How Top US and UK REITs Can Drive Performance Through Board Diversity

US/UK REIT Comparison Research
INTRODUCTION

A multi-decade trend towards female representation in the boardroom is accelerating across the globe. Several global industry groups and governments have set a goal for at least 30% female board representation by 2018. Foreign governments, primarily in Europe, have taken legislative action to ensure these goals are met.

The United Kingdom has yet to legislate boardroom targets, but voluntary measures to increase female representation have been put into place, the most notable being the Davies Review. In the United States, progress towards increased female representation is also being driven primarily by private organizations and successful public figures on a voluntary basis.

In order to determine whether this trend to increase female representation is noticeable in the US and UK REIT industries, Ferguson Partners Ltd. collected data on forty top performing US REITs and the thirty top performing UK REITs. In addition, we examined how female board representation in the REIT industry compares to the broader S&P 500 index and FTSE 100 companies.

FINDINGS

Board Size

The top 40 US REIT boards have 8.7 members on average, which is similar in size to a top UK REIT board, which has an average of 8.4 members. Both US and UK REIT boards are smaller than S&P 500 and FTSE 100 company boards, which average 10.8 and 11.0 members respectively.

Female Representation

The representation of women on top performing US REIT boards is 12.6%, which is slightly less than the 13.4% female representation on the top UK REIT boards.

Both US and UK REITs significantly underrepresent women on their boards when compared to the S&P 500, which has an average female representation of 20%. Not only do REITs trail the S&P 500 in female representation today, but S&P 500 companies were more progressive in 2005 than the top performing REITs are today, when S&P 500 female board representation already averaged 15%.

In the UK greater progress towards female representation has been achieved, as female board representation for FTSE 100 companies is 26.1%. Remarkably, this represents over a 100% increase in female directors since 2011.
Eighty percent of the US REIT boards have at least one female director, whereas 73% of UK REITs have a female director.

Of the S&P 500 companies, 97% have at least one female director and three-quarters have at least two female directors on the board. In 2005, 88% of S&P 500 companies had at least one female director and nearly half had at least two female directors.

One-hundred percent of FTSE 100 companies have at least one female board member and 55% of the companies have greater than 25% of their board comprised of females. In 2011, 21% of FTSE 100 boards had no female representation and only 12% of companies had above 25% female board representation.
There is not a noteworthy difference in female representation between US and UK REITs. Moreover, the research shows that both US REITs and UK REITs dramatically underrepresent women when compared to the broader indices of their respective countries.

The explanations for lack of women on boards in the REIT industry are plentiful. Hypotheses include:

- Lack of women in the industry
- Harder to identify and recruit female candidates
- Women have limited time flexibility

Instead of justifying why women are not included on REIT boards, REIT executives need to develop strategies that seek more diversity. There is now a plethora of data across industries showing that companies with a higher percentage of women board members demonstrate superior financial performance. Many believe considering a diversity of perspectives on the leadership team correlates to enlightened management decision-making.

The relationship between gender diversity and performance is a correlation, not necessarily causality. However, the findings enable one to consider on a reasonable basis that companies with more gender diverse executive management teams and Boards might have distinct advantages over the less diverse competition.

**POTENTIAL COMPETITIVE ADVANTAGES OF A MORE GENDER DIVERSE TEAM**

**Identify with a larger customer base:** Women represent a bigger growth market than China and India combined. Female yearly earnings are now above $13 trillion and
females control nearly double that number in annual consumer spending. Furthermore, women make the decisions in the purchases of homes and vacations over 90% of the time. Perhaps, a more gender diverse management structure will be able to more innovatively market the company’s strategy to female buyers.

**Ability to recruit and retain talent:** Better talent translates into superior financial performance. A determined effort to develop a larger more diverse pipeline of candidates should produce improved financial results. Gender diversity is increasing at the MBA level, as Harvard Business School, Wharton and Stanford all have female enrollment above 40%. Demonstrating the importance of female leadership can enable a company to more effectively recruit these individuals.

