDIOCRITY

A CASE STUDY OF DIRECTOR VOTES IN THE ALTERNATIVE DEMOCRACY

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THE (DORMANT) ALTERNATIVE DEMOCRACY

Directors are the front line for shareholders in the fight against management overreach, overspending, and overconfidence. Where management's job is to play offense, constantly seeking (and constantly incentivized to seek) growth—often at any cost—the board's role is to be the coach and play defense, avoiding the overspend and sidestepping the constant landmines of capital markets and general existence. Every year in the "alternative democracy" that is proxy voting, shareholders amass their share leverage to hire, rehire, or fire these stewards of their capital, the defenders of value. Those investors are discerning and thorough, doing deep research into which teams are best suited to represent the trillions of dollars of interest they have in these companies with the goal of generating even more value with the least amount of downside risk or impact.

Or, alternatively, they just vote for every director that management puts forward.

The average vote in 2023 in favor of electing directors globally was 95%. **There is no more certain rubber stamp than being nominated for a publicly traded company's board of directors.** To put that in context, a YouGov poll of millennials found that only 66% firmly believe the Earth is round.[1] A 2021 survey by the University of New Hampshire Casey School of Public Policy found 12% of respondents thought the moon landing was faked.[2] And yet, somehow, **more investors agree that directors today are right for their jobs than the number of people who agree that the Earth is round, or the moon landing was real.**

Even when faced with below average company performance (much less human performance), investors chose to emphatically hire or rehire directors. A paper by Cai, Garner, and Walkling from 2008 titled *Electing Directors*[3] sums it up empirically:

> While director and firm performance affect how shareholders vote, the resulting differences in the level of votes is trivial. In general, the differences in votes are statistically significant but economically minor. At both the firm and director level, votes exceeding 90% are the norm even for poorly performing firms and directors.

In fact, even when investors choose to buy data from ISS or Glass Lewis, it barely puts a dent in investor euphoria over nominees for directorships. The same paper found the only impact on votes were negative ISS recommendations or directors who attend less than 75% of board meetings, but even those impacts were negligible:

> Nevertheless, lower levels of votes appear to have little impact on the election of directors themselves or any change in firm performance. Directors also do not appear to suffer reputational effects from low votes.

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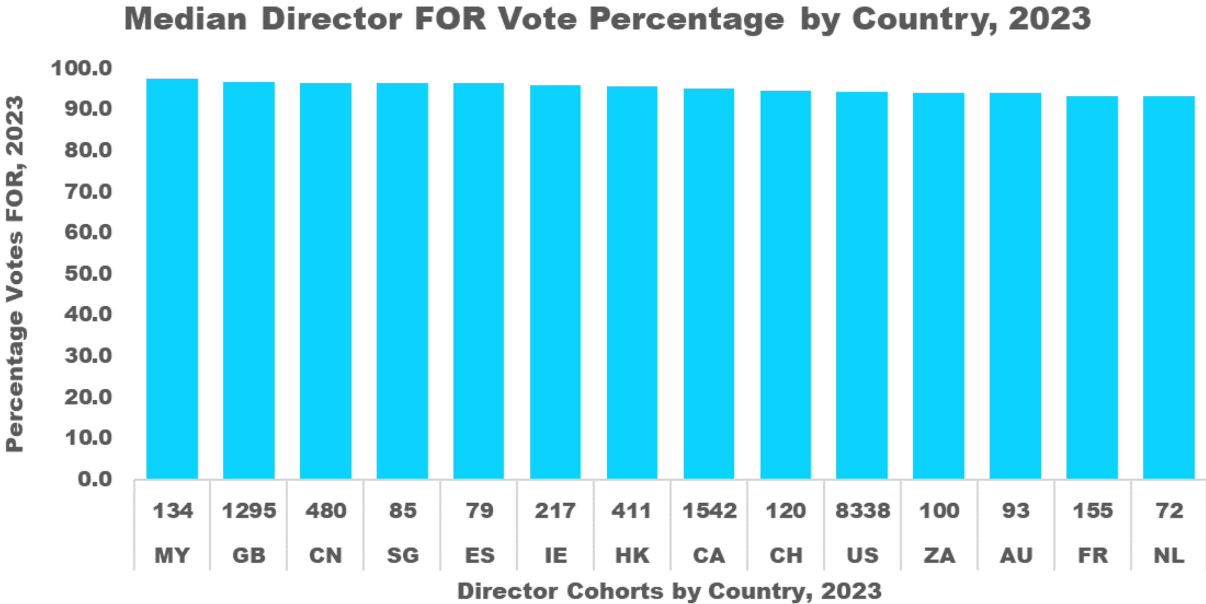
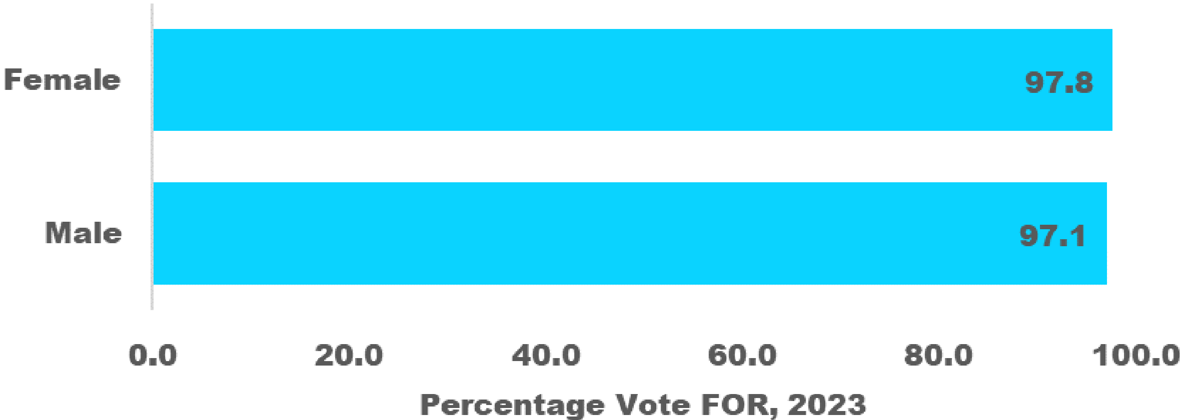
[1] https://blogs.scientificamerican.com/observations/do-people-really-think-earth-might-be-flat/
[2] https://carsey.unh.edu/publication/conspiracy-vs-science-a-survey-of-us-public-beliefs
[3] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1101924

Consider this: in what other career can you *demonstrably underperform* and not only have no reputational damage from your employer (shareholders), but *continually be rehired for the job*?

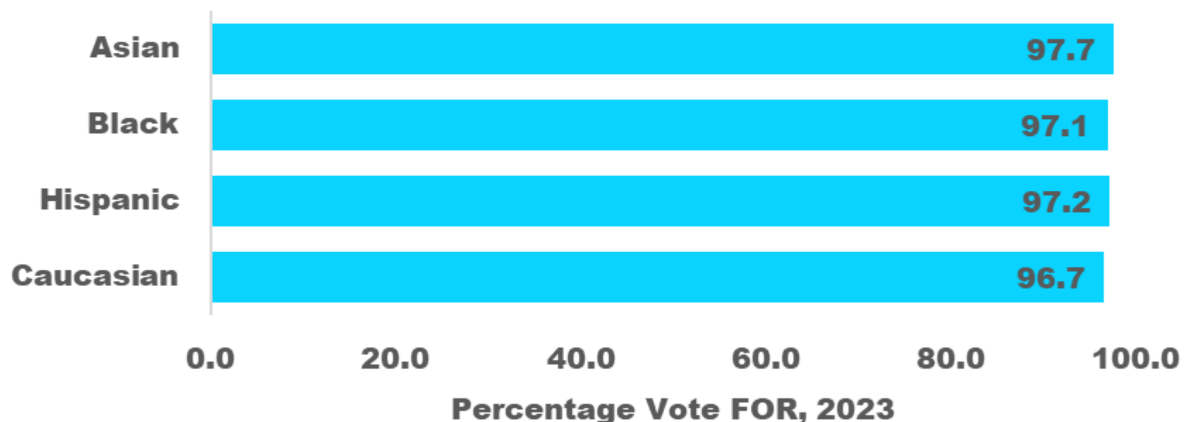
What we call "director fetish" is not just a US issue; it's truly a global phenomenon in which directors are rubber-stamped. For countries with at least 50 director votes in 2023 in our data, the median votes FOR ranged from nearly 93% to 98%.



