MERIT, POWER & PROGRESS

JULY 2025

RETHINKING BOARD GOVERNANCE FOR PERFORMANCE AND EQUITY

50/50 Women on Boards
Bay Area Chapter

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When 'merit' is used to justify replacing DEI priorities, it's time to ask: Who is truly qualified?

As DEI policies face rollback through executive actions, the push for undefined "merit-based" qualifications risks reinforcing exclusionary practices and entrenching power structures under the guise of objectivity. This report offers a new path forward that defines merit through objective criteria, to examine the true distribution of influence on boards and realign governance with long-term business success.

While women now occupy 30% of the Russell 3000 Index board seats, the largest publicly traded companies in the U.S., they have approximately 10% less influence than their representation would suggest. Additionally, when merit is cited as a measurement factor to replace diversity, equity and inclusion, one must challenge whether all sitting directors qualify.

Using analysis from Free Float Analytics[1] and data from 50/50 Women on Boards' 2024 Gender Diversity Index™ report[2] in partnership with Equilar, we've established metrics for assessing and shaping board dynamics.

[1] *Free Float Analytics data.*
[2] *50/50 Women on Boards' 2024 Gender Diversity Index™ report*

Objective analysis reveals that only 30% of current directors actually meet merit-based qualifications, with women and people of color outperforming their peers despite facing higher barriers to board positions.

By measuring against a set of objective criteria—including leadership experience, network strength, economic alignment, performance history, and industry knowledge—we found that only 30% of current directors meet merit-based qualifications. Notably, women and people of color consistently scored higher on these measures, confirming academic research that these groups typically must meet stricter standards to secure board positions.

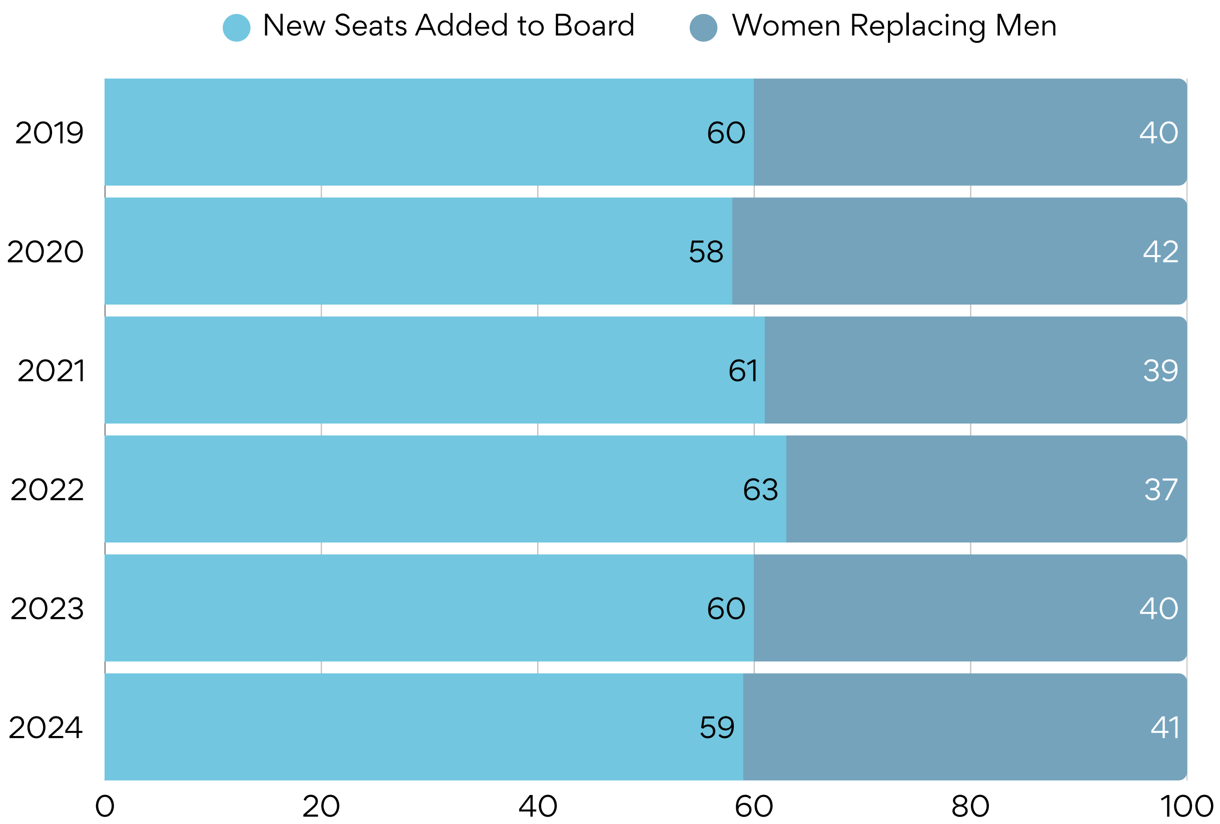
To substantiate our findings, we focus on three dimensions of change:

