FPLG
FOR PURPOSE LAW GROUP
A Professional Law Corporation

NONPROFITS: GOVERNANCE

Corporate Governance: No Longer Just About Business

02.07.19 | Linda J. Rosenthal, JD

With the goal of closing the gender gap in corporate governance, in 2018 former Governor Jerry Brown signed into law requirements that all publicly traded corporations in California include at least one woman on their board of directors by the end of 2019.

By the end of 2021, those companies that have five member boards must have at least two directors who are female. For boards with six or more directors the number of required female directors bumps up to three. Companies that fail this quota will face six-figure financial penalties.

According to the Women on Boards survey released last month by Board Governance Research, of the 642 publicly traded companies headquartered in California, 184 companies will need to find a women director in 2019.

Annalisa Barrett, a lecturer at the University of San Diego on corporate governance, recently reflected that "almost 200 [companies] this year are going to have to add women to their boards, and certainly by the 2021 deadline, there is going to be significant change in the board rooms of California companies."

The state of California is not alone in seeking to change traditionally male-dominated corporate governance; so are institutional investors.

Recent attention on social issues such as the #MeToo movement have shown a spotlight on companies perceived as sending messages of gender inequity. This perception can affect a company's stock performance, and has thus grabbed the attention of investors.

A June 2018 survey of 233 institutional investors indicates that 68% of those investors have concerns over board gender diversity in their proxy voting. According to Sapna Nagaraj, director of machine learning and data science at Blackline, a provider of financial automation solutions, "Companies are being judged not just by their business profitability, but by their operating principles. Brands will be labeled as being socially conscious or not, creating long-lasting implications for the organization's profitability, recruitment and retention of skill sets, and survival."

As the recognition of a business' social responsibility increases, a new "social corporate governance" structure is emerging, led by social entrepreneurs.

According to Pulitzer-nominated financial journalist Russ Banham, "There is ample evidence to indicate that more companies than ever before are being held accountable for their actions and workforce composition, as well as leaders' social media statements."

"In this age of flourishing social consciousness, corporate governance is no longer just about business."