Director Fetish goes beyond country and demographics. It remains true for gender:



And it remains true for race and ethnicity where we have data for S&P 500 companies. (This excludes a Middle Eastern cohort as there were only 3 individuals tagged.)



Put bluntly: color, creed, and nationality are irrelevant because mediocrity in directorship is celebrated everywhere. There was no intersectional or demographic data set we possessed where the story wasn't the same. Whether or not they were CEOs, chairs of committees, or directors with or without university pedigrees or advanced degrees—even whether or not they were highly interconnected with one another: none of these criteria had any bearing on votes. The lowest median vote FOR share was still greater than 90% and, in most cases, greater than 95%.

Garrison Keillor sums up the investor votes for directors with his sign off from his fictional town of Lake Wobegon:

> That's the news from Lake Wobegon, where all the women are strong, all the men are good-looking, and all the children are above average.[4]

To the extent this is a problem, it may be an economic one. Nearly half of assets under management in 2023 are passive, and Lund summarizes in her paper, *The Case Against Passive Shareholder Votes*, what is likely the largest underlying barrier to alternative democracy entry for passive investors:

> Governance interventions are especially costly for passive funds, which do not generate firm-specific information as a byproduct of investing and thus must expend additional

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4 https://www.pbs.org/newshour/show/40-years-counting-inside-garrison-keillors-fabled-world-prairie-home-companion

> resources to identify underperforming firms and evaluate interventions proposed by other investors. Such expenditures would undo the cost savings that attracted investors to the passive fund in the first place.[5]

The irony in this short-term disincentive to consider governance intervention, as Lund suggests, is that it ignores human longevity. The average director at a large cap company in the US sits on the board for 7 years, but the average director active today has accumulated 11 years of board service across *all* boards. In fact, the average director that has multiple board seats tends to get rotated **for at least 14 years** in the US. The economics would suggest that passive investors are willing to trade the short-term marginal cost of due diligence and research for an *on average 14 years of performance risk* of the people they hire as fiduciaries.

Case in point: in 2023, 3M settled with the US government for knowingly providing faulty earplugs that resulted in hearing loss for military personnel.[6] The company sold those earplugs between 1999 and 2015, and the board that would have overseen the approval of the contract would have existed 24 years before 3M was forced to settle. That board, in fact, included directors like Rozanne Ridgway, an ex-Reagan ambassador. Ridgway overlapped with a director at Boeing (previously McDonnell Douglas), Ken Duberstein. Both were nominating committee members (or chairs), and both sat on boards together. Both leveraged the same circle of people on their boards; for instance, Ed Liddy was put on the 3M board in 2000 and the Boeing board in 2010. None of the directors in this small circle saw anything less than 90% approval from directors, but the costs associated with them over time were significant. 3M earmarked $6 billion in settlement costs for faulty earplugs, and Boeing has paid more than $20 billion in settlements, lost revenue, and remediation[7] since the MAX 8 planes crashed in 2018. The implication here is: Would a different board without conflicts have done better?

It goes beyond interlocks. Poor performing directors can and do exist in director circles for long periods of time, which means directors face a two-pronged problem they have, to date, elected to ignore:

1. Directors are not held accountable for performance over time, and;
2. Short-term sensitivity to governance costs can become a long-term shareholder value loss.

Today, the data does exist, at a minimum, to solve for the first problem, and potentially the second. This paper will first define the method used by Free Float Analytics in determining performance attribution for individual directors. Then, we can answer the question of which directors (and director teams) could or should be targeted by investors as underperforming across multiple performance measures, including individual performance attribution, team performance, and team compositions that maximize risk-adjusted decision-making.

So which directors *should* be targeted if investors were to vote on performance?

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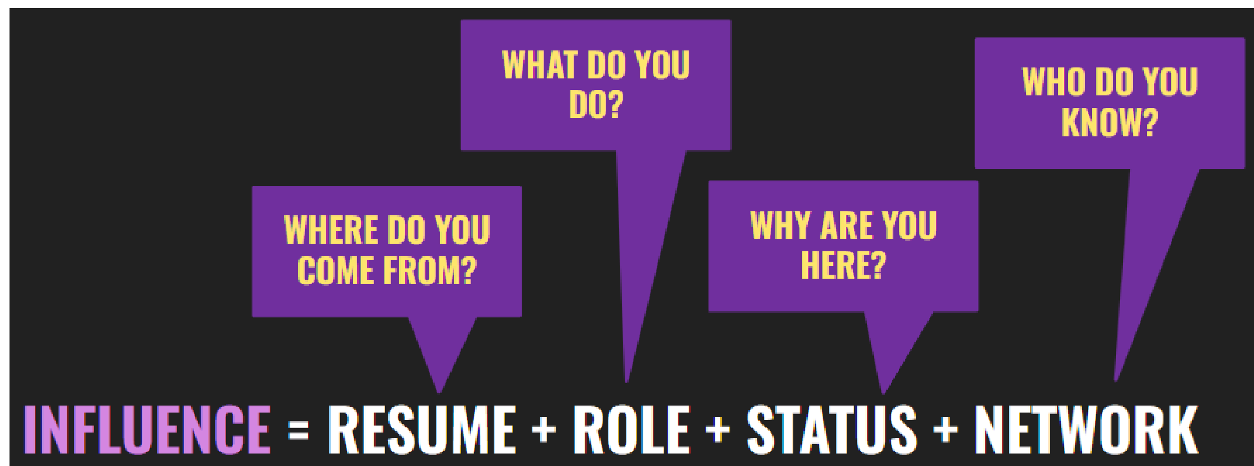
[5] https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=13741&context=journal_articles
[6] https://www.reuters.com/legal/3m-co-agrees-pay-6-billion-earplug-lawsuit-settlement-2023-08-29/
[7] https://www.bbc.com/news/business-63003632

❶ PERFORMANCE ATTRIBUTION

Free Float Analytics uses a two-step approach to measuring and understanding director performance. Before we can understand how a director performs, it is first necessary to understand how much power they have in the boardroom. Performance attribution of company outcomes is possible once you know who's more (or most) responsible for decisions in the first place. We summarized our approach to influence and power in our paper *The Glass Ceiling in the Glass Ceiling,*[8] and the methodology[9] for this is publicly available, though it bears some repeating.