- Defining merit through transparent criteria.
- Restructuring power distribution.
- Implementing accountability to replace traditional succession planning.

I. THE GOVERNANCE PARADOX: MORE SEATS, LESS INFLUENCE

While women hold 30% of seats, up from 20% in 2019, this progress masks a deeper problem: The influence of women on boards is not growing at the same pace. In 2024, 265 women left board seats, nearly doubling the typical annual average. New female appointments also dropped from a peak of 45% in 2021 to 30% in 2024, and in Q3 of 2024, 80% of diversity seats came through board expansion rather than replacement[3], maintaining board dynamics and diluting influence.

This pattern illustrates what we call the **governance paradox:** adding without including, thereby preserving the existing power structure.



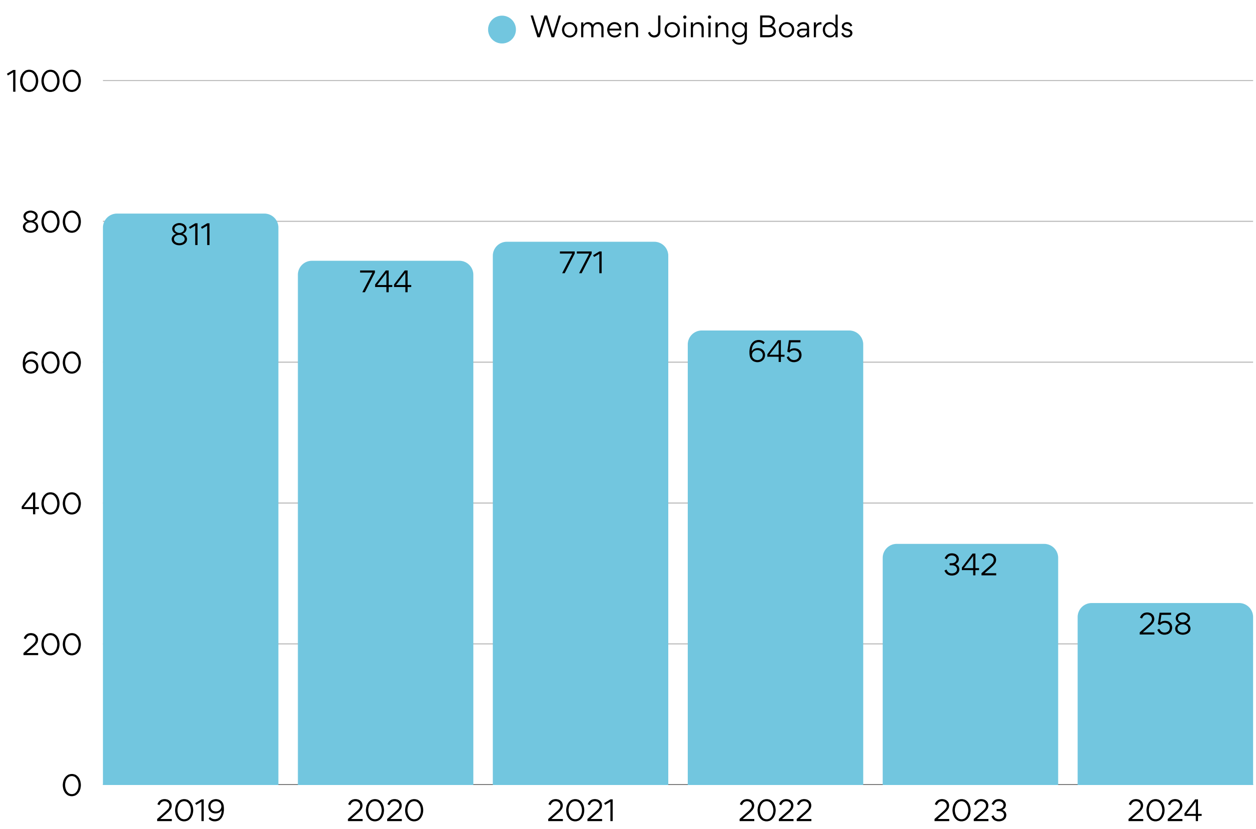
Findings from [50/50 Women on Boards' 2024 Gender Diversity Index™ report]

