J.P.Morgan

Board diversity: Is it really improving for women?

At first glance, it is. But a closer look at startup data reveals something else.

Data provided by PitchBook

Executive summary

Boardroom diversity has never been more topical. Or more scrutinized. Whether driven by cultural norms, state regulations, listing exchange requirements and/or ESG credibility, stakeholders of all forms are taking a closer and more personal interest in the composition of boards.

While studies have shown that a more diverse board can lead to improved business performance, our research—supported by PitchBook data—suggests that CEOs, founders and investors within the startup ecosystem have not made boardroom diversity a visible priority.

This report is one of the first of its kind. It highlights the current state of gender diversity within startup boardrooms; how those companies have reacted to various legal, regulatory and cultural pressures; and how the industry can progress from here. (Note: Our report focuses on gender diversity because data on racial, ethnic and LGBTQ diversity on boards is limited. But a cursory look at most startup boardrooms shows that many have a lack of racial, ethnic and LGBTQ diversity as well.)

What can startups do to improve gender diversity on their boards?

They need to bring corporate governance to the forefront. Governance should not be treated as an afterthought or merely something that is required by law. It should be a crucial part of every startup's business plan—and something that is constantly evolving. Timing matters, too. The sooner a startup can address board diversity, the better.

At J.P. Morgan, we are committed to all forms of diversity. We know that an inclusive environment leads to improved business decisions and a better bottom line, and it helps us reflect the communities we serve. But more importantly, we believe in diversity for one simple reason: It's the right thing to do.

Contents

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Defining 'startups'

We define "startups" as early-stage companies that have received minority equity investments from outside sources, including individual angel investors, angel groups, seed funds, venture capital firms, corporate venture firms and corporate investors, as well as from nontraditional investors such as hedge funds, mutual funds or private equity funds. Investments received as part of an accelerator program are not included. However, if the accelerator continues to invest in follow-on rounds, those further financings are included.

The state of the industry

The #MeToo movement—combined with legislation in California (see Chart 1)—sparked many companies to diversify their boards. Startups were no exception. Consider:

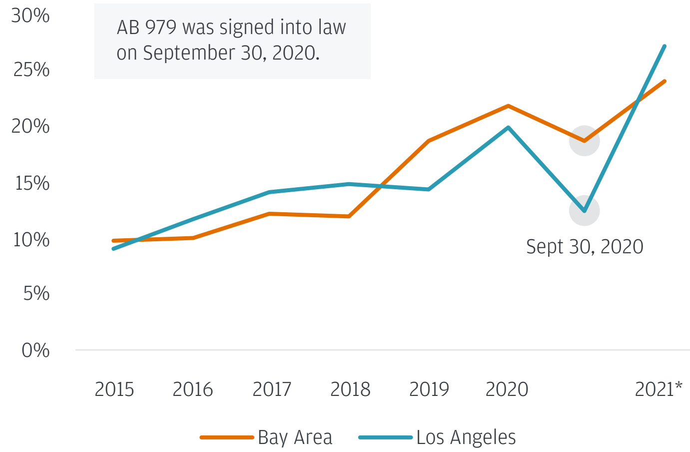
- In 2018, less than 13% of all new board appointments at startups were women.
- In YTD 2021, almost 22% of all new board appointments have been women, nearly doubling the pace in the span of three years.

While the progress above is to be celebrated, the venture ecosystem still woefully lags the public markets (Chart 2). Last year, every company in the S&P 500 had at least one female board director, and 59% of all 2020 board appointments in the index were women, according to executive search firm Spencer Stuart.

Building a diverse board can be especially difficult for startups. It often takes a back seat to survival. But when the timing is right to evolve to a more professional governance model, too often leaders lean on their friends and networks—ultimately hiring people who look and think like them. This is especially true in the early stages of a company when there is less capital to afford the services of third-party talent partners and headhunters.