Free Float Analytics solves this problem by pulling from a wide range of academic research, from Finkelstein's *Power in Top Management Teams: Dimensions, Measurement, and Validation*[10] to Trzebiatowski's *The Double-edged Nature of Board Gender Diversity: Diversity, Firm Performance, and the Power of Women Directors as Predictors of Strategic Change*[11] to primatology[12] (how alphas are identified by ape populations), and combining it with sports analytics[13] to create a way to measure how influential each individual director is on a given

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8 https://static1.squarespace.com/static/63bda06aa7d1cd557889265b/t/64be9176abb7cb08b7de97a3/1690210678986/The+Glass+Ceiling+in+the+Glass+Ceiling.pdf

9 https://static1.squarespace.com/static/63bda06aa7d1cd557889265b/t/649b1307f10b6b19ce9066b9/1687884556577/Free+Float+Analytics+Methodology+2023+v1.0.pdf

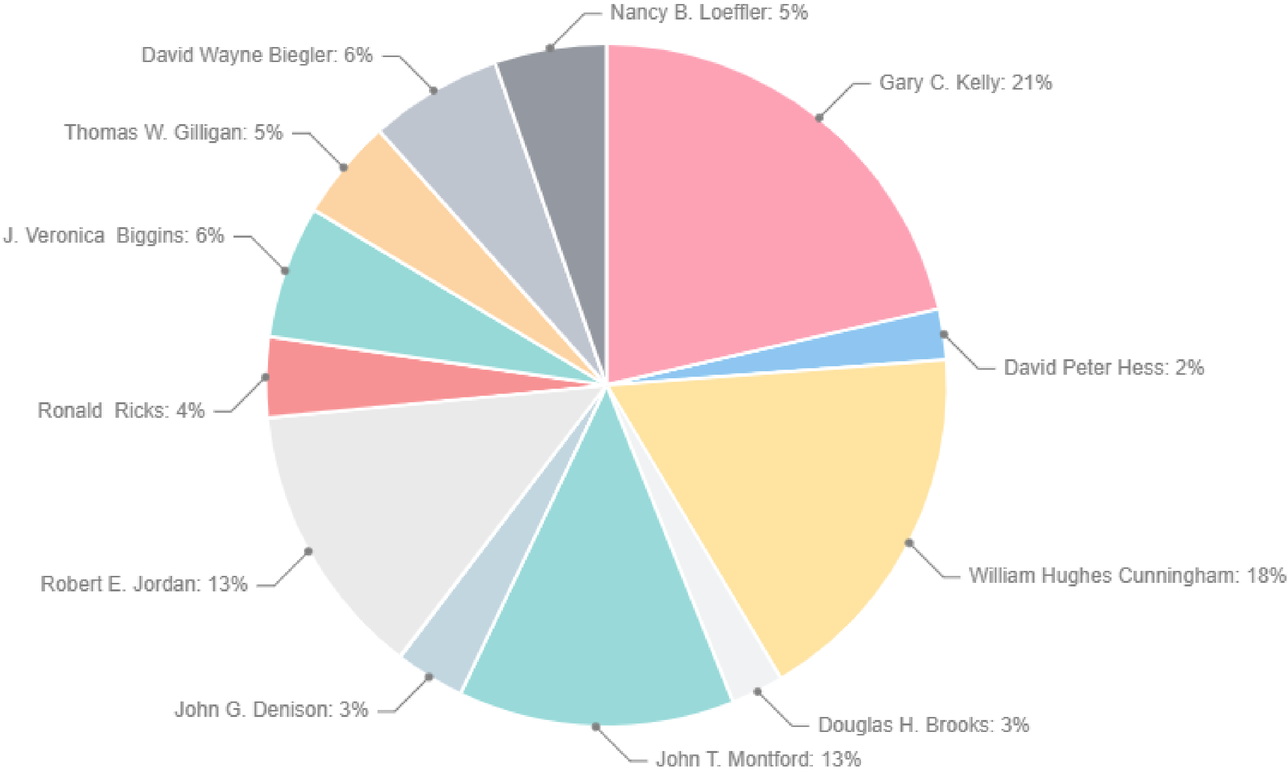
10 https://pubmed.ncbi.nlm.nih.gov/10120413/

11 https://www.jstor.org/stable/43663431

12 Like Andrew J.King, Caitlin M.S. Douglas, Elise Huchard, Nick J.B. Isaac, Guy Cowlishaw; Dominance and Affiliation Mediate Despotism in a Social Primate. 2008. https://www.sciencedirect.com/science/article/pii/S0960982208014176

13 Like those created by Bill James, https://sabr.org/sabermetrics

board in a given year. Free Float Analytics uses elements of power: resume, status (as, say, a large shareholder or an insider), role, and social network, plus a version of Bill James' "win shares"—a measure of an individual player on a team's contribution to a win—to create a system to estimate power dynamics in the boardroom. Essentially, Free Float Analytics does the "cachet accounting"[14] across the lifecycle of a director: how they got there, their expertise, their lineage with the company, and the titles they hold. "Wins" are assigned to more than 200,000 directors at 9,000 publicly traded companies across 30 different data points in order to estimate who is responsible for decisions made in this boardroom.

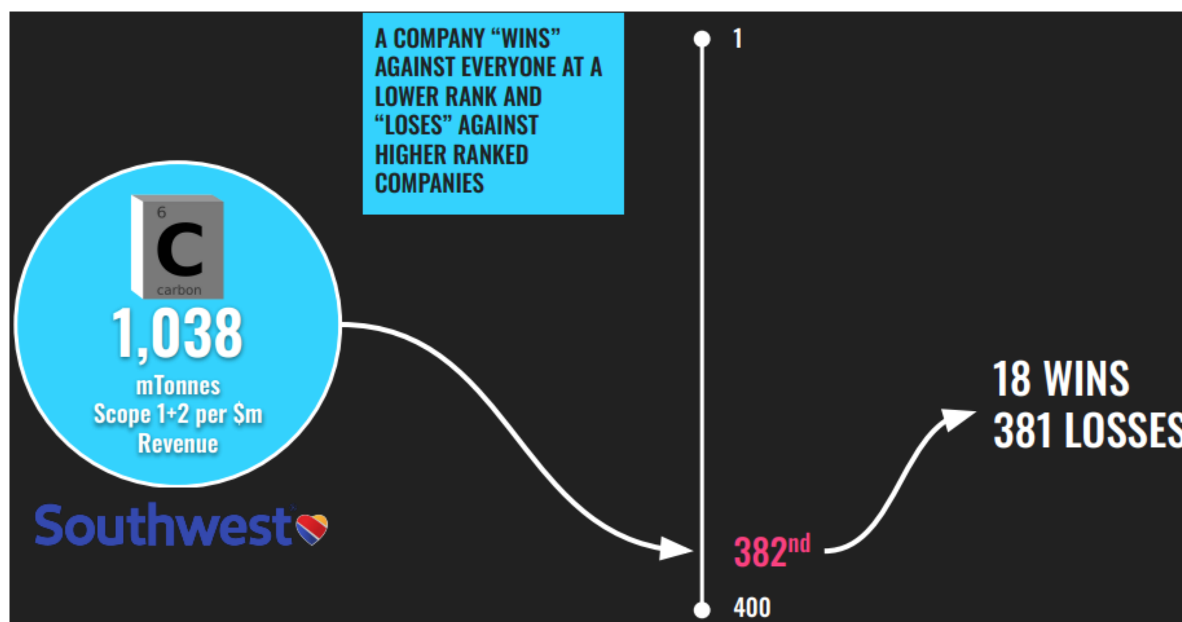


The final results look like the chart above for Southwest Airlines in 2022[15]; for every permutation of the board team, we can split the decision-making pie. We use these percentages of influence to parcel out "responsibility" for company outcomes in that year. For instance, Bill Cunningham on the Southwest Airlines board has 18% influence in 2022, therefore we can assign him 18% of Southwest's performance for anything from total shareholder returns to carbon emissions to share buybacks.

To make performance metrics both comparable and uniform across multiple years, multiple industries, and multiple market contexts, Free Float Analytics uses a simple process. Companies are force ranked against industry peers of a similar size by market capitalization for each metric. For instance, if Southwest Airlines has 400 large cap peers in the Industrials

[14] The full methodology is available here: https://www.freefloat.llc/methodologies-faq
[15] https://www.freefloatanalytics.com/company/2157615/APPLE%20INC.

sector, we can rank them on something like carbon emissions intensity (in this case, scope 1 and 2 emissions per million USD in revenue). Southwest ranks 382 out of 400, producing more carbon per million USD in revenue than 381 peers. Free Float Analytics considers Southwest to have "won" (emitted less carbon) against only 18 peers, and "lost" (emitted more carbon) than 381 peers.



