Gender Diversity on Boards

A Review of Global Trends

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Published: September 25, 2014

Key Takeaways

› Female representation on corporate boards globally has increased noticeably over the past several years across several markets and market capitalizations, irrespective of the presence of gender diversity quotas. That said, markets with mandatory quotas generally have higher female board representation than those without quotas.

› Globally, investors, regulators and other market participants continue to have a growing focus on and emphasize the need for board gender diversity (often as part of a broader view of board diversity) and greater transparency of related initiatives by corporate issuers.

› In the United States, large capital firms have the highest proportion of women on boards and the largest increases in gender diversity over the seven year period analyzed (2008 to 2014).

› The proportion of new board nominees that are women at U.S. firms is at an all-time high in 2014. The percentage of new female nominees has almost doubled in the past seven years at U.S. large capital companies.
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Global Overview: Gender Diversity on the Rise

Female representation on corporate boards in a number of major markets has increased steadily in recent years. A review of ISS’ QuickScore data for major index firms in Australia, Canada, the United Kingdom, and the United States shows that the largest jump in the proportion of women on boards in markets with no gender diversity quotas occurred in the U.K. at firms in the FTSE 350. Between 2011 and 2014, the proportion of female directors at FTSE 350 firms grew by roughly 8 percentage points. By comparison, female representation grew by almost 4 percentage points at firms in Canada’s TSX Composite index and by just 2.4 percentage points at U.S. S&P 500 companies. As of this writing, ISS has profiled board data at just over one-fifth of firms in Australia’s ASX 300 index for 2014; the preliminary growth trajectory of female representation at this subset of firms shows an increase of about 6 percentage points from 2011 levels.

Drivers of Gender Diversity in Non-Quota Markets

Governance Codes, Regulation and Government/Private Sector Initiatives

The increase in the percentage of women on the boards of FTSE 350 companies since 2011 has been spurred by a number of influences, including the findings and recommendations of the Davies Review which was published in 2011 and called for FTSE 100 companies to target a minimum of 25 percent female representation on their boards by 2015, among other things, and the 30% Club, which was founded by business leaders committed to achieving gender balance at all levels of organizations and launched in the U.K. in 2010 with a goal of 30 percent women on the boards of FTSE 100 firms boards by 2015. The 30% Club indicates that research has suggested that 30 percent is the proportion when a critical mass is reached, in a group setting, where the voices of the minority group become heard in their own right rather than simply representing the minority. The U.K. Corporate Governance Code
also recommends that companies include, on a comply-or-explain basis in their annual reports, a description of their boards' policies on diversity, including gender diversity, any measurable objectives that boards have set for implementing such policies, and progress on achieving these objectives.

Similar circumstances may underlie the growth in gender diversity at firms in Australia's ASX 300 index. In 2010, the ASX Corporate Governance Council set forth gender diversity reporting recommendations that called for the annual disclosure of companies' diversity policies, measurable objectives for achieving gender diversity, achievements against these objectives, and information on the proportion of female employees in the entire organization, in senior management positions, and on the board of directors. In March 2014, the reporting recommendations on gender diversity were amended to clarify, among other things, the meaning of “measurable objectives,” and to require listed companies to provide definitions of what makes someone a senior executive. While there is no legal requirement to comply with the ASX recommendations, companies are expected to fulfill them on a comply-or-explain basis.

The topic of gender diversity has also been the focus of regulatory authorities in Canada. In January 2014, the Ontario Securities Commission (OSC) launched a consultation on proposed amendments to corporate governance disclosure requirements related to gender diversity policies and practices at “non-venture” reporting issuers. The proposed amendments would require subject corporations in Ontario to disclose whether a policy to identify and nominate women directors has been adopted, and, where such a policy is in place, further disclosure with respect to its objectives, implementation, and a review of progress toward those objectives. Disclosures should include targets set by the board or an explanation for the absence of such targets. The new disclosure amendments would also require firms to disclose the current numbers and proportion in percentage terms of women in director and executive officer positions, as well as whether and, if so, how, due consideration is given to the level of women in executive officer positions, and the rationale for not doing so if such considerations do not exist.