1: **Percentage of female board representation in California-based startups**

California saw a flurry of activity ahead of legislation mandating gender diversity on boards.

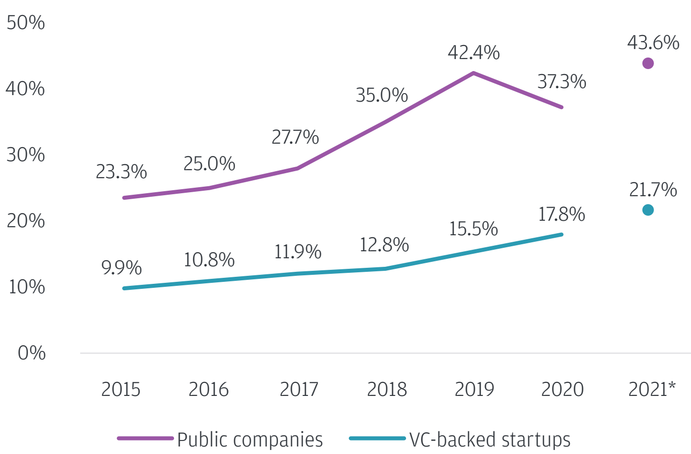


Source: PitchBook | Geography: U.S.
*August 13, 2021

Our research suggests many companies may be cutting corners when they do diversify their boards. According to PitchBook figures, there has been an increase in "internal appointments" at startups (Chart 3). In these cases, women already employed at a startup are being installed to their own boards. While this provides the appearance of a diverse board, it does not provide true governance nor the fresh perspective an independent director could bring.

2: **Ratio of new female board members by board appointment date and company type**

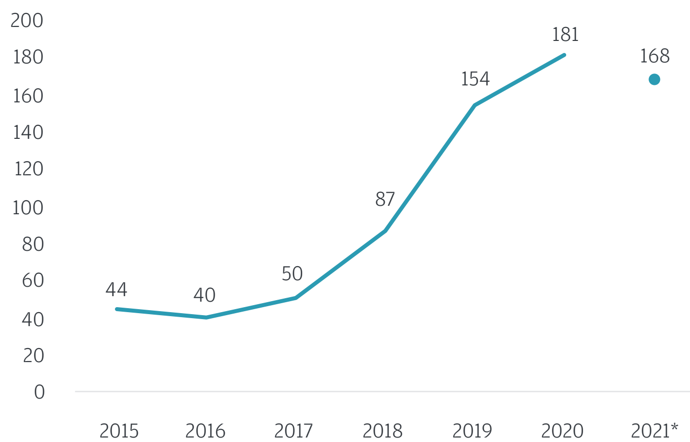
Startups are getting better at adding women to their boards, but they still lag public companies by a wide margin.



Source: PitchBook | Geography: U.S.
*August 13, 2021
Morningstar US Market TR Index (holdings as of 7/30/2021)

3: **Startup board additions involving existing female employees**

Internal appointments—in which a current employee is installed on the board—have more than tripled since 2017.