We can now parcel out those wins to directors. Bill Cunningham, in this case, would get 18% of both the 18 "wins" and 381 "losses" for 2022 (equivalent to 3 wins, 69 losses). For sectors with more (or fewer) company peers, we'll normalize the value of a "win" so that every sector and size permutation has the same win value. But now we can start adding wins and losses across multiple years, multiple boards, and multiple sector/region permutations based purely on ranked performance. Cunningham has been on the Lincoln National Corporation board concurrently with Southwest for the last five years, and when we add in the "wins" and "losses" for both Southwest and Lincoln, we can estimate Bill Cunningham's individual performance below. **Performance hovering between 0.600 and 0.400 suggests that the director is basically average everywhere they've been, and directors over 0.750 or below 0.250 are dramatically over or under performing.**

Year	AVE TOTAL INFLUENCE	EBITDA	CARBON INTENSITY	TSR	CONTROVERSIES
2023		0.216	0.396	0.253	0.307
2022		0.216	0.396	0.253	0.307
2021		0.239	0.929	0.277	0.386
2020		0.287	0.929	0.238	0.534
2019		0.407	0.923	0.232	0.550
2018		0.442	0.917	0.116	

2 CREATING VACANCIES

Given that performance metrics for individual directors exist, investors actually have the power to "create vacancies," making directorships available for purpose-fit directors going forward. The exercise is simple: find an "overweighted" cohort of directors that demonstrably conflicts with fiduciary interests (for instance, "too many insiders on the board") and identify the bottom performers inside it. There are endless permutations to this exercise depending on an investor's thesis of fiduciary duty. An investor could create vacancies on boards that are heavily weighted toward insider influence. An investor could focus on boards that are stocked with directors who tend not to approve share buybacks. Or investors could simply Jack Welch the director universe, firing the bottom 10% of director performers. For the purposes of this paper, we'll look at three semi-arbitrary, but potentially valuable, case studies. As a rule, we'll only focus on global large cap companies without dual class or controlled situations to avoid the fairy tale that an investor can really influence a "fake public" company like Meta or Alphabet. Instead, we propose the following:

1. **The Veteran/Rookie Balance**: There's no investor that would say they *don't* want an experienced veteran on the board. There's also no investor that would be happy with "this is the way it's always done" as an answer to things like decarbonizing the economy, working with modern labor forces, AI and new technology, or just adjusting to new market realities. Similarly, a rookie-filled board may lack the muscle memory and institutional knowledge in dealing with investors or strong management teams. While balance may look different in different contexts, *imbalance* can clearly be a problem. First, we identify veteran and rookie directors and the companies at which there is an

influence imbalance. Then, we focus on the weakest TSR performers inside those cohorts as candidates for creating directorship vacancies.

2. **The Handshake Break**: What percentage of directors should know one another? Golf with each other? Go to galas together? Research suggests that groups that know each other are less likely to dissent,[16] so imagine a company where a dominant personality wants to commit borderline fraud and is surrounded by friends. Tolerance is antithetical to fiduciary duty. We identify directors who are interconnected through two or fewer phone calls (the "friends of friends") and find companies where the strongly connected directors have outsized influence. We then focus on creating vacancies where directors have the lowest performance on controversial business activities (overseeing companies with high levels of negative news).

3. **The Diversity Remix**: The hand wringing in a post-white male powered world is often centered on the idea of "reverse racism" and the "meritocracy." Strive Asset Management made this the centerpiece of their ETF products in their stance to vote on merit, not skin color. This notwithstanding that there is evidence that adding diverse bodies to the room doesn't necessarily change influence (see our paper *The Glass Ceiling Inside the Glass Ceiling*[17]). We take the premise of meritocracy head-on by proposing to focus on elevating highly qualified, tenured women to influential roles from within boards on one hand, and cutting the men who underperform on the other.

Veteran/Rookie Balance

Sports teams struggle with the balance between young, unproven star potential and grizzled veterans, particularly for winning teams. How long do you keep a proven winner around before they are out of step with the game? How many rookies are too many? There is clear evidence from both sports[18] and board rooms[19] of the value of having balance between rookies and veterans. In fact, Kang, Kim, and Low found in their paper *Rookie Directors* that "firms appointing first-time independent directors experience an increase in firm value."[20] The question isn't necessarily "what is the right balance?" which is highly prescriptive. The question is "where is the *imbalance*?"

Out of nearly 73,000 active directors globally, about 10,000 of them are directors sitting on large cap, non-controlled boards (14%) in approximately 11,400 board seats. Among those directors, we identified rookies and veterans.

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[16] CITE
[17] https://static1.squarespace.com/static/63bda06aa7d1cd557889265b/t/64be9176abb7cb08b7de97a3/1690210678986/The+Glass+Ceiling+in+the+Glass+Ceiling.pdf
[18] https://journals.sagepub.com/doi/abs/10.1177/1527002512462583
[19] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2800853
[20] Ibid

PROCESS AND FILTER

Rookies were defined as a person who:

- Has held no more than one board seat in the last five years;
- Has not been a CEO before or currently;
- Has had a cumulative tenure of three or fewer years.

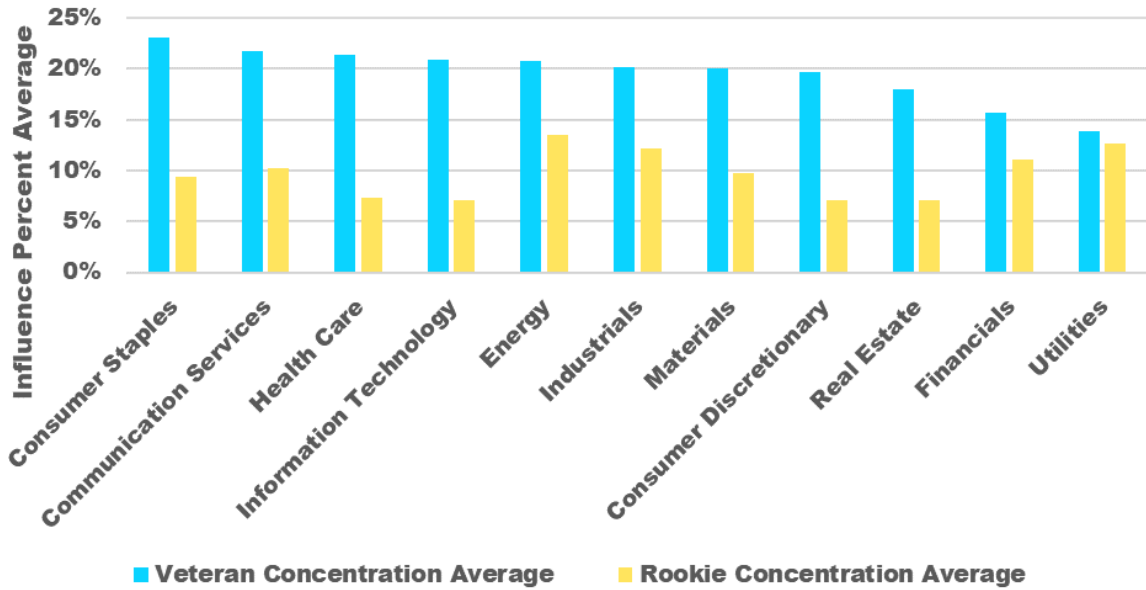
There were just under 2,100 "rookies" active on boards as of April 2023 (21% of large cap non-controlled boards). Only 25% of rookies either went to an elite school (defined as a top 100 global school as ranked by US News and World Report) or got an advanced degree. Rookies were overwhelmingly male (72%) and much younger than the average board member at an average of 57 years old.

Veterans were defined as a person who:

- Has held at least three board seats in the last five years;
- Has had a cumulative tenure of at least 10 years across all board seats held in the last five years.