In keeping with Canada’s comply-or-explain regulatory disclosure requirements, the proposed amendments are intended to provide effective yet flexible guidelines under which reporting issuers must comply or explain their policies and practices to promote and achieve increased gender diversity on the board of directors and in the management ranks. In July, 2014, the securities regulatory authorities in Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador, Northwest Territories, and Nunavut joined the OSC in requesting comments on proposed amendments that would require Toronto Stock Exchange-listed reporting issuers in these jurisdictions to make certain disclosures on a comply-or-explain basis regarding board and executive officer gender diversity.

Canadian firms also face pressure from a letter writing campaign headed up by the Minister of Labor and the Status of Women, asking Canada’s FP 500 companies (the Financial Post’s ranking of Canada's largest 500 companies by revenue) to increase the number of women on boards in an effort to meet the Government’s goal of 30 percent female board representation within 5 years. This goal mimics that of the UK-based 30% Club, which is set to launch operations in Canada this November.

In the U.S., gender diversity in the boardroom has historically been highest at companies in the S&P 500 index compared to firms in the major Australian, Canadian and U.K. indexes, but this lead has, however, narrowed significantly over the past four years particularly with respect to firms in the U.K. FTSE 350. In 2014, the proportion of women on boards at FTSE 350 companies is comparable to that at S&P 500 firms vis-à-vis 2011 when the companies in the S&P 500 held an almost 6 percentage point advantage. From a regulatory perspective, the U.S. Securities and Exchange Commission (SEC) issued a rule in 2009 that enhanced proxy statement disclosure requirements around board diversity. The SEC required companies to disclose whether, and if so how, nominating committees considered diversity in the process of identifying director nominees, including disclosure of any related policies, how the policies are implemented and how the nominating committee or the board assesses the effectiveness of such policies. The SEC did not define “diversity,” but rather let companies make their own determinations of diversity. In this vein, some question how effective the SEC's disclosure requirements have been in promoting gender diversity on the boards of U.S. firms.

Much of the impetus to increase female directorships at U.S. firms has come from shareholders themselves, in the form of direct engagement with companies, as well as by way of shareholder-sponsored resolutions addressing diversity that typically request that women and minorities be included in the pool of candidates for board positions and that companies adopt board candidacy inclusiveness policies in their governing documents. Shareholders have submitted roughly 100 resolutions on the topic of board diversity at U.S. firms since 2008, with more than half of the resolutions over this timeframe tendered in 2013 and 2014 by a number of major public funds and several SRI funds. This uptick in the number of shareholder resolutions in 2013 and 2014 is largely
attributable to the campaign coordinated by investors affiliated with the US-based Thirty Percent Coalition, an organization made up of institutional investors, members of the business community, and women's organizations, whose objective is also 30 percent female representation on public company boards by the end of 2015.

Board diversity shareholder resolutions have largely found traction with both issuers and investors alike. Shareholders have withdrawn about 80 percent of the approximately 100 resolutions filed since 2008. Shareholders generally withdraw proposals submitted after companies that receive them commit to increase gender and/or racial diversity on the board, or as a result of what shareholder proponents consider to be constructive dialogue with the target company. Similarly, a notable proportion of investors have endorsed board diversity shareholder proposals. The 16 proposals voted on by shareholders since 2008 have averaged 27 percent of votes cast in favor, with the highest average support of 36 percent witnessed in 2013 as a result of a resolution that received majority support.

Gender Diversity in Quota Markets

Perhaps not surprisingly, companies in markets with gender diversity quotas (either hard quotas or "comply or explain") for corporate boards generally have a higher proportion of female directors than those in markets with no quotas. ISS' QuickScore data on a selection of global markets with quotas in place suggests that quotas are largely fulfilling their objectives of increasing representation by women on the boards of publicly traded firms. Companies in markets where gender diversity quotas have existed for several years command almost 40 percent female representation in the boardroom. Firms in countries with nascent gender quotas are already showing an upward trajectory in the proportion of women on their boards.

ISS reviewed the prevalence of women on boards in markets with gender quotas belonging to the following major indexes from 2011 to 2014: India S&P CNX Nifty 50, Italy FTSE-Mid Cap, Spain IBEX35, Belgium BEL20, SBF 250 (France), Netherlands AEX25, and the Norway OBX Total Return Index. These indexes correspond to markets that have enacted quotas for female representation on boards, a summary of which follows;
Belgium: 2011 law requires 33 percent gender diversity by the end of 2016. For listed companies with a free float of less than 50 percent, gender diversity will be required by the end of 2018.