Source: PitchBook | Geography: U.S.
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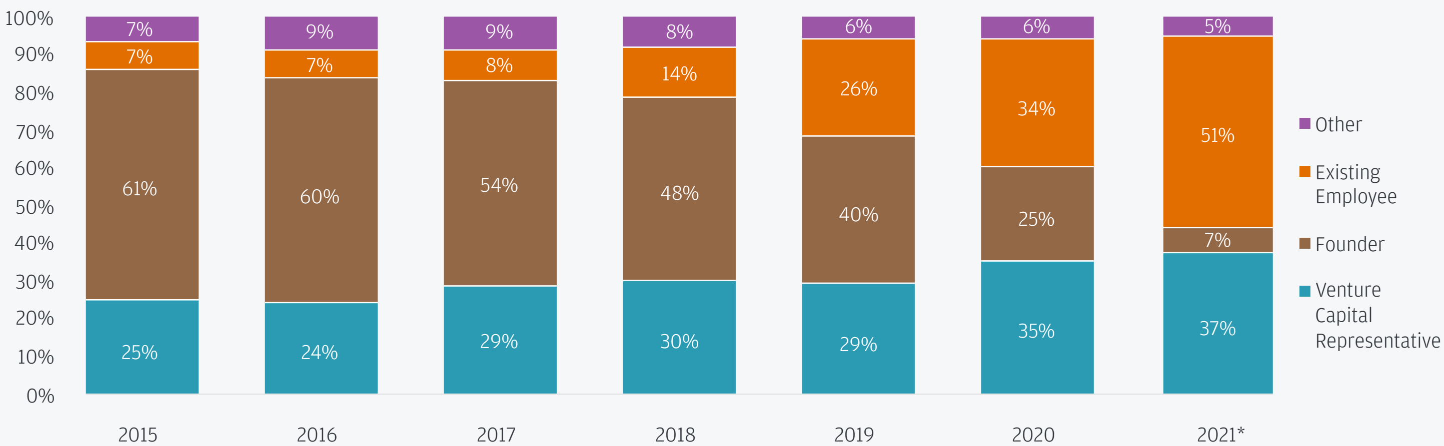
Cutting corners

4: New female board members in VC-backed startups by original role

Existing employees now account for the bulk of new female board appointments—a big change in only a few years.



Source: PitchBook | Geography: U.S.
*August 13, 2021
Figures may not add up to 100% due to rounding.
Other is corporate venture capital, angel investor and strategic.

Chart 4 takes a closer look at the trend of internal appointments, when VC-backed startups place existing female employees on their boards—diversifying their governance for the first time.

These appointments have accelerated in recent years. In 2018, 14% of first-time female board appointments were existing employees. That percentage rose to 26% in 2019, 34% in 2020 and 51% in YTD 2021.

In other words, more than half of newly diversified board appointments in 2021 have come from within.

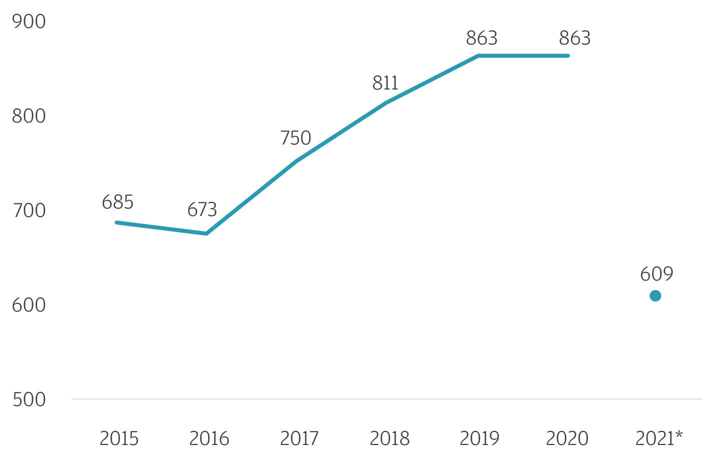
First-time female board appointments have increased in recent years, rising by 28% between 2016 and 2020 (Chart 5). But the numbers remain far lower than male board appointments.

Diversity improvements within the venture community hinge on networking at all levels. Female founders, for instance, tend to seek out female partners at VC firms. One way to increase VC funding to female founders would be to increase the number of female decision-makers at investment firms.

As of 2019, only about 15% of VC checkwriters were women. Hiring decisions at VC firms could have a significant impact on how many female founders receive funds. It could also affect board appointments.

5: Female board appointments by year

The number of first-time female board appointments at VC-backed startups has risen steadily over the past five years.