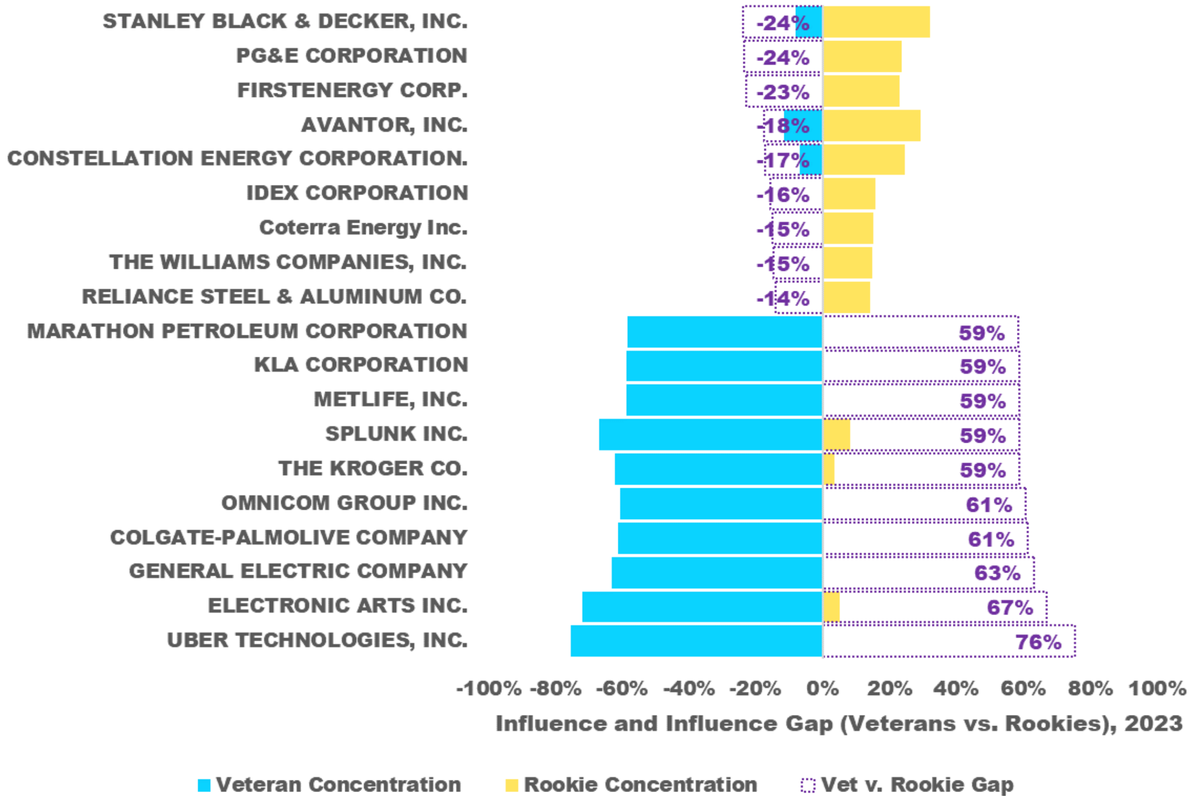
There were 1,248 directors out of 10,086 (12%) who, on average, across their entire board careers, had a cumulative 21 years of board experience.They tended to be highly influential with 19% influence on average. Nearly two thirds (63%) were male, averaging 65 years old. The majority (75%) of these directors have advanced degrees, nearly half of which were from elite schools, and 60% have been or are currently CEOs.

Veterans have been around the block. Only one in two rookie directors were connected inside two degrees (friends of friends) to other directors at boards on which they sat. On the other hand, every veteran, knows *on average* 1 or more directors on every board on which they sit. Veterans clearly travel in packs. That said, of the 1,018 companies globally we included, the average distribution of veterans and rookies was nearly even at 17% veterans and 18% rookies. The implication here is that investors–or management–understand the need for refreshment and balance, maintaining fresh ideas and directors across the portfolio. The result, though, unlike in sports, is a mismatch in influence, with veterans controlling on average 11% influence and rookies controlling 5% influence. Rookie athletes can prove themselves on the pitch; rookie directors are generally relegated to the bench. The Seniority Effect varies by industry, and in industries that might seem intuitive for younger, fresher blood (Information Technology), it's actually staid, highly regulated Utilities who have the lowest imbalance between rookies and veterans, on average.

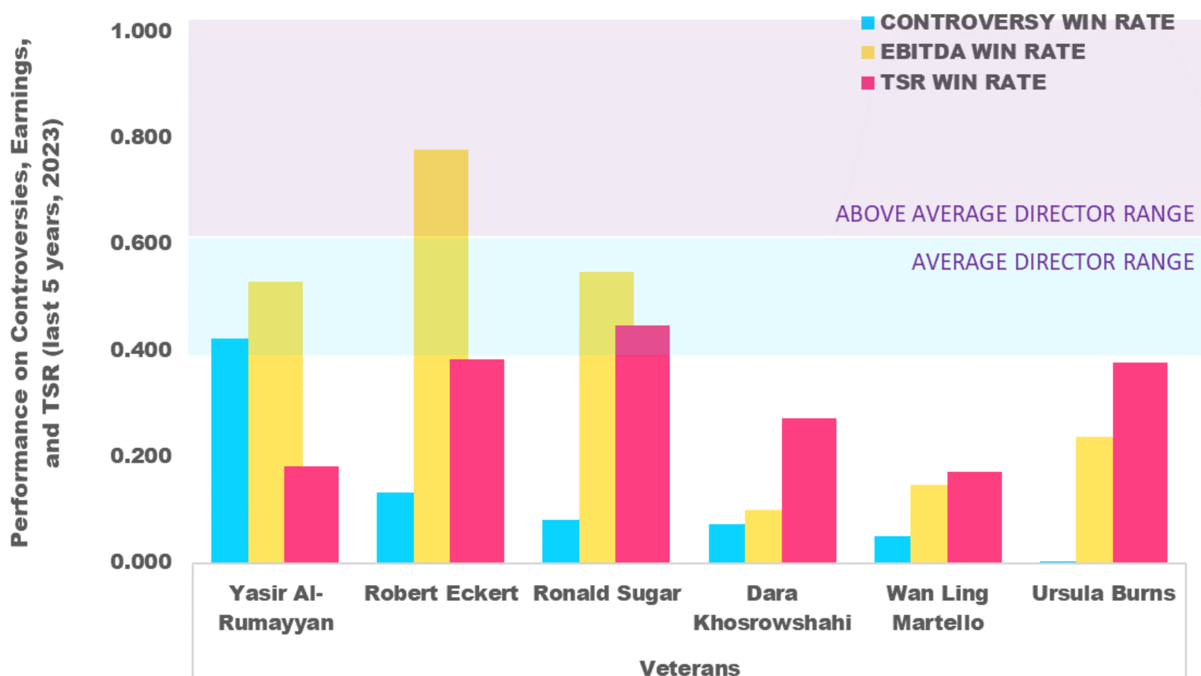


FINDINGS

The US loves veterans. Of countries with at least 25 companies in the sample set, the US had the widest imbalance toward veterans globally. The largest US company gaps are highlighted below.



Uber is the worst of the set, as 55% of Uber's board are veterans with 76% of the board influence, compared to zero rookies. You could say it's an overreaction to Uber's ex-CEO (Travis Kalanik) and a bro-party culture, or even a necessary oversight demand for a company that only became profitable three and half years after its IPO. It does seem, however, that no one considered who might be the *right* veteran for the job. Uber veterans, on average, landed a 0.127 performance on controversial business activity across all the boards on which they sit. Basically, Uber chose directors who perpetually oversee controversial companies, which again might seem intuitive—except that nearly all of their directors have shown no improvement to performance. (Director TSR is among the worst in the US). Only one veteran director, Robert Eckert, performed above average on any metric (performance above 0.600 on EBITDA). The majority of the veterans were below average across controversies, EBITDA, and TSR each. In a market that values shareholder returns, these three veterans have yet to deliver in the last five years cumulatively.



Two of the worst performers, Wan Ling Martello and Ursula Burns, control 25% of the combined influence of the board and underperform across each metric. Both sit on the nominating committee with fellow veterans Ron Sugar and Bob Eckert, meaning veterans control both the board and the nomination processes. In fact, Wan Ling Martello is the worst performing director of all veterans *at any US company*. The case to open two board slots for either rookie directors or higher performing veterans seems clear at Uber.