[3] 50/50 Women on Boards' 2024 Gender Diversity Index™ report: "We also observed a significant increase in women leaving boards in 2023 and 2024—253 in 2023 and 265 in 2024, compared to an average of 150 in prior years. This trend may be linked to factors such as company restructuring, mergers, investor pressures, and DEI pushback, though further evaluation is needed."

Even inside the boardroom, dissatisfaction is widespread. According to PwC's 2024 Annual Corporate Directors Survey, 49% of directors say at least one board director should be replaced, and 25% say two or more should be replaced[4], a signal that succession rarely happens. But why? One-third of respondents identified "collegiality" as the primary reason underperformers remain.

This creates what we call the **accountability gap**: Boards recognize the need for change but don't act on it, perpetuating the governance paradox.

Free Float Analytics measured "influence" on boards based on committee roles, equity stakes, and access to director networks. They estimate that female directors at U.S. public companies have 10% less power than their representation on boards[5], which mirrors pay gaps for women[6] and reveals how governance can absorb statistical change, creating the illusion of progress while maintaining traditional influence patterns.



Findings from 50/50 Women on Boards' 2024 Gender Diversity Index™ report

[4] PwC 2024 Annual Corporate Directors Survey.
[5] Free Float Analytics data.
[6] According to the Economic Policy Institute, women on average make $0.83 to the male $1.00 in the US.

II. MAPPING THE POWER ARCHITECTURE: WHO REALLY RUNS THE BOARD?

Behind every board seat lies a varying degree of control. Some directors influence strategy and decisions, while others simply attend meetings. Our analysis shows just how uneven this control truly is.

In 26% of U.S. public companies, one individual—usually the CEO or board chair—wields over half of the board's decision-making authority. Control is often concentrated in two roles: the combined CEO/Chair and a long-serving Lead Independent Director. Furthermore, 15% of CEOs are connected to other board members, creating interlocking networks.

Women have 10% less influence than men on typical boards[7]. This disparity manifests through systematic patterns, such as:

- Fewer committee chair roles
- Limited board chair roles
- Limited lead independent director positions
- Less equity ownership

[7] https://static1.squarespace.com/static/63bda06aa7d1cd557889265b/t/650da54b095c816e4ec9f2af/1695393100207/The+Glass+Ceiling+in+the+Glass+Ceiling+FINAL.pdf.

Gender-diverse boards have improved governance practices: power delegated to committees, increased consensus-building approaches, and stronger commitment to recruiting new board talent.