Source: PitchBook | Geography: U.S.
*August 13, 2021

The pre-IPO rush

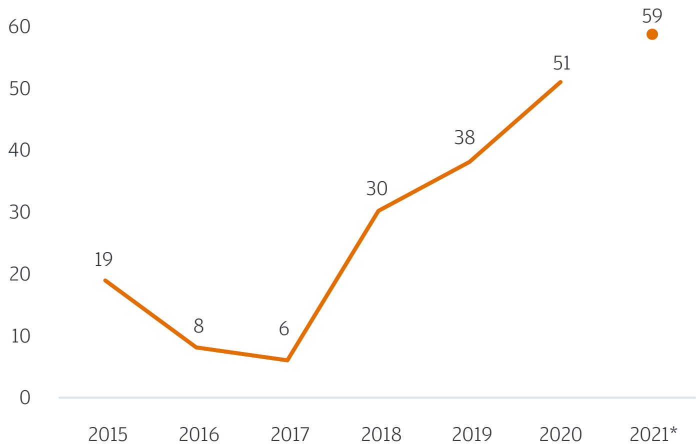
Five years ago, it was rare for a company to add female board directors just before going public (Chart 6). In 2017, for example, only six startups went public with female board members who had been appointed in the prior two years.

Starting in 2018, however, pre-IPO startups began to take action as filing deadlines approached. Thirty startups that went public that year diversified their boards before their IPOs, and the number continued to grow from there.

As of August, 59 startups that went public in 2021 had appointed their first female directors in the run-up to their IPOs.

6: **Number of startup IPOs with first female board appointment within two years of going public**

Since 2017, the number of startups rushing to add female board members before their IPO has gone up 10-fold.



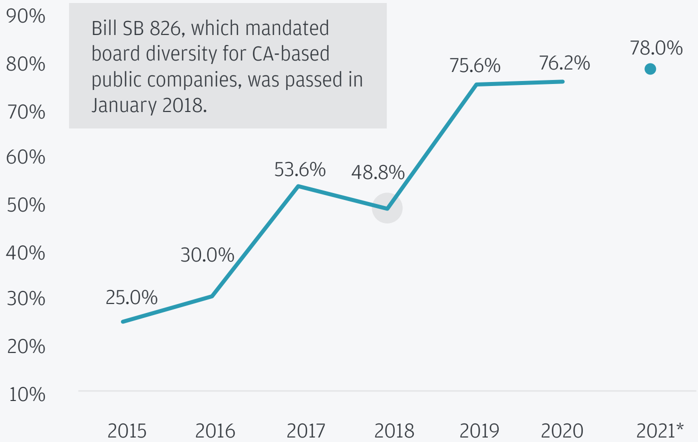
Source: PitchBook | Geography: U.S.
*August 13, 2021

> *"I've seen companies scramble to fill out their boards prior to an IPO. And while it's possible to do that, particularly if you're a hot company, there's value in building your board bench from the early days. As you get to know the strengths of each individual director, it's easier to then determine the next profile that might complement them."*

Lauren Kolodny
Founding Partner at Acrew Capital

7: **Percentage of VC-backed IPOs with at least one female board member before going public (by year of IPO)**

California legislation has led to a steep increase in the percentage of startups with women on their boards.



Source: PitchBook | Geography: U.S.
*August 13, 2021

In 2018, only 49% of VC-backed companies had at least one female director on their boards before going public (Chart 7). As low as that number was, it was nearly twice as high as 2015, when only 25% of public-bound startups had a female director prior to their IPO.

California bill SB 826 is at least partially responsible for the sudden increase in 2019. The bill, signed in January 2018, mandated that all California-based public companies have at least one female director on their boards. The percentage rose from 49% in 2018 to 76% in 2019.

Three years after SB 826 was passed, the ratio has remained at similar levels, suggesting that the legislation has had a lasting impact on the pre-IPO landscape.