France: 2011 law stipulated that, beginning in 2014, boards must comprise at least 20 percent female directors (interim quota), rising to 40 percent by 2017.

India: 2013 law requires firms to have at least 1 female on the board within one year starting in 2014.

Italy: 2011 rules stipulate 33 percent gender diversity by 2015.

Spain: Boards have until 2015 to attain gender balance, generally interpreted by the market to constitute 40 percent representation by the less represented gender.

Netherlands: Effective July 2013, boards are required to attain 30 percent gender diversity. While legally binding, the law is meant to be implemented on a comply-or-explain basis.

Norway: 2005 law required 40 percent gender diversity on all public boards within 5 years.

At present, a number of markets do not appear to be on track to meet the respective quota requirements. Female directors represent just 14.2 percent of all directors at firms in the Italy FTSE-Mid Cap index, leaving little time for the companies to attain female representation of one-third of all board seats. Companies in France’s SBF 250 index have to increase the percentage of women on their boards by almost 14 percentage points to meet the goal of 40 percent gender diversity by 2017; female directors currently represent 26.3 percent of all directors in the SBF 250 index. A considerable number of companies are yet to comply with India’s October 1, 2014 quota deadline, which may be extended by regulators. However, female representation in the remainder of the indexes covered in Belgium, the Netherlands, Norway, and Spain appears to be largely on track based on the current proportion of women in the respective indexes.

Gender Diversity Trends in the United States: Size & Industry Matter

Size Bias

A review of ISS’ QuickScore data reveals that large cap boards boast the highest proportions of women, and they have also experienced the largest increases in gender diversity over the seven years between 2008 and 2014. Women currently represent almost 19 percent of all the directors at S&P 500 companies, up over 3 percentage points from 2008 levels. Female directors comprise almost 16 percent of directors at firms in the S&P 1500 overall. Excluding the large cap (S&P 500) firms from the universe of S&P 1500 firms, the proportion of women on boards in the S&P MidCap and SmallCap indexes (the rest of the S&P 1500) drops by approximately two percentage points across all seven years. Gender diversity levels are comparable across firms in the Russell 3000 and the S&P 1500 sans S&P 500 over the period under review. We observe an almost 3 percentage point deficit, on average, in female representation at firms in the Russell 3000, excluding companies in the S&P 1500 that may have a "size bias" to them. In other words, smaller firms tend to have a lower proportion of women on their boards. ISS observed that the largest increase in the proportion of women on boards since 2008 occurred in 2013 and 2014 with increases of approximately 2 and 3 percentage points respectively across all the indexes.
Not All Industries Are Created Equal

ISS evaluated gender diversity across the 24 industries in the Global Industry Classification Standard (GICS). Whilst representing one of the industries with the smallest proportion of firms in the S&P 500 index (about 1 percent of companies), the Household & Personal Products industry consistently had the highest proportion of women on the boards of S&P 500 constituents, holding the top spot from 2008 to 2014. The boards of companies in the Household & Personal Products industry comprised 33 percent female members, on average, over the seven year period under review, and it was also the industry with the second-highest rate of growth in the proportion of women on boards from the 2008 baseline to 2014 year to date. Perhaps not surprisingly, in addition to the Household & Personal Products industry, eight other mostly consumer oriented industries most frequently ranked in the top 5 list with the highest proportion of female board members during 2008 to 2014. They are listed below, in order of the frequency of appearance in the top 5 list. The ranking refers to the industry’s overall rank in 2014 vs. 2008 with regard to the proportion of women on boards.

- **Food Beverage & Tobacco**: made the top 5 list seven times, had 21.2 percent average female representation, ranked 3rd in 2014 vs. 4th in 2008; female representation grew by 3.4 percentage points between 2008 and 2014.

- **Media**: made the top 5 list five times, had 19.6 percent average female representation, ranked 5th in 2014 vs. 6th in 2008; female representation grew by 3.2 percentage points between 2008 and 2014.