Research from the U.K.'s FTSE Index found that gender-diverse boards have improved governance practices: power delegated to committees, increased consensus-building approaches, and stronger commitment to recruiting new board talent. These adaptations appear to be key mechanisms through which diversity translates to performance[8].

As Dr. Amy Gershkoff Bolles, CEO Advisor & Public Company Board Director, noted, "The data are clear — the most successful companies not only ensure that women have a seat at the boardroom table, but also that they have a strong voice in the boardroom. Intentional structural decisions such as empowering women as Board Chairs, Lead Independent Directors, and Committee Chairs, amplify the influence of women in the boardroom and can help ensure diverse perspectives are heard on a range of critical topics."

[8] *Board Diversity and Effectiveness in FTSE 350 Companies 2021.*

III. QUANTIFYING MERIT: WHO'S ACTUALLY QUALIFIED?

In the ongoing debate about board composition, merit is frequently positioned as an objective alternative to diversity, equity and inclusion. By quantifying merit with measurable criteria, we can challenge this false dichotomy through five key points:

- Leadership experience
- Advanced industry knowledge
- Economic interest in the company
- Outperformance history
- Strong networks

Using these criteria, only 30% of U.S. directors could be considered "merit directors."

Black women directors have the most merit of any single group. They are more likely than any other demographic to bring industry expertise and powerful networks to the boardroom.

61%

have deep industry knowledge and expertise

71%

are highly networked and serve on multiple boards

This reflects a more challenging path to the boardroom. Black women are held to a high standard of knowledge to get on a board, and once they arrive, they are often tapped repeatedly.

By contrast, while 74% of white male directors have leadership titles like CEO or Chair, only 53% have deep industry knowledge. Their pathway often runs through executive titles, not board readiness.

The data challenges common assumptions that CEOs on boards generate higher shareholder returns and founder presence improves performance, which suggests that conventional selection criteria may prioritize familiarity over performance potential[9].

"Strong board governance and long-term value creation demands merit-based selection, clearly defined by objective criteria," said Alka Gupta, a Public Company Board Director and former Fortune 500 executive. "While there has been significant progress in achieving more diverse representation on boards, which reflects markets and customers served by the business, there is still work to be done in actually receiving and integrating these new perspectives. That requires effort and intentionality, and a commitment to evolving outdated corporate board structures and historic governance approaches."

[9] https://corpgov.law.harvard.edu/2025/01/02/the-ceo-scorecard-how-directors-select-a-ceo-when-they-have-real-skin-in-the-me/#:~:text=Part%20of%20the%20problem%20appears,boards%20in%20naming%20a%20successor and https://research.cbs.dk/en/publications/are-ceos-different.

IV. BARRIERS TO CHANGE: WHAT'S BLOCKING PROGRESS

Most boards lack a clear timeline for replacing underperforming directors unless shareholders or activists intervene. Instead of being removed, directors who fall short often "retire" quietly, with full benefits and little scrutiny. In many cases, their successors are already chosen, keeping control within the same circle.

Voting patterns also reveal a lack of real accountability. On average, 96% of shareholder votes favor management-backed candidates and proposals, regardless of whether the candidates are qualified.

External consultants, hired to help with governance, often reinforce this system. Rather than challenging board decisions, they prioritize alignment with management over objective evaluation.

These patterns create powerful structural barriers to meaningful governance evolution.

Social networks also play a role. In 2024, most new directors had two to three existing ties to people already on the board. This encourages prioritizing familiarity over suitability. What boards call "cultural fit" often just means avoiding dissent.

