Time for diversity
Accelerating performance in corporate boardrooms
Boards that want to see optimum performance need to recognize the value in diversity and take action now.

The European Parliament is pressing ahead with proposals to enforce a 40% quota for female non-executive directors on the boards of large companies. Its aim is to improve the corporate governance of those organizations by improving the gender balance of senior leadership. If the proposals become law, they will have far-reaching implications for businesses across the European Union (EU).

Diversity is not just about gender, and it is important that the political focus on quotas for women does not distract us from this. Besides gender, diversity is about embracing differences in age, background, ethnicity, nationality, professional experience and training.

To perform at the highest level, boards need to draw on the skills and experiences of a very broad range of people. They must be proactive in seeking out non-executive directors with the right mix of backgrounds and capabilities, and then empower and advance them. This applies equally to newly listed companies and those that have been public for a long time.

This paper follows our 2013 report on diversity, Time for change: recruiting for Europe’s boardrooms. It examines how boards can capitalize on diversity to improve their own performance, particularly with regard to managing risk, while they prepare for the possible introduction of quotas at the same time. For this report, board chairs and non-executives from Europe and other regions shared their views on this important topic. We summarize their main conclusions here. We are grateful to all the contributors for their time and insight.

We also consider what EU companies can learn from the Norwegian experience of gender quotas. We were fortunate to be able to speak to Ansgar Gabrielsen, the former Norwegian Minister of Trade & Industry, who proposed the quota legislation in his country.

I hope you enjoy reading this paper and that you can use its findings to improve the performance of your own board.

Julie Linn Teigland, Managing Partner Europe, Middle East, India & Africa Accounts, EY

“Diversity in general is more important than gender diversity. But gender diversity is a means to achieve diversity, and normally it does.”

Birger Magnus, holder of numerous board-chair positions and non-executive directorships in Norway and internationally
The business case for diversity: why act now?

“Groupthink is a very dangerous thing. When groupthink overtakes, individuals do not raise voices of dissent or raise critical questions. The biggest antidote to groupthink is diversity.”

Subroto Bagchi, co-Founder and Chairman, Mindtree Ltd, India

In November 2013, the European Parliament voted in favor of draft legislation that would impose a 40% quota for female non-executive directors on the boards of large publicly listed and state-owned companies by 2020 (2018 for state-owned companies). Although companies with less than 250 employees and global sales below €50m would be excluded, the measure would still apply to around 5,000 listed companies in the EU.

For the European Parliament proposals to become law, they will need the backing of the EU Member States. While this cannot be assumed, the strength of political support within the parliament itself, in parallel with the quotas for female board directors that already exist in some European countries, suggests that, ultimately, quotas will be adopted.

Norway was the first country in the world to impose quotas on listed companies in 2008. Since then, Belgium, France, Iceland, Italy, the Netherlands and Spain have applied gender quotas to boards. Finland has a 40% target for female board appointments for its state-controlled companies, and Malaysia plans to implement a quota from 2016. Meanwhile, Kenya has passed legislation specifying that no gender should occupy more than two-thirds of the board in state-owned companies.

South Africa stands on the brink of the promulgation of the Women Empowerment and Gender Equality Bill. The Bill, when passed, will call for 50% representation of women in decision-making positions in public and private structures. Quota legislation has also been proposed in Brazil, Canada, Germany, Israel and the Philippines. Other countries, including Australia, Sweden and the UK, have encouraged companies to appoint more women voluntarily to their boards or risk having quotas imposed at a later date. Still, figures from the European Commission reveal that women held just 18% of non-executive board positions in the EU’s largest companies in 2013.¹

The case for accelerating diversity

Diversity in its many forms, including age, background, ethnicity, nationality, professional experience and training as well as gender, is a critical component in a high-performing board. This was the clear consensus in our research. They argued that, since board members from different backgrounds are sensitive to different risks, they could challenge the executive team to manage these more effectively.

