July 2014

Point of view

Our perspective on issues of concern

Women on boards: global approaches to advancing diversity

Welcome to EY's Point of view *series. These documents express our view on current public policy and regulatory matters of importance to our stakeholders, our profession and the capital markets.*

Our point of view

Research shows that board diversity enhances corporate performance, and failing to address the gender gap can have economic consequences. Yet in most countries around the world, women remain woefully underrepresented on corporate boards. Based on our observation of global trends, we believe that three mutually reinforcing factors can lead to progress on this issue: focused public sector attention, committed private sector leadership and corporate transparency to meet growing public demand for change. These three elements take different forms in different countries, consistent with the national legal, political and cultural landscape. However, in whatever form they take, together they seem to accelerate change.

Context

- *Mining the metrics of board diversity,* a study published by Thomson Reuters in 2013, analyzed levels of board gender diversity at 4,100 public companies around the world as well as their performance since 2008. The authors found a strong correlation between mixed boards and better returns.[1]
- A report from Credit Suisse, *Gender diversity and corporate performance*, based on an analysis of 2,360 companies worldwide, found that between 2005 and 2011, companies with at least some female board representation outperformed those with no women on the board in terms of share price performance. The average return on equity (ROE) for companies with at least one woman on the board over the six-year period was 16%, four percentage points higher than that of companies with no women on their boards (12%).[2]
- In the 2007 report in its *Women Matter* series, McKinsey & Company found that the 89 European-listed companies with the highest proportions of women in senior leadership positions and at least two women on their boards outperformed industry averages for the Stoxx Europe 600, with 10% higher return on equity, 48% higher EBIT (operating result) and 1.7 times the stock price growth.[3]

EY

Building a better working world

These represent just a small sample of many studies, all reaching similar conclusions. Nonetheless, the worldwide percentage of women on corporate boards stood at only 11% in 2013.[4] Of course, those rates range widely by country — the top five of 44 countries ranked by GMI Ratings in 2013 were Norway (40.5%), Sweden (27.0%), Finland (26.8%), the UK (20.7%) and France (18.3%). The bottom eight, including Japan, South Korea and several Middle Eastern countries, were all under 2%. The US ranked ninth, with 16.9%. Australia (12.3%) and Canada (12.1%) ranked 14th and 16th, respectively. The highest-ranking Asian country was Thailand (9.7%), with Hong Kong a close second (9.6%). In South America, Brazil led the pack with only 7.7%.[5]

Key points

- **Public sector leadership draws the necessary attention to the issue, and quotas aren't the only option.**

Increased attention from public officials keeps pressure on the private sector and results in faster change. While the approaches differ from one country to another, the common factor is that public officials use their platform to advocate visibly and vocally for change, putting pressure on the private sector to step up. For example:

- **Champion for voluntary targets.** In 2010, the UK Government asked Lord Mervyn Davies of Abersoch to lead an independent review of how to improve gender diversity on UK corporate boards. Lord Davies' initial report called for businesses to meet aggressive but voluntary targets, in lieu of recommending quotas. Lord Davies has continued to issue recommendations along with annual progress reports benchmarking UK businesses against the voluntary targets first set in 2011 (e.g., 25% women on FTSE 100 boards by 2015). The percentage of women on FTSE 100 boards increased from 10.5% in 2010 to 20.7% in 2014.[6] The Davies initiative gained momentum because it inspired UK businesses to rise to the challenge of increasing board diversity without the imposition of quotas.
- **Government-led initiatives.** In Australia, Sex Discrimination Commissioner Elizabeth Broderick convened the "Male Champions of Change" initiative to accelerate private sector efforts to recruit and promote women.[7] In addition, Australia's Workplace Gender Equality Agency works with business to support compliance with Australian law.[8] Moreover, the Australian Government is committed to leading by example. In 2010, the Government committed to a target of 40% women on government boards by 2015. In June 2013, the government reported reaching its goal two years early.[9]
- **Quotas.** More than 20 countries have adopted quotas for women on corporate boards.[10] Some have seen dramatic change; in other cases, it is too soon to measure the impact.
  - Norway is the most prominent example, going from 9% in 2003 to more than 40% in 2012 after enacting a 40% quota. However, non-compliance with Norway's law has dramatic consequences: publicly traded companies that fall short of the 40% women board director goal can be dissolved by court order.[11]
  - France ranks fifth in the world, with 18.3% women directors and more than half of French boards having at least three women. In 2004, French women held only 7.2% of board seats at publicly listed companies. Quota legislation was passed in 2010, and progress has been steady.[12] According to EU data that covered 610 of the largest publicly listed companies from the 28 Member States, women made up 29.7% of the board members for French companies.
  - India, in its new Companies Act, now requires any public company with five or more directors to have at least one female board member. In 2013, only 4.7% of India's corporate directors were women.
  - The United Arab Emirates, with only 1.2% female corporate directors, is now requiring all companies to have at least one woman on the board, although there is no deadline for compliance.