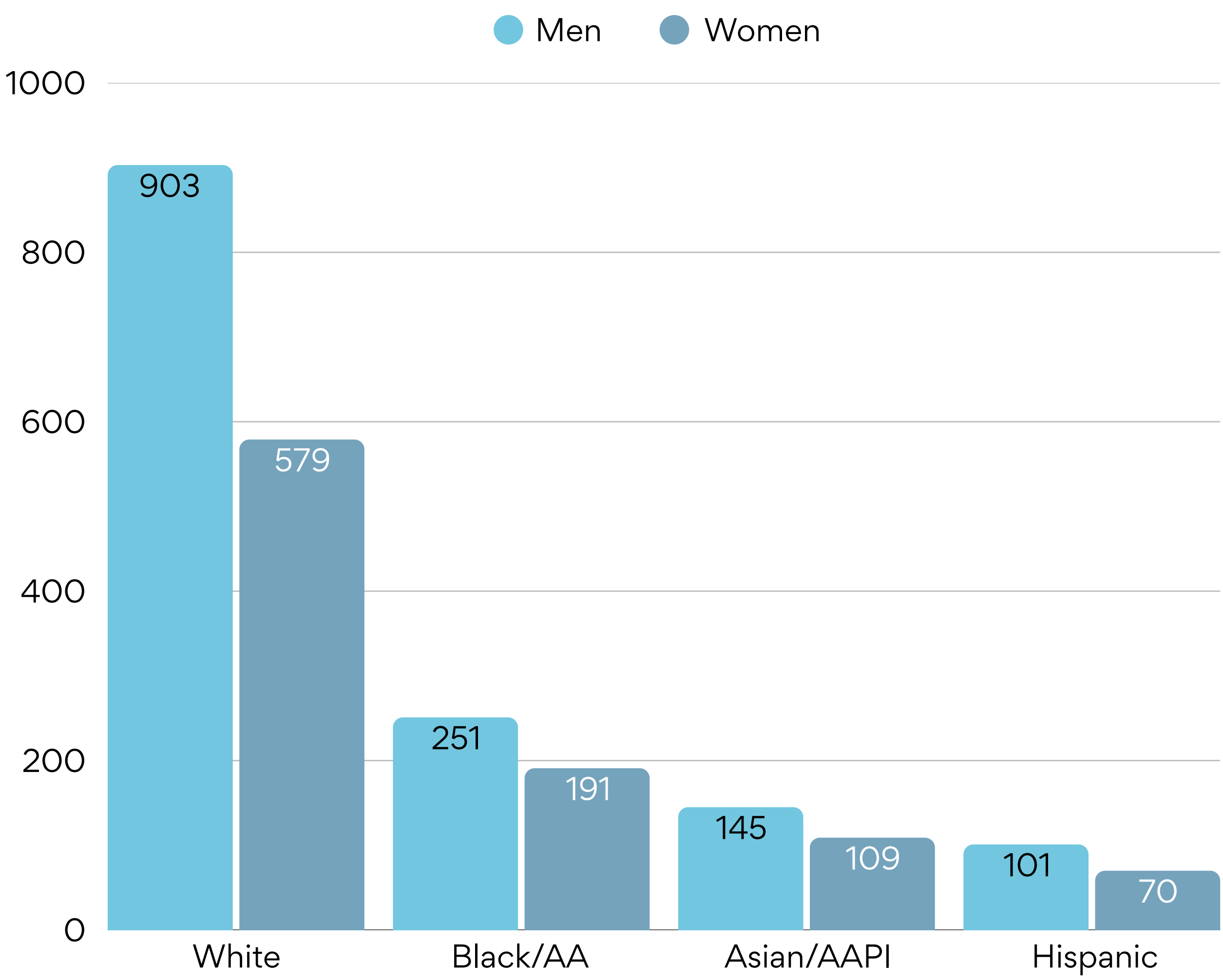
Many boards resist meaningful change due to structural barriers: 96% of shareholder votes favor management-backed candidates regardless of qualifications, most new directors have existing ties to current board members, and 24% of directors of color serve on multiple boards compared to 18% of white directors—revealing an over-reliance on a small, familiar pool rather than expanding the search for qualified candidates.

While some boards are adding new members, the same individuals are tapped again and again. Data from 50/50 Women on Boards shows[10]:

- 24% of directors of color serve on more than one board
- In contrast to merely 18% of white directors

This highlights the limited size of the selection pool and the minimal effort many boards put into expanding it.