As the business environment becomes ever more complex, the risks that companies face are multiplying. Globalization presents particular problems due to the challenges associated with buying and selling goods and services in a range of markets. National and international political and regulatory landscapes are continually changing. Furthermore, rapid advances in technology are bringing risk as well as opportunity, because companies are forced to adapt quickly to evolving social trends.

Unforeseen threats are appearing with accelerating frequency for all types of business. But they can be especially menacing when a company has just been listed and is adjusting to life as a public entity for the first time.

To take gender diversity as one example, myriad research confirms that having women on boards improves corporate performance in quantifiable ways. A worldwide study from Credit Suisse in 2012 found that, between 2005 and 2011, the average return on equity for companies with at least one woman on the board was 16%, four percentage points higher than in companies with no women on their boards.2

In 2013, research by US academics Maurice Levi, Kai Li and Feng Zhang found that companies with women on their boards are less likely to make acquisitions – and less likely to overpay when they do.3 Meanwhile, analysis by UK academics Nick Wilson and Ali Altanlar in 2009 found that having just one female director on the board cuts the risk of bankruptcy by 20%.4


“Women think more intuitively about their personal impact, both upon people within their company, and also externally upon customers.”

Allison Kirkby, Group Chief Financial Officer at Tele2 AB, Sweden, and Non-Executive Director, Greggs Plc, UK

Risk management is not the only area where diversity improves board performance. Since most companies have a broad and increasingly international customer base, they need a spectrum of board members who can relate to those customers. This is especially important in consumer industries where women are thought to control or influence 70%-80% of all consumer spending globally.5

Participants in our research suggested that diverse leadership teams and diverse workforces would in turn be motivated to perform better for diverse boards. They argued that, in organizations where it is evident that people from different backgrounds and with different skillsets can make it to the top, a broader range of talent is likely to progress through the ranks, giving the company a deeper talent pool to draw on.

Many of the board members we spoke to noted that the significance of diversity differs in rapid-growth markets compared with more established markets. For example, in markets such as India, women do not participate in the workforce to the same extent as men. So there is an even greater need for companies based in these markets to have women on their boards in order to encourage more women to join – and progress – through the workforce and contribute to economic growth. This is an important consideration for European companies with subsidiaries in high-growth markets.

The evidence shows that there is a powerful business case for accelerating diversity on boards. Furthermore, fast-forwarding the professional advancement of women, and empowering them to succeed, is a critical part of that acceleration process.

Percentage of female board directors by EU nation
Countries with quotas are highlighted in yellow.

Source: European Commission.
What do women bring to the table?

“If you join a board as a woman, and perhaps the only one, it helps to value that difference, and believe that your situation gives you license to ask questions and share views, not to hold back. You can turn being different into being a positive.”

Lady Susan Rice CBE, Managing Director, Lloyds Banking Group Scotland, and holder of various non-executive directorships in the UK

While our research found that it is diversity in its broadest sense that drives board performance, gender diversity is a crucial component and therefore warrants special attention. Women make up half the world’s population, yet they held just 11% of corporate board positions in 2013.6

According to the executives and directors who participated in our research, women tend to have certain qualities and characteristics that can enhance the performance of the boards that they sit on. In particular, they have strong listening skills, greater empathy and patience, and a willingness to understand the perspective of others when making decisions. They are inclined to take a longer-term view of the business and show an interest in issues such as sustainability and talent development.

Our study also found that female non-executives often act as role models. Their presence on the board, together with their collaborative approach to decision-making, can give confidence to both the female executives and the workforce more broadly, thus enhancing company performance. This is supported by research conducted in 2013 by Chris Bart, Professor of Strategic Management at the DeGroote School of Business at McMaster University in Canada. His survey of more than 600 board directors found that women are more likely to consider the rights of others and take the interests of multiple stakeholders into account in order to arrive at fair and ethical decisions.7

Participants in our research frequently commented on how well prepared female non-executives tend to be for board meetings compared with their male peers. Some also argued that female board directors ask more challenging questions.