For imbalances favoring rookies, there are none. The largest rookie director gaps fall under 50% and there are no cases for US large cap non-controlled companies where rookies control the balance of influence. The closest is Stanley Black and Decker, with a 24% gap between rookies and veterans in favor of rookies, and this may be on purpose for a staid, mature company that

has largely stuck with a single line of manufacturing since 1920. We can imply from the company's 2021 proxy statement that board refreshment was a focus:

> *In February 2021, as part of our ongoing commitment to Board refreshment and providing the right mix of skills, perspectives and experiences, we welcomed Mojdeh Poul and Jane M. Palmieri to the Board as independent directors.*

Other cases where rookies outpace veterans generally only occur at post-bankruptcy or spinoff companies, which effectively are adding rookies by necessity. High rookie influence seems only to exist as a reaction to a scandal or blowup, or as a shake-up to a long status quo. In either case, it makes little sense for investors to create vacancies in those situations.

The Handshake Break

In CNBC's story on the Bob Iger/Bob Chapek succession issues[21] there's a key line that highlights the issue with the handshake economy:

> "By 2019, Iger had personally selected every member of the board, which is surprisingly lacking in media and entertainment experience."

With the tacit understanding that this is *common* among fetishized or celebrity CEOs, consider that for a moment. How many jobs will you have where you can handpick your bosses? Better, how many jobs will any of us have where we not only handpick our bosses, but act as *their* boss as sitting chair–and make sure every one of them is a friend? Board networks can often feel like glorified fraternities (and, to a much lesser extent, sororities), with secret discussions and meetings, cliques, and petty power plays. In fact, using our connectivity data that includes board interlocks, affiliations, and school or professional overlaps (where known), we can map 1,277 interconnected directors out of the 3,597 S&P 500 directors. More than 35% of the S&P 500 boards are connected inside two degrees, and unlike university which usually last four years, these directors remained connected for decades.

We measure connectivity the way social media networks measure proximity. Using data on board histories, affiliations (for instance, with the Business Roundtable or Council on Foreign Relations), school history (where we have attended for years), non-profit board participation, and work histories, not only can we measure the distance in a network between nodes, but we can apply the same algorithms that suggest "if you know X, you may also know Y." There are two ways we currently apply this: a "two phone calls" method (identifying board members that have a common node) and a "community exposure" method (identifying board members by their position in a "community" of board members, whether they know each other directly or not). By using both methods simultaneously, we can identify companies with tight networks where the social pressures are more likely to dissuade dissent.

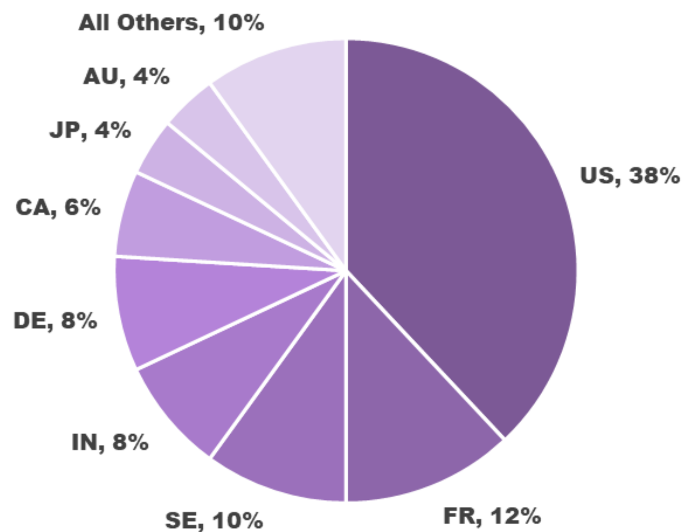
[21] https://www.cnbc.com/2023/09/06/disney-succession-mess-iger-chapek.html

PROCESS AND FILTER

Out of the 1,018 companies included as large cap, non-controlled companies where we found director interlocks (65% of them), more than a third of the board (38%) were "two phone call" connected, and those directors had on average 18% of the board influence. Similarly, we found that 73% of companies had "community-in-common" directors with the majority of influence. This suggests there is a high degree of director incest at large cap companies globally.

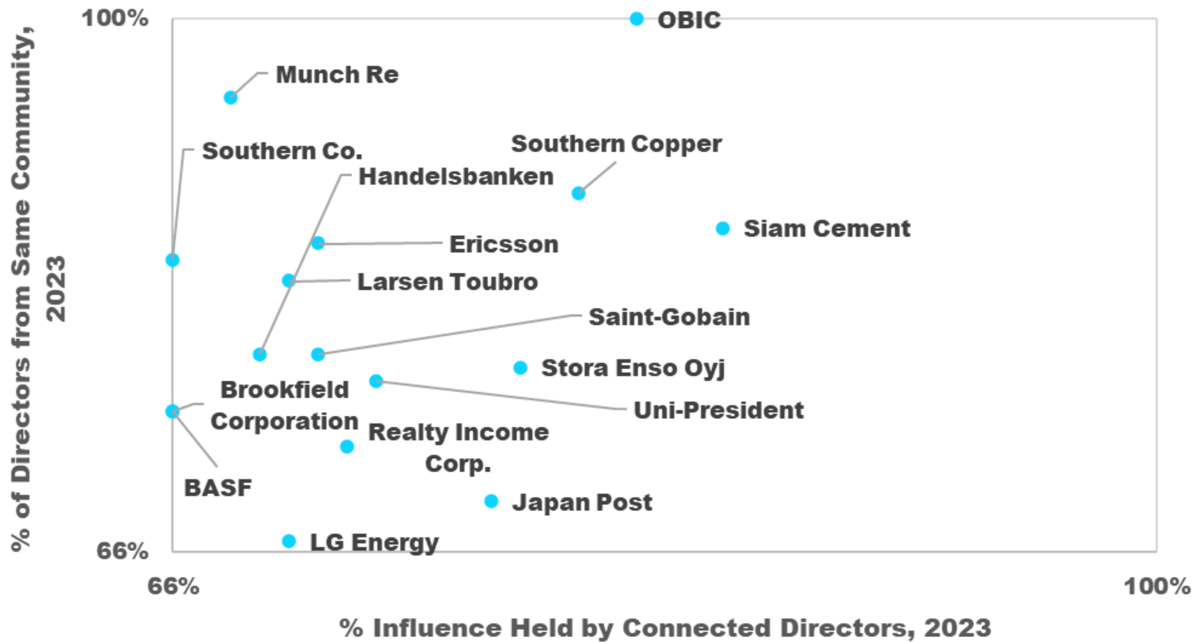
The chart below illustrates how these two data points intersect. There were 335 companies (33%) that had both community-in-common directors and two phone call connected directors with influence on the board. Of the 335, 50 of them had a *majority of directors* that were both connected inside two phone calls and in the same community. These are, arguably, the most insular and connected companies using the data we have available.

Nearly 40% of the most connected non-controlled large cap companies were US-based, followed by France and Sweden domiciled companies.