- In the EU, Justice Commissioner Viviane Reding's proposed Directive would have imposed a 40% quota for the underrepresented gender (typically women) among non-executive directors by 2020. While the European Parliament approved the proposal in November 2013, it faced significant opposition from several Member States in the European Council, so it was not adopted. However, even the prospect of mandatory quotas has prompted businesses across Europe to start considering and making changes, and the percentage of women directors and executives in EU countries continues to inch up (from 15.8% in 2012 to 17.8% in October 2013).[13]

EY does not support the imposition of mandatory government quotas for board diversity. We prefer setting voluntary and pragmatic targets for achieving gender diversity[14] and holding ourselves accountable, and we encourage other businesses to do the same.

- **Private sector commitment leads to improved gender diversity on corporate boards and in senior leadership ranks.**

Increasingly, companies everywhere are realizing that gender diversity is an economic issue. Many are becoming more transparent about their actions and the progress they are making on diversifying their boards as well as their leadership pipelines. Several organizations, sometimes working with executive search firms, have compiled directories and databases of "board-ready" women to counter suggestions that there is an insufficient number of viable female candidates.[15] And in the US, some boards are looking at board turnover and succession planning as a strategic way to increase diversity.[16]

Beyond the board, for gender diversity measures to be effective, they must be fully implemented across the whole organization, with key performance measures and HR policies to help ensure that women are systematically included in recruitment and promotion pipelines.[17] For example, many US companies have instituted formal and informal policies and practices such as flexible working hours, flexible locations and job-sharing opportunities. Moreover, support from men is critical to quicken the pace of change. Without support from senior leaders — the majority of whom are male — women have a hard time obtaining the empowerment, exposure and experience they need for career growth.[18]

In the UK, the 30% Club helped build momentum by mobilizing the UK business community to support Lord Davies' recommendations to add women to corporate boards.[19] The 30% Club is now expanding to other countries, including Hong Kong, the US, Ireland, Canada, Australia and South Africa. In the US, organizations like Catalyst, the Committee for Economic Development, the US Chamber of Commerce, McKinsey and ION (the Interorganization Network) have sponsored research and dialogue to establish both the business case and the platform for change.

Another approach involves the creation of a public-private partnership comprising representatives of business, government and nonprofits, such as the "high-level national task force" proposed by participants in the fourth annual US SAIS Global Conference on Women in the Boardroom in September 2013. We support efforts to bring the private and public sectors together to bring attention to the issue and provide a forum for sharing best practices and success stories.

- **Corporate transparency is important so that investors have the information they need to hold companies accountable.**

In several countries, disclosure standards for listed companies now include requirements to report on gender diversity policies, which give investors the information they need to hold companies accountable.

- In the UK, Lord Davies' recommendations included changes to the UK Narrative Reporting Regulation requirements and the Corporate Governance Code, which have both been amended to require companies to disclose their gender diversity policies and progress.[20]
- The EU recently adopted its non-financial reporting Directive, under which certain large companies will be required to disclose information on diversity about their board of directors as well as other social and environmental issues.[21]The Directive allows companies some flexibility in determining how to present the required disclosures.

- In Australia, the Australian Stock Exchange (ASX) amended its "comply or explain" corporate governance recommendations in 2010 to include gender diversity policies. Since then, the percentage of female board members on ASX 200 companies has nearly doubled, from less than 9% to 17.6% in 2014. And in 2013, nearly a quarter of the ASX 200 companies had met a target of 25% women directors. ASX's most recent guidance states: "Reporting annually on an entity's gender diversity profile and on its progress in achieving its gender diversity objectives is important. It encourages greater transparency and accountability and, because of that, is likely to improve the effectiveness of the entity's diversity policy in achieving the outcomes the board has set."[22]
- The Ontario Securities Commission (OSC) has proposed enhanced gender diversity disclosure requirements for Canadian companies. Its public consultation received 92 comment letters, and participants in an October 2013 roundtable were generally supportive of enhanced disclosure and voluntary targets as a better alternative than quotas. The OSC's recommendations include a "comply or explain" approach.[23]
- In the US, investors have used shareholder proposals seeking greater gender and/or ethnic diversity on boards to prompt change in board policies and composition, and companies have been responsive. Of the 26 proposals tracked by EY in 2013, nearly 75% of the companies targeted changed their board recruitment criteria to include diversity.[24]

Information about director tenure, which is already part of required disclosures in the US, also helps investors hold companies accountable. Increasingly, US investors are looking at board diversity in the broader context of director turnover and length of service. Fundamentally, investors want to make sure that directors have the right qualifications for the specific company, and that there is a process in place to evaluate directors and succession plans from a strategic perspective.[25]

Finally, gender-specific requirements in certain markets have prompted diversity disclosures that go beyond gender diversity. For example, experience in Australia showed that requiring companies to disclose gender diversity policies encouraged broader diversity disclosures.