- **Telecom Services**: made the top 5 list five times, had 16.3 percent average female representation, ranked 2nd in 2014 and 2008; female representation grew by 4.8 percentage points between 2008 and 2014.

- **Banks**: made the top 5 list four times, had 18.4 percent average female representation, ranked 4th in 2014 and 13th in 2008; female representation grew by 7.1 percentage points between 2008 and 2014.
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> **Food & Staples Retailing**: made the top 5 list three times, had 19.5 percent average female representation, ranked 12th in 2014 vs. 3rd in 2008; female representation dropped slightly by 1.3 percentage points from 20.6 percent in 2008 to 19.3 percent in 2014.

> **Health Care Equipment & Services**: made the top 5 list two times, had 19.5 percent average female representation, ranked 15th in 2014 vs. 5th in 2008; female representation remained static at 19.1 percent between 2008 and 2014 although there was some slight variation in the interim years.

> **Insurance**: made the top 5 list one time (in 2010), had 18.5 percent average female representation, ranked 6th in 2014 vs. 10th in 2008; female representation grew by 3.4 percentage points between 2008 and 2014.

> **Retailing**: made the top 5 list one time (in 2011), had 18.6 percent average female representation, ranked 11th in 2014 vs. 8th in 2008; female representation grew by 1.1 percentage point between 2008 and 2014.

Conversely, while the Energy industry accounts for the highest proportion of firms in the S&P 500 index (with 8.4 percent of Energy companies on average in the index between 2008 and 2014), that industry has the lowest proportion of women on boards. The Energy industry has consistently come in last place with respect to female directors' representation in each of the past seven years, with the exception of 2011 and 2013, when it crossed the finish line second from last, having ceded the bottom spot to the Semiconductors & Semiconductor Equipment industry in both years. Nonetheless, the Energy industry has showed some improvement over the years, with female representation jumping up by 4.7 percentage points, from 9.3 percent in 2008 to 14 percent in 2014, and the largest increase of almost two percentage points occurring in 2014. Along with the Energy industry, the Semiconductors & Semiconductor Equipment industry also trailed the universe of 24 GICS industries covered, having placed second from last in four out of the seven years under review.

The following eight industries made the top 5 list of industries with the lowest percentage of women board members over the seven year period between 2008 and 2014. The industries are also listed order of the frequency in which they made the "bottom 5" list.

> **Energy**: made the bottom 5 list in each of the seven years, had 10.9 percent female representation on average, ranked 24th (last) in both 2014 and 2008; female representation has grown by 4.7 percentage points between 2008 and 2014.

> **Semiconductors & Semiconductor Equipment**: also made the bottom 5 list seven times, had 11.6 percent average female representation, ranked 21st in 2014 vs. 23rd in 2008; female representation grew by 5.1 percentage points between 2008 and 2014.

> **Commercial & Professional Services**: made the bottom 5 list seven times as well, had 16.3 percent average female representation, ranked 22nd in both 2014 and 2008; female representation grew by 3.9 percentage points between 2008 and 2014.

> **Diversified Financials**: made the bottom 5 list six times, had 13.7 percent average female representation, ranked 19th in 2014 vs. 20th in 2008; female representation grew by 2.9 percentage points between 2008 and 2014.

> **Technology Hardware & Equipment**: made the bottom 5 list three times, had 13.6 percent average female representation, ranked 17th in 2014 vs. 16th in 2008; female representation grew by 3.7 percentage points between 2008 and 2014.

> **Automobiles & Components**: made the bottom 5 list three times, had 14.7 percent average female representation, ranked 23rd in 2014 vs. 14th in 2008; female representation dropped by 0.9 percentage points from 15 percent in 2008 to 14.1 percent in 2014.

> **Capital Goods**: made the bottom 5 list one time (in 2014), had 14.6 percent average female representation, ranked 20th in 2014 vs. 18th in 2008; female representation grew by 1.9 percentage points between 2008 and 2014. The Capital
Goods industry accounts for the second largest percentage of firms in the S&P 500 index, after the Energy industry, with 7.8 percent of companies in the index on average.