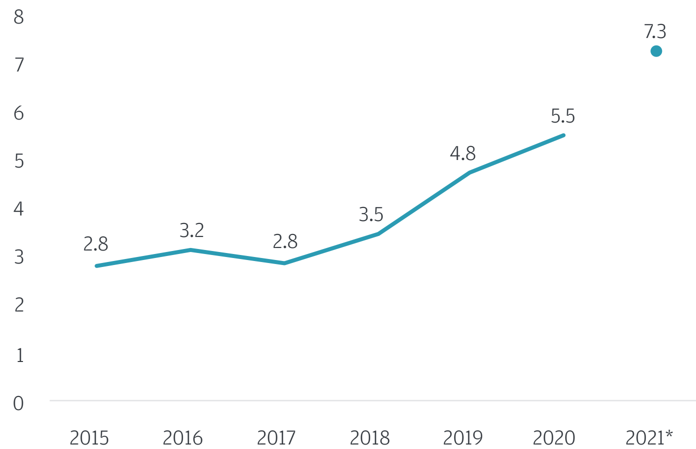
The lifecycle of a board

Between 2015 and 2017, the average company was three years old when it added its first female board member.

But starting in 2018, the average company age began to increase (Chart 8). As highlighted earlier, this change was due to older, late-stage startups being encouraged to make their first appointments. And the average age continues to go up. Startups that added their first female director in 2021 were, on average, more than seven years old.

8: **Average company age (years) for startups adding their first female board director**

Companies today, on average, are more than seven years old when they add their first woman to their board.



Source: PitchBook | Geography: U.S.
*August 13, 2021

> *"The role of a corporate director is to challenge the status quo, help shape strategy and push leadership to be its best. Late-stage startups that see a future as a public company need to embrace governance early—and with a stakeholder mindset."*

Rebecca Thornton
Managing Director; Head, Director Advisory Services, J.P. Morgan

The prospect of going public introduces a common inflection point for startups. To help attract the capital and valuations investors would like to achieve, many pre-IPO companies add women on the board to look like they have professional–and diverse–governance.

These last-minute appointments can mask the venture community's diversity problem. Private companies' board directors don't need to be highlighted on websites. That changes, however, when a company fills out an IPO prospectus and board members become more visible.

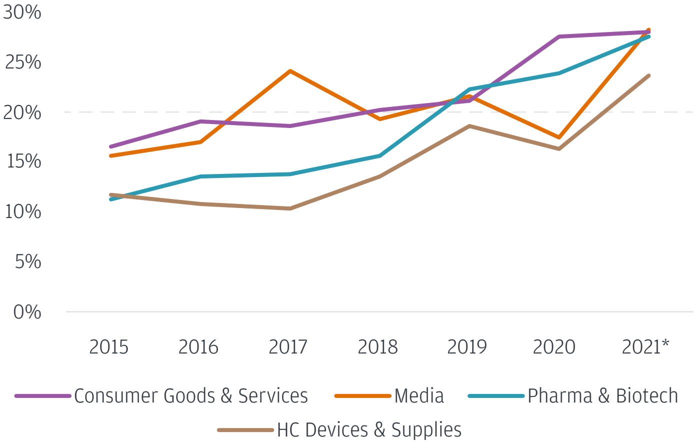
> *"Independent board slots are an immediate and actionable way to add more diverse perspectives to private company boards. Startups should consider doing this earlier."*

Lauren Kolodny

Connections matter

9: **Sectors with highest percentages of new female board directors by year**

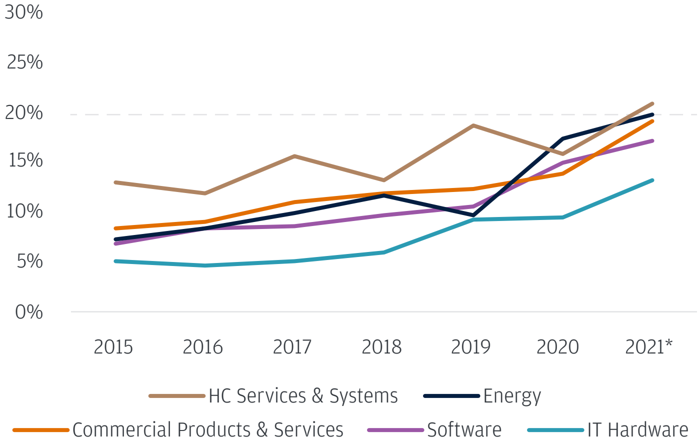
Over the years, boards at consumer goods and media companies have been among the most diverse.