**Form non-consensus opinion:** Senior management teams need to be able to be able to measure risk and understand the significance of their decisions. A diverse team is in a better position to predict possible outcomes to increasingly complex issues.

**Positive more inclusive company culture:** Diverse leadership helps alleviate perceived prejudices and helps to foster an organization that is more dynamic in decision making. Eliminating negative stereotypes will limit turnover, which for high-level employees can cost 400% of their annual salary.

Better represent diverse workforce in sectors like residential, retail, healthcare, etc.

**HOW CAN COMPANIES IMPROVE FEMALE BOARD REPRESENTATION?**

**Executive Focus:** If a company is going to encourage diversity, it has to start at the Board level and drive it through senior management. If a company’s customer base and employee population are diverse, it is counterintuitive not to have diversity on the Board. Since male representation on boards significantly outnumbers female membership, it should be noted that men will need to take an active focus in increasing board gender diversity.

**Expand Search Criteria:** Previous Board or Chief Executive Officer experience is a common criterion for a board search, making it difficult for women to find their first board assignment. Since there is an insufficient pool of experienced female board members in the industry, if companies want to achieve gender diversity, they will need to adapt their Board qualifications.

**Look Beyond the Real Estate Industry:** Real estate is a broad industry, which touches many adjacent fields. Many REITs can benefit from gaining the perspective of individuals in related fields such as consumer goods/services and technology.
Focus on Candidate Quality, Not Quotas: Aggressively hiring unqualified women into Board roles in the name of diversity can have a negative impact on performance and limit future diversity hires. If the first female board member is well qualified and a good fit with the board, this better enables increasing gender diversity in the future.

CONCLUSION

The trend towards more female representation in the boardroom is not as pronounced across the REIT industry when compared to broad industry indices. Therefore, the REIT industry, in the United States and the United Kingdom, needs to focus on implementing more progressive measures to ensure that women are being represented on company boards. The goal to achieve more female diversity is readily achievable, as shown by the progress made by S&P 500 companies and especially FTSE 100 companies.

REITs should pursue more female representation on their boards not in the name of diversity, but to recognize that the most inclusive REITs will be the best prepared to succeed. Creating a gender diverse Board will enable REITs to appeal to a larger customer base, to hire and retain the top women in the industry, form non-consensus opinions and improve culture. Thus, if the diversity trends across corporate America hold true in real estate, REITs with more female representation will ensure they remain competitive and drive financial performance.

SOURCES:

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<table>
<thead>
<tr>
<th>Ferguson Partners</th>
<th>FPL Associates</th>
<th>FPL Consulting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive Search</strong></td>
<td><strong>Leadership Consulting</strong></td>
<td><strong>Management Consulting</strong></td>
</tr>
<tr>
<td>Board/Trustee Recruitment</td>
<td>Succession Planning</td>
<td>Strategic Planning</td>
</tr>
<tr>
<td>Board Assessment</td>
<td>Assessment for Selection or Development</td>
<td>Organizational Design</td>
</tr>
<tr>
<td>Chairmen/CEOs/Presidents</td>
<td>Executive Coaching</td>
<td>Corporate Finance</td>
</tr>
<tr>
<td>Senior Management/Corporate Officers</td>
<td>Team Effectiveness</td>
<td>Specialized Research</td>
</tr>
<tr>
<td><strong>Compensation Consulting</strong></td>
<td><strong>Benchmarking</strong></td>
<td><strong>Surveys</strong></td>
</tr>
<tr>
<td></td>
<td>Program Design</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contractual &amp; Policy Arrangements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Surveys</td>
<td></td>
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<tr>
<td><strong>Leadership Consulting</strong></td>
<td><strong>Executive Coaching</strong></td>
<td></td>
</tr>
</tbody>
</table>
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