- **Software & Services**: made the bottom 5 list one time (in 2008), had 16.3 percent average female representation, ranked 15th in 2014 and 21st in 2008; female representation grew by 4.8 percentage points between 2008 and 2014. The Software & Services industry is the third largest in terms of companies represented in the S&P 500 index after the Energy and Capital Goods industries.
Uptick in New Female Board Nominees

Investors’ calls for greater gender diversity appear to be nudging nominating committees to find more women to serve on boards at U.S. firms. 2014 looks to be a record year, across all market capitalization levels, for adding women to boards at U.S. companies. Large cap firms lead the way with women filling nearly three-out-of-every-10 vacancies at firms in the S&P 500 universe so far in 2014, or almost double the nomination rate compared with 2008. Overall, women still account for less than 20 percent of all board seats at these large cap firms, but growth—prodded by a growing number of pension fund and other activist groups—continues at a steady one-percentage-point-per-year pace and, at this rate, should reach 25 percent before the end of the decade. Notably, small cap companies, which have long been laggards on gender diversity, also appear to be responding to the call for greater diversity and are nominating women to their boards at the fastest pace on record.

Tenure Bears Down on Gender Diversity

The connection between new female nominees and higher levels of gender diversity is supported by our additional analysis of companies’ boards based on director tenure, from 2008 through proxy season 2014. Specifically, we categorized the board of each company, in each year, as "long-tenured" (i.e., where a majority of directors at that time had served for 12 or more years) or "short-tenured" (where less than a majority of directors at that time had served at least 12 years). Based on a total of 13,070 observations over that time of all companies in the S&P 1500 and Russell 3000 that had been public for 12 or more years, ISS found a notable difference in the gender diversity tendency between long-tenured and short-tenured boards.

Specifically, the proportion of female directors on the long-tenured boards (2,296 observations) averaged 8.7 percent, with a median of 9.1 percent. Conversely, the proportion of females on short-tenured boards (10,774 observations) was much higher at 12.2 percent on average, with a median of 11.1 percent. This gap in female representation is evident across all firm sizes except the smallest cap companies, where it is much narrower given that smaller firms tend to have less gender diversity on their boards than larger ones.
Increasing Board Gender Diversity: What does it mean for Investors?

This review highlights that gender diversity on corporate boards is on the increase globally. What can investors around the world expect from this change? Several studies (see appendix below) have examined the link between greater gender diversity and better company performance. The studies have evaluated a variety of metrics, board and executive officer composition, and have accounted for a number of factors including industry, size, and location. While findings have been mixed, many of the studies have shown a positive correlation between more diverse boardrooms and superior company performance on financial measures including higher shareholder returns and reduced stock price volatility, as well as on non-financial measures such as higher quality decision-making, enhanced organizational performance, improved governance and ethics practices, better representation of the consumer base, increased use of "soft skills," and the consideration of sustainability factors when setting corporate strategy and making business decisions. With the rise of gender diversity in a number of markets globally, investors should expect to continue reaping some of these tangible and intangible benefits of having greater representation of women on corporate boards.
Appendix: Relevant Studies

André Chanavat & Katharine Ramsden (2013), Mining the Metrics of Board Diversity
Catalyst (2004), The Bottom Line: Corporate Performance and Women’s Representation on Board
Catalyst (2007), The Bottom Line: Connecting Corporate Performance and Gender Diversity
Catalyst (2008), Advancing Women Leaders: The Connection Between Women Board Directors and Women Corporate Officers
Chris Bart & Gregory McQueen (2013), Why women make better directors
Committee for Economic Development (2010), Fulfilling the Promise: How More Women on Corporate Boards Would Make America and American Companies More Competitive
Credit Suisse Research Institute (2012), Gender diversity and corporate performance
European Union (2012), Women in economic decision-making in the EU: Progress report
Kellie A. McElhaney & Sanaz Mobasseri (2012), Women Create A Sustainable Future
Korn/Ferry Institute (2013), The Diversity Scorecard - Measuring Board Composition in Asia Pacific
Lord Davies (2011), Women on Boards
Nina Smith, Valdemar Smith & Mette Verner (2005), Do Women in Top Management Affect Firm Performance?
Pierpaolo Parrotta & Nina Smith (2013), Female-Led Firms: Performance and Risk Attitudes
Virtcom Consulting (2009), Board Diversification Strategy: Realizing Competitive Advantage and Shareholder Value
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