ECGS
Expert Corporate
Governance Service

# Gender imbalance in corporate boards in the EU

ECGS is a partnership of independent local market experts which have come together to provide specialist governance research and proxy voting advice, offering institutions access to unrivalled experience on corporate governance and responsible investment issues. Active ECGS partners are: DSW (Düsseldorf), Ethos Services (Geneva), Frontis Governance (Rome), Proxinvest (Paris) and Shareholder Support (Rotterdam). ECGS is also associated to local governance experts in Montreal and Melbourne.

## (1) How effective is self-regulation by businesses to address the issue of gender imbalance in corporate boards in the EU?

Self-regulation is not sufficient in our view: the EU has brought the policy debate on gender diversity in 2010 and called on listed companies in 2011 to voluntarily commit to increasing female representation on their boards. To date, there are less than 14% of women within the largest listed European companies' boards according to the EC data.

Comparing the European countries that have enacted legislative measures with those that have not, we find little progress where no legislation or "threat" of legislation exists.

In addition, there is currently a lack of coherence between European countries. There is a massive gap between Nordic countries and Italy for example.

## (2) What additional action (self-regulatory/regulatory) should be taken to address the issue of gender imbalance in corporate boards in the EU?

- **Encouraging a better use of the talent pool, widening the pool of candidates**: the last 10 years have shown that the pool of candidates provided by the head hunters regarding qualified women is insufficient and often biased, therefore there is a need to encourage selection from independent pools of potential candidates outside traditional network connection.

- **Composition of the nomination committee:** in order to encourage boards to further focus on gender diversity, at least one member of the nomination committee should be female. Experience in the US has shown that women on the nomination committees can contribute to faster increasing the number of women on boards.

- **Improving the efficiency of the recruitment process and need for better succession planning:** companies that propose new candidates to shareholders need to ensure that they fit into their diversity strategy. In addition, a diversity policy and its objectives should be available to investors.

- **Breaking the glass ceiling:** women need incentive to stay in the workforce which relate to equal pay and career perspective.

### (3) In your view, would an increased presence of women on company boards bring economic benefits, and which ones?

ECGS's view is that diversity in general in extremely beneficial to a company's governance and therefore to its financial performance: diversity encompasses gender diversity but also cultural, age and educational diversity. Board members with various educational backgrounds, different insights on economics, different knowledge of markets, are more likely to bring about creative thinking and solutions compared to a completely homogenous Board. We also note that the focus should not be solely on gender, but also on national, cultural and social diversity.

A diversified Board characterised by a wide range of competencies and experiences should a balanced decision-making process.

ECGS analyses publicly listed companies and advocates for governance best practice in order for shareholders to obtain the best returns on their investment; gender diversity can contribute to better:

- Knowledge of consumer choices (depending on the industry)
- Risk management
- Questioning of the management
- Enhanced quality of corporate governance and ethical behaviour.

We also acknowledge that some studies support the opinion that gender diversity does not contribute positively to performance. To conclude, we would like to emphasise that gender diversity is a value in itself and does not need to be proven just as the extra value of men on boards was never researched or even proven.

**(4) Which objectives (e.g. 20%, 30%, 40%, 60%) should be defined for the share of the underrepresented sex on company boards and for which timeframe? Should these objectives be binding or a recommendation? Why?**

**Objective:** ECGS has, at this stage, defined in its voting policy a minimum of 15% for all countries in our universe. In any case, the objective should be progressive: if the objective chosen is high, companies should be allowed a number of years to meet the requirements. We consider 30% over 3 years to be a reasonable objective.

**Timeframe:** one of the consequences to avoid is for the nomination committees to appoint conflicted, over boarded candidates or nominees with inappropriate experience. The timeframe should take into account the board members' term of office which differs significantly throughout the EU but should not exceed 4 years.

**Binding:** in terms of coherence among EU countries, a binding objective would be preferable. For instance, in France if ad hoc legislation had not been implemented, no clear progress would have been seen.

Employee representatives on the board should contribute to reflect the female quota in the company. This would lead to appropriate female representation and would take the respective business situation into account.

Companies often justify the lack of diversity by the limited number of potential candidates available. Although it might be more difficult in some industries or sectors, 45% of employed in the EU are women and there is 56% women in tertiary education.

**(5) Which companies (e.g. publicly listed / from a certain size) should be covered by such an initiative?**

In our opinion, the initiative should start with the publicly listed companies since they have a 'flagship position' and other companies could follow later. Nevertheless, initiatives should cover all companies listed on a regulated market in the EU and all sizeable organisations whether they are private or public.

**(6) Which boards/board members (executive / non-executive) should be covered by such an initiative?**

In a first step, the initiative should focus on the non-executive members of boards since it is much easier and faster to replace the supervisory board members. Also, at ECGS we currently observe that there are enough highly qualified women for the supervisory boards.

However, reducing the gender imbalance at the level of executive management is much more demanding; it should therefore be the second step. Nevertheless, we note that both actions should be linked since women with executive management experience are needed as board members.

**(7) Should there be any <u>sanctions</u> applied to companies which do not meet the objectives? Should there be any <u>exception</u> for not reaching the objectives?**

ECGS sanctions companies on the election or re-election of the Chairman of the Nomination Committee. We believe that the Chairman of the Nomination Committee with the help of external research consultants should be able to identify female candidates.

In our view, the Norwegian sanction (delisting of the company) is a very strong sanction; we believe sanctions should preferably hit the board rather than the company. For example, in case of non-compliance, board members would not be legally allowed to act as a board until a sufficient number of female representatives have been appointed.

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