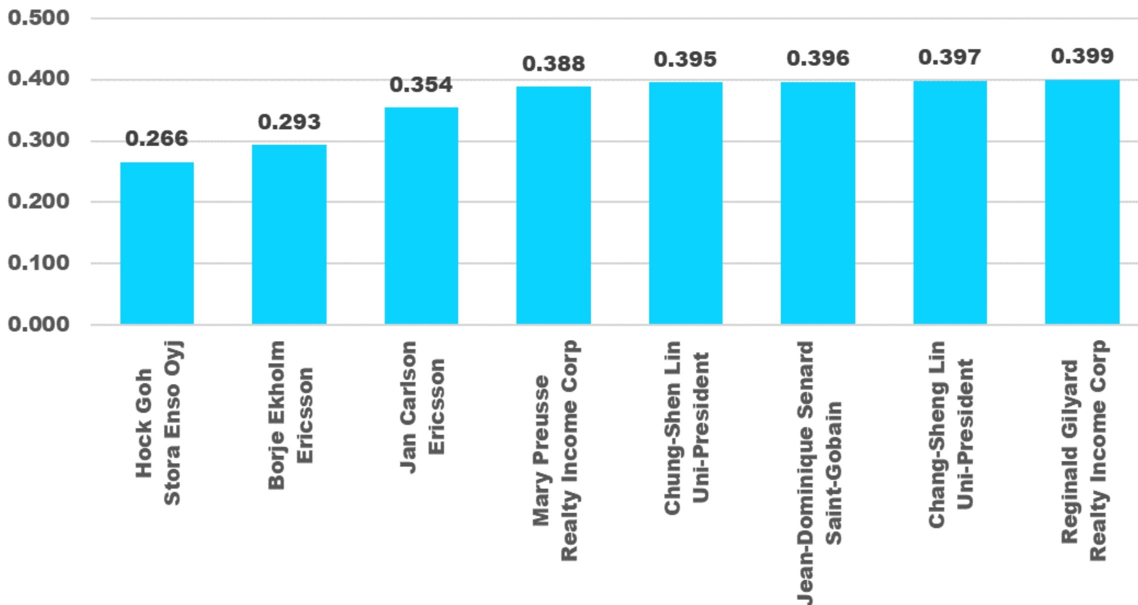


FINDINGS

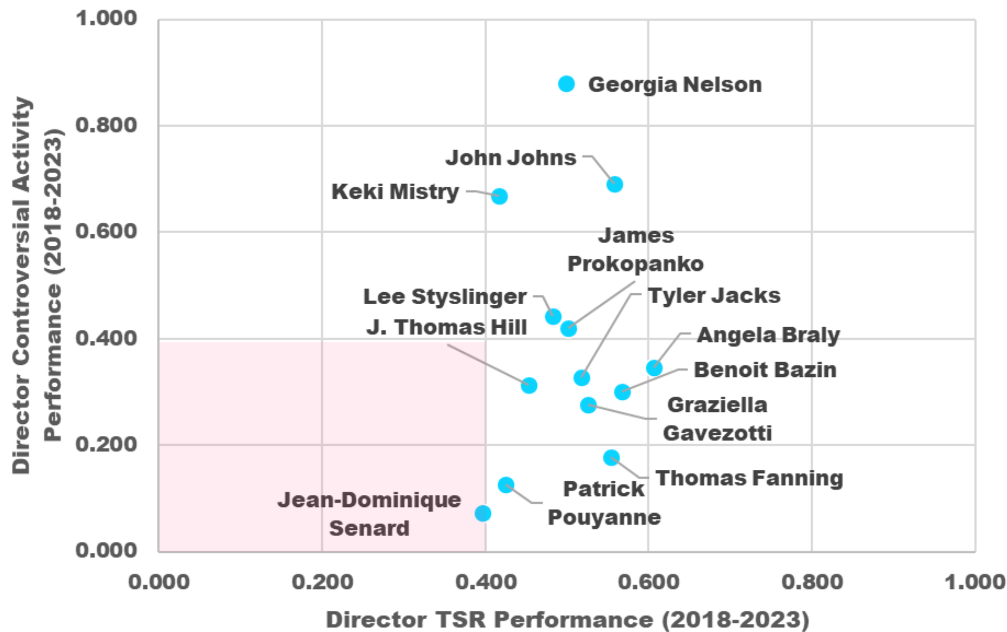
If we narrow even further, there are 16 companies in our data where at least two thirds of the directors are connected to one another through both community-in-common and two-phone-calls (see chart below). The most egregious include Southern Copper, a board that is 100% male, nearly all of whom have been CEOs before. OBIC and Siam Cement were outliers among the outliers.



Inside these companies, there are eight directors that underperform their average peers on TSR, as shown on the chart below:

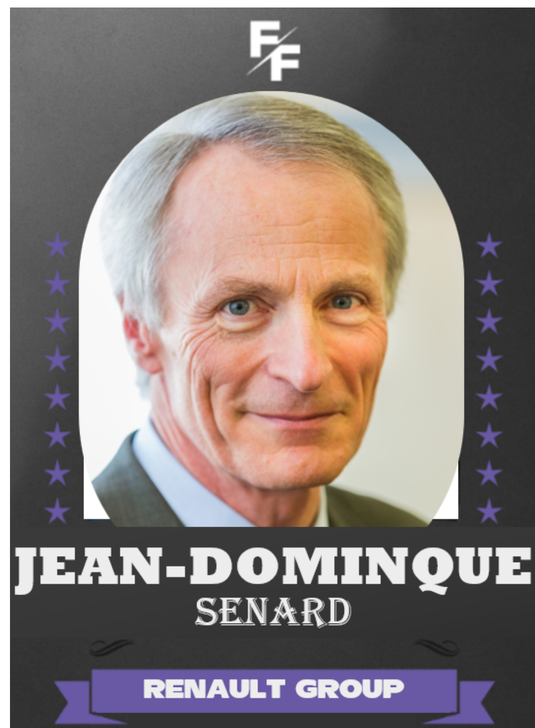


Each of these represents a candidate for vacancy, but there are 18 directors who sit on *more than one board* among these same, most connected companies. Among them, there is just one director who has underperformed on both TSR and controversial business activity: Jean-Dominique Senard.



Senard is chair of the board at Renault, lead independent director at Saint-Goban, a French manufacturer, and a director at Nissan. As of 2023, his three year performance ranks below average across every key metric we measure.[22]

It's worth a side note at this point: given how few directors receive AGAINST votes due to both the social and economic pressures to avoid it, this data suggests there are certainly directors who haven't necessarily earned a roster spot on these boards. The number of directors who we can identify as the farthest outliers can be counted on two hands. Given that director votes are more than 95% of the voting duties investors face as fiduciaries, the tolerance of even a handful of demonstrably poor performers who continually occupy board seats in contravention of new, qualified potential talent seems an abdication of duty. Further, using data on performance is insulating from the political charges of discrimination. The fact is this: some directors sit on boards of companies that perpetually underperform their peers. If the expectation of directors is simply to occupy meeting space, then they are clearing that bar. If it is that they contribute to corporate performance improvements over time, these directors are not yet qualifying.



[22] https://freefloatanalytics.com/directors

The Diversity Remix

Pale, male, stale. The number of times we've heard this in meetings with ESG or sustainability professionals is staggering. It is not necessarily a shared sentiment. Much of the anti-woke backlash revolves around diversity initiatives, with claims of "reverse discrimination,"[23] Supreme Court decisions limiting the ability of university applicants from mentioning their race or ethnicity,[24] and even legislation aimed at curbing diversity throughout government and corporate policy.[25] However, there are other ways of improving diversity on boards without resorting to "body count." From our paper, *The Glass Ceiling in the Glass Ceiling*:

> …the average publicly traded, large cap company board is 10 people large. In a perfectly egalitarian board, each director might have 10% of the board's influence. In reality, that actually never happens. Directors have seniority. They are assigned hierarchical roles—some have equity stakes, while others do not. There are hundreds of combinations and factors that accrue to a board member's individual influence, but even in all these combinations, one thing remains true: **at 71% of publicly traded companies, women have less power than representation**.

Focusing on companies where women or diverse cohorts have less influence could lead to a two-pronged approach. First, engage and elevate: find where a diverse group has been marginalized *relative to their representation* and engage to improve their responsibilities and power. Second, should that fail, create vacancies not by "eliminating" white male board members because they're male, but eliminating underperformers with entrenched power.