DIRECTORS SERVING ON MULTIPLE BOARDS



Findings from 50/50 Women on Boards' 2024 Gender Diversity Index™ report

[10]50/50WOB's 2024 Gender Diversity Index™ report: "While white directors hold the most board seats, an increasing number of women and men of color are being tapped to serve on multiple boards. Currently, 24% people of color are on multiple boards compared to 18% White/Caucasian/Unreported. Over-Reliance on a Small Pool: Boards may be relying too heavily on a limited group of existing directors of color, rather than expanding the search for new, diverse candidates. This can limit overall board diversity by reducing opportunities for other qualified, diverse individuals."

V. CHARTING A NEW COURSE: STRATEGIC TRANSFORMATION

WHAT BOARDS CAN DO NOW

Boards seeking deeper change require more than good intentions; they need a solid structure. Research indicates that boards can focus on three critical dimensions of governance transformation.

* DEVELOP TRANSPARENT MERIT DEFINITIONS

- Disclose the process of director selection, including selection criteria and candidate pool sizes
- Implement scoring for all candidates, creating objective comparison metrics
- Benchmark qualifications against performance drivers

* BREAK THE CYCLE OF POWER IMBALANCES

- Mandate inclusion of unconnected candidates
- Document selection criteria weighting before candidate evaluation
- Implement blind qualification reviews in initial screening
- Separate Chair and CEO roles
- Recruitment mark qualifications against performance drivers

* STRENGTHEN ACCOUNTABILITY MECHANISMS

- Create structured frameworks with quantifiable metrics for director performance
- Implement anonymous peer assessment with mandatory action on underperformers
- Establish clear implementation timelines for identified changes
- Institute committee leadership rotation to prevent power entrenchment

As Hugh Molotsi, Corporate Board Director & Advisor, explains: “Emphasizing transparency in board director selection isn't just a win for diversity — it’s a strategic advantage. Clearly defining the required skills and qualifications streamlines recruitment, reducing post-interview disagreements about what the role demands. Moreover, boards that are explicit and accountable in their selection processes are better equipped to defend their composition against challenges from activist shareholders.”

WHAT ASPIRING DIRECTORS CAN DO NOW

For women and underrepresented candidates, getting on a board often means navigating unclear processes and hidden rules. Based on our analysis, these steps can help.

* LEVERAGE DATA STRATEGICALLY

- Target companies where your expertise addresses specific board needs
- Research the board’s composition, priorities, and committee structures to identify opportunity areas
- Analyze director departure patterns to identify potential openings

* FOCUS ON "PAPER FIT" THROUGH PUBLIC INFORMATION

- Map current board's industry knowledge against strategic needs
- Identify governance ratings and shareholder concerns as entry points
- Evaluate financial performance against governance structure

* EVALUATE "SOCIAL FIT" THROUGH DIRECT ENGAGEMENT

- Prepare strategies to counter potential resistance to your candidacy
- Develop both statistical and narrative presentations of your qualifications
- Identify potential allies who can advocate
- When appropriate, ask to speak with other board members

Stay engaged—even if it’s not the right fit, you can refer another qualified candidate.

THE BUSINESS CASE FOR GOVERNANCE TRANSFORMATION

Traditional board governance approaches are increasingly inadequate for today's complex challenges. Surface-level diversity without power redistribution creates an illusion of progress, while subjective "merit" assessments perpetuate systems that neither select for competence nor drive performance.

Our research reveals a path forward that aligns corporate interests with governance excellence. By redefining merit through objective criteria, we can identify exceptional directors regardless of background. By mapping and redistributing power systematically, we transform tokenism into substantive influence.

The data is unambiguous: Boards integrating diverse, high-merit directors outperform those maintaining legacy power structures. Merit and diversity aren't opposing forces; they're increasingly aligned. Recognizing this truth is the first step toward a more accountable, innovative, and resilient governance model.

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50 50 WOMEN ON BOARDS

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