Los Angeles (USA), Oct 6 (EFE).- California has just passed a law requiring publicly traded companies with more than five directors to have at least two or three female board members by 2021, citing the dominance of women in the population and in making purchasing decisions, according to a Dow Jones Newswires report made available to EFE on Saturday.

The thinking is also that more diverse boards lead to better business decisions and financial performance because they reflect independent, nonconsensus thinking that challenges the status quo and helps avoid risks.

A good test of the link between diversity, independence, and financial performance may be Tesla.

Under a new agreement with the SEC to settle securities-fraud charges, Tesla must appoint an independent chairperson and add a third independent director, while Chairman and CEO Elon Musk must give up the chairmanship for at least three years.

Currently, the independent directors are Linda Johnson Rice, chairman and CEO of Johnson Publishing; and James Murdoch, CEO of Barron's sister company 21st Century Fox (FOXA). (Separately, some Tesla directors have reportedly proposed that Murdoch take over the role of chairman since much of Fox is being sold to Disney.)

Tesla declined to comment on the California law or its search for directors.

Rice is also one of the two women on Tesla's nine-member board. Robyn Denholm, chief financial officer of Telstra, the Australian telecommunications company, is the other.

If Tesla really wants to improve its board, perhaps it should make both of the new directors women.

"Women manage differently than men," says Charlotte Laurent-Ottomane, executive director of Thirty Percent Coalition, which promotes board diversity, and whose investor membership oversees $4.5 trillion in assets.

"If Tesla had a more diverse board, some board members would have challenged the CEO on his work-life balance, [ensured] a corporate and investor communications process that was measured and coherent."
Report: Tesla is a test case for California's push to add women to boards

A gender-diverse board would have seen red flags and avoided a lot of mistakes both financial and reputation wise that were made."

That will be the point of new cage-rattling from Change to Win, an organization of big institutional investors including the California State Teachers' Retirement System.

This year, CtW recommended investors vote No on reelecting Murdoch, Musk's brother Kimbal, and venture capitalist Antonio Gracias to the board on grounds that they were insufficiently independent.

CtW is now drafting a letter to Tesla's board. Among other requests, it asks that they put in a place "a plan to rotate new directors with no personal connection to Elon Musk including a significant number of women," with experience in regulation and other relevant areas, says Richard Clayton, the group's director of research.

What does that add up to? "There will be at least one more woman on Tesla's board," says Mercer Bullard, an expert in corporate and securities law at the University of Mississippi School of Law.

Tesla's shares have fallen 25 percent from their 52-week high of $387 as investors have responded to Musk's plan, later withdrawn, to take the company private, the subsequent SEC probe and settlement, concerns about production, and the likelihood of a loss for the year despite Tesla's projection of profitability for the second half.

There's certainly reason for hope.

"All the research shows that when you have diversity and a culture that invites dissent and independent views, you get to better decisions," says Katy Sherrerd, CEO of Research Affiliates, a Newport Beach, California investment manager, speaking generally about California's new law.

The trouble is that diverse viewpoints will probably clash with a mercurial CEO who "wants the board to be more compliant," says Mercer Bullard of the University of Mississippi.

In other words, don't expect the drama to stop, Dow Jones added in a report made available to EFE.

By Leslie P. Norton

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