Source: PitchBook | Geography: U.S.
*August 13, 2021

10: **Sectors with lowest percentages of new female board directors by year**

The IT hardware and software sectors continue to be at the low end of the diversity spectrum.



Source: PitchBook | Geography: U.S.
*August 13, 2021

PitchBook data confirms many assumptions about boardroom diversity: Certain sectors are more forward-looking than others, and the same can be said for some cities.

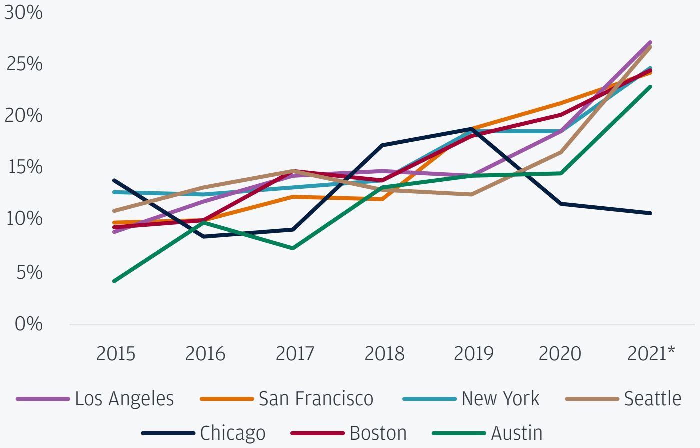
At a sector level, some markets have been quite progressive for years (Chart 9), while others are still catching up (Chart 10). Consumer goods and media remain among the sectors with the highest levels of boardroom diversity. But the healthcare sector has seen significant gains with companies in the healthcare devices, pharmaceutical and biotechnology spaces more than doubling their number of female board members since 2016.

Perhaps unsurprisingly, the low end of the gender diversity spectrum includes IT hardware—chiefly semiconductors—which has long been a laggard compared with other sectors. Software, still the biggest segment in the venture community, is the second lowest, though it has improved in recent years.

Networks are crucial in the venture world, but they can be limited by sector and geography. To add diversity to their boardrooms, startups may have to look beyond their own industries or cities to find board members.

11: **New female board representation by U.S. ecosystem**

Gender diversity has skyrocketed in tech hubs, but has fallen in the more industrial Midwest.



Source: PitchBook | Geography: U.S.
*August 13, 2021

Of the seven major ecosystems in the U.S., all but Chicago are trending up (Chart 11). Tech hubs such as San Francisco, New York, Boston, Los Angeles, Seattle and Austin have nearly doubled their boardroom gender diversity within the last five years.

Chicago's boardroom diversity, on the other hand, has stagnated. Still considered an industrial town in many ways, Chicago's VC ecosystem has largely evolved around B2B, manufacturing and logistics—sectors not traditionally rich in gender diversity. Elsewhere, in cities such as San Francisco and Los Angeles, we expect to see diversity statistics continue to increase due to statewide legislation.

Key takeaways

1 There is much work to be done.

U.S. startups have seen widespread increases in boardroom diversity, but they still lag their public market peers. To close the gap, the venture industry should benchmark diversity today—and then track any changes with complete transparency.

2 The best boards are truly diverse.

They have diversity of gender, diversity of thought and diversity of life experiences. They reflect a company's customers, employees and suppliers. Having a diverse board has a balancing effect that brings in new perspectives and benefits the entire company.