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IPOs: the risks of having too few women on boards

In February 2014, analysis by Financial News found that just 11.5% of directors on the boards of the 17 companies that floated in London in 2013 were women. In the US, 8 out of the 13 Silicon Valley companies that undertook an IPO between January and October 2013 had no women on their boards. This is inconsistent with market dynamics, since women are more likely than men to buy tablets, laptops and smartphones, according to market research firm Park Associates.

Many newly listed companies have a background in private equity, which may explain their shortage of female non-executive directors. Private equity is a heavily male-dominated industry that tends to rely on existing networks when filling board positions. Furthermore, having a diverse board does not seem to be a priority for companies when they are listing, whether they have private equity owners or not. Instead, our research suggests that they tend to look for board members who have expertise that is relevant to the listing process, for example, in International Financial Reporting Standards.

It is shortsighted for newly listed companies to neglect board diversity. Following an IPO, companies face significant risks, so they need board members who are equipped with a variety of skills and experiences to help them to make the best strategic decisions. Newly listed companies have to manage shareholder expectations and handle the scrutiny of regulators, governments, stock exchanges and the media, which now look beyond current financial performance and take into account future risks as well. EY research in 2013 found that half of investors had sold shares in a company because they decided its risk management framework was weak.

Interestingly, a 2002 study by UK academics Val Singh and Susan Vinnicombe revealed that, when female directors are appointed, boards are quicker to adopt new governance practices, such as director training, board evaluations and director-succession planning structures. It is precisely these kinds of practices that newly listed companies should put in place to help them mitigate risks.

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A diverse board has a competitive advantage over its less diverse peers. It can draw on the different characteristics and backgrounds of a broad range of people to help it manage a wide variety of risks. Therefore, the European Parliament’s proposed quota for women represents a real opportunity for boards to seize the strategic advantage. In order to do this, however, they need the right leadership in place. They also need to start taking action now to avoid a skills shortage at a later date. In particular, this applies to boards in male-dominated industries or those with a private equity background. For example, EY’s 2014 report Talent at the table: index of women in power and utilities found that just 12% of the senior management team in the power and utilities sector globally are female.

The participants in our research for this report unanimously agreed that the chair plays a critical role in ensuring that the board capitalizes on its diversity to perform at the highest level. They thought that chairs should be committed to accelerating diversity and be able to facilitate open discussions, ensuring that all board members’ views are heard and valued. They must know the non-executive directors individually and have an awareness of their specialist knowledge.

We found that the board chair must be instrumental in ensuring that a range of candidates is considered when a new board appointment is needed. In Time for change: recruiting for Europe’s boardrooms, we showed that, across Europe, there is a widespread tendency for boardroom appointments to be a “closed shop” – where consideration is only given to candidates who have already served on boards – and for personal networks to be the primary recruitment tool. Forward-looking chairs should re-evaluate this approach urgently.

“The chair should create trust, ensure that board members feel confident about expressing themselves and ensure that they do, in fact, express themselves.”

Héléne Ploix, Chairman and Managing Director of Pechel Industries Partenaires and Pechel Industries, France

“Time for diversity Accelerating performance in corporate boardrooms

There is a pool of talented women in France. When you want to find them, you can find them.”

Amélie Oudea-Castera, Chief Digital and Marketing Officer, AXA, France, and former Non-Executive Director for Lagardère

Board chairs need to take a long-term approach to succession by planning for vacancies before they arise. Our research participants recommended strongly that board chairs should push the nomination committee and the executive search firm (or whoever is doing the search) to consider a broader pool of candidates. This means considering talented individuals who don’t yet have listed company experience. For example, these could be entrepreneurs, company leaders who are just below executive level, or directors of subsidiaries or not-for-profit organizations.

They also need to challenge the company on its talent pipeline to make sure that a diverse range of people are being nurtured for future leadership roles and that capable women are being fast-forwarded where appropriate. One participant suggested that the chair should ask the executive team to provide a diversity dashboard that tracks the progression of different groups at every level in the organization. Several emphasized the importance of encouraging talented people to make presentations to the board and gain experience on the boards of subsidiaries, not-for-profit organizations and senior committees as part of their professional development. As the number of people with board experience grows, companies in general will have a deeper pool of potential non-executive directors to draw on.
“The tone from the top is not enough. You have to intervene at the middle-management level at the same time. You need to invest in future leadership. I invest time and energy in middle management.”