What's next?

The emphasis everywhere should be on action on three fronts: public sector focus, private sector commitment and corporate transparency. What success looks like in any particular country will depend on political realities and cultural norms, but it's clear that the attention of public officials as well as both male and female CEOs of publicly held companies makes a difference. And when that is combined with corporate transparency about gender diversity, investors can help by supporting progress and holding companies accountable. Collaboration and mutually reinforcing initiatives can lead to real and measurable results that will benefit companies and investors everywhere.

For more information

For more information on this issue and our views, please speak to a member of the EY public policy team:

Public Policy Executive

Beth Brooke-Marciniak
+1 202 327 8050
beth.brooke@eyg.ey.com

Felice Friedman
+1 202 327 6253
felice.friedman@eyg.ey.com

Americas

Les Brorsen
+1 202 327 5968
les.brorsen@ey.com

Asia-Pacific

Tony Smith
+61 2 6267 3997
tony.smith@au.ey.com

EMEIA

Jeremy Jennings
+32 2 207 1472
jeremy.jennings@be.ey.com

Japan

Kimihiro Izawa
+81 3 3503 1100
izawa-kmhr@shinnihon.or.jp

For information on other public policy issues and EY's views, visit ey.com/publicpolicy.

Notes

1. André Chanavat and Katharine Ramsden, *Mining the metrics of board diversity* (Thomson Reuters, 2013).
2. *Gender diversity and corporate performance*, Credit Suisse Research Institute, August 2012.
3. *Women Matter*, McKinsey & Company, 2007 (updated 2013).
4. *2013 Women on Boards Survey*, GMI Ratings. See catalyst.org for rankings.
5. *2013 Women on Boards Survey*, GMI Ratings. Published on http://catalyst.org/knowledge/women-boards.
6. *Women on boards: Davies review annual report 2014 (third annual review).*
7. Commissioner Broderick has served on the Australian Human Rights Commission as Sex Discrimination Commissioner since 2007. She convened Male Champions of Change in 2010.
8. For example, private Australian employers of more than 100 people must file annual progress reports on their "Gender Equality Indicators" with the Workplace Gender Equality Agency. The Agency also provides businesses with best-practice guidance. See WGEA web site, https://wgea.gov.au/.
9. *Gender balance on Australian government boards report 2012-13*. Source: website of Australian Government Department of the Prime Minister and Cabinet/Office for Women. (http://www.dpmc.au.gov/women).
10. According to Corporate Women Directors International (http://www.globewomen.org/cwdi/CWDI.htm), 22 countries have adopted some form of legal quota. See also *Increasing Gender Diversity on Boards: Current Index of Formal Approaches*, Catalyst, 2013.
11. More than half of Norwegian public companies subject to the gender balance law chose to go private rather than comply with the law. See Bøhren, Ø., Staubo, S., *Does mandatory gender balance work? Changing organizational form to avoid board up-heaval*, J. Corp. Finance (2013), http://dx.doi.org/10.1016/j.jcorpfin.2013.12.005.
12. See Allyson Zimmerman, "Take 5: Questioning Quotas," catalyst.org, May 2013.
13. European Commission website, http://ec.europa.eu/justice/gender-equality/index_en.htm.
14. By "pragmatic targets," we mean targets that reflect the supply of eligible women in the pipeline, which can vary by organization and industry. Certain companies are also setting and announcing targets that take into account whether the percentage of women in management reflects the gender composition of their customer base.
15. E.g., Committee for Economic Development reference guide, available on the CED's website: http://www.ced.org/images/uploads/WomenonCorporateBoards_(3).pdf.
16. *Let's talk: governance (2014 proxy season preview)*, EY, 2014.
17. *Gender diversity in top management: Moving corporate culture, moving boundaries*, McKinsey & Company, 2013.
18. *The corporate sponsor as hero*, EY, 2011.
19. See http://30percentclub.org/.
20. See UK Corporate Governance Code: https://www.frc.org.uk/corporate/ukcgcode.cfm.
21. Adopted by the plenary of the European Parliament on 15 April 2014.
22. ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations*, 3d edition (March 2014).
23. OSC website: http://www.osc.gov.on.ca/documents/en.
24. *Key developments of the 2013 proxy season*, EY, 2013.
25. EY's discussions with about 40 leading institutional investors identified board composition and renewal as one of their top concerns for the 2014 proxy season. See *Let's talk: governance (2014 proxy season preview)*, EY, 2014.