RSM InterFinance & Governance
GOVERNANCE NEWSLETTER N°6

Gender Diversity and women on Boards

1. Presence of women on boards

The study by Crédit Suisse entitled « *Gender Diversity and Corporate Performance* » published in august 2012 and covering 2.360 companies over the last 6 years reports the following situation :

- Areas closer to the final consumer have more women on boards of directors than others
- Larger companies usually count more women on boards
- Some regions/countries (e.g. Norway) have a lot more women on boards than others (e.g. Korea)
- European companies show the fastest change in this area over the last 6 years.

Vice-President of the European Commission Viviane Reding indicated in 2012 that men represent 91% of executive directors and 85% of non executive directors. Overall, women only represented 13,7% of directors of large listed companied in Europe in January 2012. If the proportion of women on boards in Europe increases, it should be noted that women account for only 3,4% of Chairs of boards and that this ratio stagnates. Conversely, women represent 60% of new university graduates. This means that women have less opportunities for advancement in their carreers and that their abilities are not used to their maximum.

On belgian level, an increase for the fifth year in a row of the overall proportion of women on boards of companies of the BEL20 has been noted, going from 11% in 2011 to 13% in 2012.

2. Proposal of the European Commission

A draft of new european directive, proposed by Commissioner Viviane Reding has been adopted by the Commission on November 14th 2012 in order to increase diversity among boards of directors across Europe. This directive sets a quota of **40%** of women among **non executive directors** by **2020** (**2018** for listed companies which are public undertakings). So as to achieve the objective and avoid subjective nominations and appointments favoring people with the same characteristics as those making the appointments, companies that do not currently meet this threshold will make every appointment of non-executive director based on pre-established, neutral clear and unambiguous criteria.

This Directive will apply to private listed companies with a percentage of non-executive directors below 40%, that is to say about 5,000 companies in Europe. The directive will not apply to companies with fewer than 250 employees and a turnover below € 50 million[1].

[1] Recommandation 2003/361/EC of May 6th 2003 concerning the definition of micro, small and medium-sized enterprises

If companies are actually held to this quota, no penalty applies, however, in the event that the quota would not be respected, if the necessary measures to try to achieve it were actually taken by companies and governments.

The proposal also includes a "flexible quota" : companies will set themselves a target of individual representation of both sexes among **executive directors** by **2020** (or **2018** for listed companies which are public undertakings). Companies will need to report annually on progress towards this objective.

3. Impact of the presence of women among board of directors

A number of studies in recent times suggest that firms employing more women perform better financially and on stock markets than others.

The Credit Suisse study "*Gender Diversity and Corporate Performance*" shows that for companies whose board of directors includes at least one woman, the impact of the crisis in 2008 was lower than for others.

The figures illustrating this conclusion are as follows:

- The return on equity of firms with at least one woman on their board of directors is 16% against 12% for other
- Net debt reached 48% against 50% in the absence of women on the board of directors
- Net income growth is 14% for firms with at least one woman on their board against 10% for other
- On the stock market, the same phenomenon appears with an outperformance of 26% for companies with a market capitalization exceeding $ 10 billion and 17% for the smaller caps.

According to McKinsey, the operating profit of large European companies with a diversified composition is 56% higher than firms with only men.

How can this observation be explained ?

One explanation offered is the greater aversion to risk of women, which leads to a more cautious attitude in times of crisis. It is thus not certain that the same trends would also show in a more favorable economic situation.

In addition, according to studies by McKinsey and NASA, women are more qualified in defining individual tasks and coaching while men are more gifted with decisiveness and competition.

Besides, according to a study by the Boston Consulting Group in 2010, considering that women are more largely responsible for household purchases, they would be able to understand the expectations of consumers better.

This shows in any case the importance of diversity to ensure efficient work on a board.

A study by Professor Katherine Phillips and her team shows that diversity within a team has the following impact on the work:

- Individuals generally have a higher probability of achieving more preparation for a work among a diverse group
- It is likely that a diverse group of more debates more ideas and
- It is more likely that a diverse group reaches a correct answer to a problem than a homogenous group.

The study of Woolley & al from 2010 proves that the collective intelligence of a group is higher when:

- The social sensitivity of a member of a group is higher
- The conversation is not dominated by a few individuals, but evenly distributed
- More women are part of a group.

Some studies[2] also show that the quality of ethics is higher in firms with a higher percentage of women on the board.

Finally, women being more and more educated, diversity can increase the chances of the company recruit talents.

Ensuring diversity among a board can therefore enable to achieve a higher level of governance, although it also implies a potentially more conflictual and perceived as more difficult environnement.

[2] For example, « *Gender differences in ethical perceptions of business practice* », Franke G.R. & al, , Journal of applied psychology, 1997

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February 2013