Felia Salim, Vice President Director, PT Bank Negara Indonesia, Indonesia

“Time for diversity Accelerating performance in corporate boardrooms”

Uli Fricke, Managing Partner at German investment firm Triangle, highlighted the importance of reaching out to school-age girls in order to encourage them to achieve female leadership positions. She commented: “The challenge starts with the education that girls take up after school and the priorities they set themselves. How do we help teenage girls to think about their future careers?” So there is an opportunity for the board chair and other board members to help to facilitate change on a wider scale, by talking to schools, colleges, community organizations and other groups in order to encourage a broader range of people to aspire to senior roles within business.

Lessons from Norway

The Norwegian quota for women on boards, first proposed by former Minister of Trade & Industry Ansgar Gabrielsen, came into effect in January 2008. While there has been some criticism of so-called “golden skirts” – women who hold multiple non-executive directorships due to an apparent shortage of suitably qualified individuals – the quota is generally regarded positively. Siri Hatlen, a Norwegian board chair, noted that the quota had “sped up the process of getting good women on boards.” She also said that, over time, it has become easier to find well-qualified women to fill board positions.

The Norwegian experience suggests that, if a quota for female non-executive directors is enforced, there will be a race for the best female talent. Some talented women will be tempted to drop out of line-management positions in their companies and take up non-executive director roles before they have fulfilled their true potential.

Norwegian board chair Birger Magnus said: “Some women are jumping off the ladder too early in their careers.” This poses risks to both companies and the female non-executive directors themselves, since firms lose potential female executives prematurely, while non-executive directors can find it hard to contribute to board discussions if they lack relevant line-management experience. To manage this risk, companies should help their up-and-coming female leaders to acquire additional non-executive experience, while encouraging them to progress in their current roles.

“We have had golden suits for 50 years. No one is talking about golden suits.”

Ansgar Gabrielsen, former Norwegian Minister of Trade & Industry, on “golden skirts.”

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Ansgar Gabrielsen, former Norwegian Minister of Trade & Industry, on “golden skirts.”
Conclusion

“I don’t like quotas, but I like what they do.”

Vivian Reading, European Commissioner for Justice, Fundamental Rights and Citizenship

Regardless of whether quotas for female non-executive directors are enforced in the EU, diversity should be seen as an opportunity for your board to execute corporate oversight more effectively. We are still some years away from the proposed quota coming into effect. Boards that take action on diversity now and plan a long-term strategy for a pipeline of talent will reap the rewards if quotas are introduced at a later date.

By following our diversity action list below, boards can ensure that both they and their companies thrive in a global business environment where risks will constantly emerge and become more complex.

Diversity action list for board chairs

- **Set the right tone at the top** by creating a boardroom environment where different perspectives are encouraged and valued. Ensure that all board members understand the business case for accelerating diversity.

- **Start preparing for the introduction of quotas now** to avoid a skills shortage later. Companies in male-dominated industries and those with a background in private equity will need to put in extra effort immediately.

- **Take caution from Norway’s example** – women should avoid leaving line-management positions early to join boards. It can be counterproductive in the long run if board candidates leave their jobs before they reach their potential. Challenge the executive team to develop a female-talent pipeline by encouraging women to gain board experience by sitting on the boards of subsidiaries and not-for-profit organizations, making presentations to the board and joining senior committees.

- **Broaden board recruitment processes** to include entrepreneurs and individuals who have board experience not necessarily acquired with listed companies.

- **Monitor diversity in the organization** and ask the executive team for a “diversity dashboard” to track the progression of different groups at every level of the organization. By giving more talented people the chance to progress, your organization is less likely to suffer a skills shortage if quotas come into effect.

- **See diversity as critical to business and society** – diversity needs to be embedded both within the company and within the community at large. Encourage board members to go to a school or community organization for half a day each year to talk about what they do.

- **Ask lawmakers to phase in the quota** so that companies have time to prepare.
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