ENGAGE AND ELEVATE: PROCESS AND FILTER

Out of the 1,108 companies in sample, 277 of them have a wide gender gap (where the percentage of female influence is at least 10% less than the percentage of women on the board), representing 25% of non-controlled large cap companies. Of the 277, we were able to shortlist female directors for engagement purposes by focusing on companies with 30% women on the board where at least one of the women has more than five years tenure, has been on multiple boards, has less than 10% influence, and an overall performance (inclusive of EBITDA, TSR, carbon intensity, and controversies) greater than .500. These are high performing women with experience on boards who outperform their peers, on average, but have little influence, usually a result of limited committee use, equity stakes, or other factors. In all, we found 55

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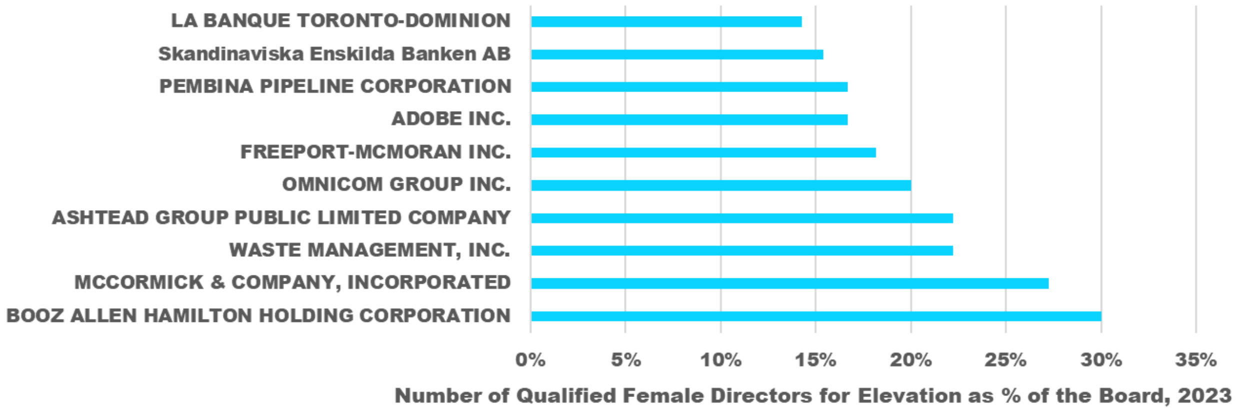
[23] https://www.theatlantic.com/politics/archive/2023/08/vivek-ramaswamy-gop-election/675041/

[24] https://www.bostonglobe.com/video/2023/09/12/multimedia/video/boston-globe-today/bgt-segments/colleges-update-applications-after-affirmative-action-ruling/

[25] https://www.insightintodiversity.com/the-war-on-dei/

women that met this criteria. For a number of companies, they actually had *multiple* female directors that were clearly qualified for elevation.



ENGAGE AND ELEVATE: FINDINGS

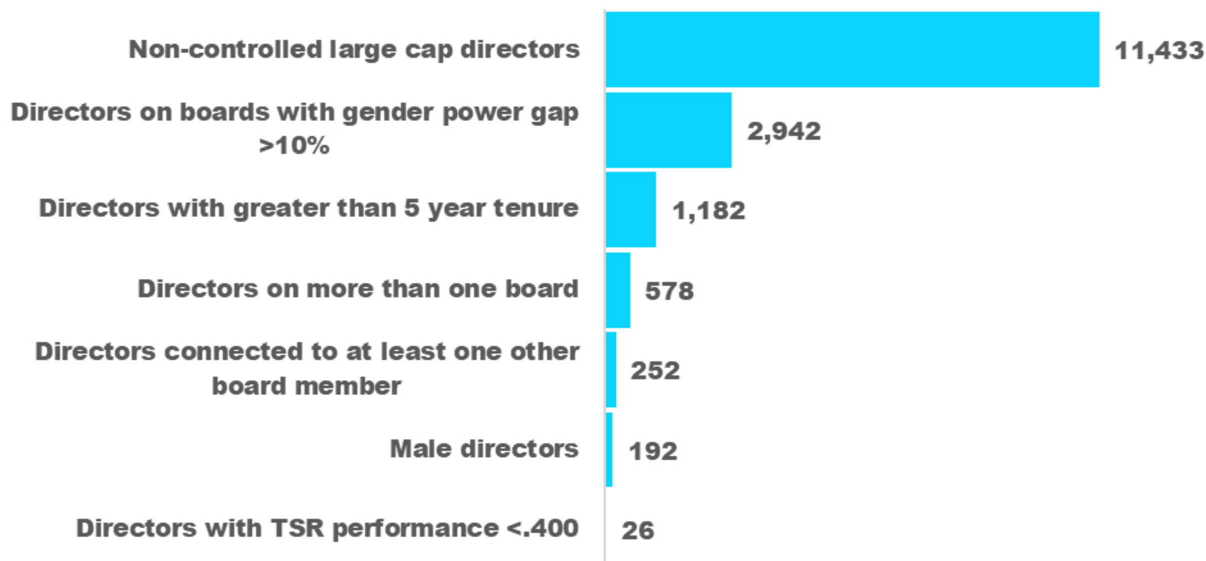
Joan Amble on the Booz Allen board is a perfect example. Amble sits on both Booz Allen and Zurich Re boards with a 0.550 overall performance, but a strong 0.705 performance on TSR. Amble has a long career at marquee companies (American Express, GE, Societe Generale) and has been on the Booz Allen board for 20 years—and yet her only paper responsibility to the board is as a sitting member of the audit committee.

It's certainly possible that Amble is not looking for more responsibility, but she is one of three female directors on the Booz Allen board who fit this profile. Gretchen McClain and Melody Barnes also have limited influence and long track records of success. In lieu of improving committee assignments in situations like this, breaking the power structure may be necessary. At Booz Allen, the ex-CEO chairs the board and the current CEO sits on it, creating a power structure that favors management almost exclusively.

CREATE VACANCIES: PROCESS AND FILTER

The Booz Allen structure is typical: an ex-CEO of the company occupies a chair of the board role, a current CEO sits on the board, often joined by another executive, and in both cases they are white and male. By focusing not simply on the structure, which elicits howls of "reverse

racism" from anti-woke activists, we can focus on breaking up power through meritocracy. There are 11,433 directorships at the 1,018 companies in our sample. We narrowed down specific directors using the following criteria:



At this level of granularity, it can hardly be called aggressive to propose creating a vacancy. These male directors are on more than one board (they won't be "unemployed"), they may already have mixed allegiances given how interconnected they are to their boards, and they have a long track record that includes underperformance of their peers. It's analogous to a company lifer with friends at the company who has not produced or performed in years, precisely the mid-level management that is often the target of layoffs and efficiency improvements. Ironically, there are even a few familiar names.

CREATE VACANCIES: FINDINGS

Overall, 14 of the 26 directors occupy chair roles (either of the board overall or committees). Three companies have more than one male director that meets this cut: Paypal, Telefonica, and Tesco. At Paypal, one of the directors, Frank Yeary, has a mere 6% influence in the boardroom and is connected to *100% of the Paypal board inside of two phone calls*. This overlap is the most egregious. The network effects for male directors are significantly stronger than female or diverse directors, the result of which is a cohort of men who are largely insulated from underperformance by friends and connections. Our prior cohort, the "Handshake Break," had two directors who also appear here: Jean-Dominque Senard and Borje Ericsson. Senard, in fact, also ranks as one of only two directors out of the 26 that unperformed across all metrics, the other being Randall Weisenburger on the Valero Energy board of directors.

❸ CONCLUSIONS

The case studies and data from this paper are meant to be illustrative of a very basic idea: there is no capital market where investors should agree at an average 96% rate on who should steward their capital. The resourcing and data are available to have a thesis on the best teams to elect to represent individual investor interests, whether they be increasing cash flows, throwing off dividends and conducting buybacks, or maximizing workforce productivity and minimizing carbon emissions. Over 4 billion shares are traded just in S&P 500 companies on a daily basis, with global stock values in excess of USD 41 trillion trading every quarter. As there are clearly enough investors with opinions about whether a stock will rise or fall—is it even possible that there are no opinions about the people who control those assets? This data is designed to change that, with case studies as examples of how easy it can be to identify some of the weakest performers occupying seats of potentially qualified future board members.

All the data used in this paper was generated by Free Float Analytics (www.freefloatanalytics.com). Free Float Analytics is a subsidiary of Free Float, LLC, and sells board analytics products to retail and institutional investors.

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