3 Governance can be inspiring.

Don't think of it as a regulatory necessity. Instead, use governance as a way to set the culture for your board—which ultimately should set the tone for your entire company. Much like a company's first employees can drive culture among the staff, your first board additions can have an outsized influence on board dynamics. Take your time to get it right.

4 But don't take too long.

The sooner you bring on independent board members, the sooner your company can reap the benefits. Your company's culture, values and strategies are formed during the early years. From entry-level talent to senior leaders and board directors, you should have female voices "present at creation" to help define your business.

5 Investors play a role, too.

Founders aren't the only ones who can bring diversity to a startup's board. Investors are a key part of the equation as well. They serve on the boards of companies they invest in, and they often influence who joins them in the boardroom. Investors can help bring about real change.

6 Know your blind spots.

Company leaders often lean on their friends and networks to build their boards. But this can lead to hiring people who all look and think alike. Know your network's limitations. Actively hone your connections and look beyond your inner circle. If needed, consider hiring a third-party recruitment service.

7 Finally, go all in.

Experience has shown that one board member from an underrepresented community doesn't make a significant difference, at least in terms of company performance. When boards include at least two or three underrepresented groups, however, a shift in company performance begins to surface.

What J.P. Morgan is doing

At J.P. Morgan, we are committed to creating an inclusive and supportive ecosystem where all investors and innovators can thrive.

We believe diversity in the boardroom should be more than a best practice. It should be an industry standard. And it's especially important in tech companies, which have a huge influence on workplace culture everywhere. Those of us in the innovation economy owe it to everyone to be leaders in good governance and inclusion.

Why are we doing this? Like you, we are invested in strengthening the underpinnings of American entrepreneurship. Greater board diversity and improved corporate governance are two areas where founders, their backers and those around the ecosystem can all work together to move the ball forward. Our Directory Advisory Services team has been working with clients since 2016, advising them on governance strategies and director referrals.

This report is just the beginning. We know there's more work to be done. Among the steps we are taking: increasing outreach and education on boardroom diversity; engaging our partners and clients to help them do more; and challenging the status quo.

Because we know diverse boards can help businesses succeed.

How we can help

Diversity is key to our mission and work. It's helped our clients and our firm get to where we are today—and it can help your company, too.

We understand that your business is growing, and you need a bank that evolves with you. To support your business, we provide access to innovative thought leaders and offer a range of full-service solutions for each growth stage. We have advisors who are dedicated to your long-term success—both personally and professionally.

Our Commercial Banking teams help successful startups launch and grow, while our Corporate & Investment Bank can help companies go public, scale and transform. And our Private Bank works with individuals and their families to help them achieve their unique ambitions and experience the full possibility their wealth can create.

No matter where you are in your journey, J.P. Morgan can help you build your future.

About the author

Rebecca Thornton

Managing Director; Head, Director Advisory Services

J.P. Morgan Securities LLC

Rebecca Thornton has spent more than two decades in director recruitment, board advisory services and CEO succession planning. During her career, she has participated in more than 1,500 board and CEO assignments. She has taken part in board builds, IPOs, SPACs and worked with private equity firms, families and founders looking to evolve their governance models.

As head of Director Advisory Services at J.P. Morgan, Rebecca and her team serve as a central point of contact for board candidates and corporate clients looking for board members. To date, Director Advisory Services has worked with more than 1,000 of J.P. Morgan's clients—from privately held businesses to corporations with market caps over $300 billion. The division's candidate network includes CEOs and other C-suite leaders in a range of functions across the innovation economy and other industries. Importantly, more than half of the candidates are women and/or under-represented individuals.

Before joining J.P. Morgan in 2018, Rebecca worked for the executive search firms Heidrick & Struggles and Spencer Stuart.

Rebecca holds a bachelor's degree with honors from Colby College in Waterville, Maine. In addition to volunteering for several local charities and institutions, she serves on the Board of Trustees of New Canaan Country School in Connecticut.

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