Gender Diversity on European Boards

Realizing Europe's Potential: Experiences and Best Practices

A European Women on Boards study

carried out in partnership with ISS

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About ISS

www.issgovernance.com

Founded in 1985 as Institutional Shareholder Services Inc., ISS is the world's leading provider of corporate governance and responsible investment solutions for asset owners, asset managers, hedge funds, and asset service providers. ISS' solutions include: objective governance

research and recommendations; ESG data, analytics, and research; end-to-end proxy voting and distribution solutions; turnkey securities class-action claims management (provided by Securities Class Action Services, LLC); and reliable ESG data and modeling tools.

Clients rely on ISS' expertise to help them make informed corporate governance decisions.

About EWoB

European Women on Boards

european.ewob-network.eu

European Women on Boards (EWoB) is a non-profit organization founded in June 2013 in Brussels, with the vision to create a unique network of first tier associations located in European countries working towards a common purpose: a balanced representation of women on boards of directors.

With 10 member associations in 9 countries already participating (Women on Board/**Belgium**, Odyssey/**Czech Republic**, Board Professionals/**Finland**, Association Femmes Diplômées Expertise-Comptable Administrateurs and Financi'elles/**France**, FidAR/**Germany**, Valore D/**Italy**, Talent Naar De Top/**Netherlands**, Norwegian IoD/**Norway**, IoD/**United Kingdom**), and a contributing member EWMD/**Germany**, EWoB has the ambition to cover progressively the EU and EEA area.

The EWoB network project is co-funded by the European Union.

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Foreword from European Women on Boards

Marie-Ange Andrieux

Roger Barker

Cécile Coune

EWoB's quantitative analysis of the largest European-listed companies, published in April 2016, has provided clear evidence of progress towards greater gender diversity on European boards. But what factors are driving this progress at company level? And what are the initiatives and best practices that are likely to be most useful to boards, CEO's and stakeholders as they continue the journey towards more gender-balanced governance? These are some of the questions which are addressed in this second qualitative part of EWoB's wide-ranging investigation into the gender diversity of European boardrooms.

In this report, we gather the insights of 20 of Europe's most important business and governance leaders. Most of the interviewees are seasoned board members and investors for whom diversity is not an end in itself but a route to improved company performance. Taken together, their responses provide a unique insight into how women on boards and in the C-suite can bring tangible benefits to a wide range of organisations.

Many of the business leaders highlight the need for organisations to measure gender diversity, establish targets and actively monitor progress. The nomination committee is seen as a crucial body for the implementation of diversity policies, both at board level and amongst the senior management team. An increasing role for institutional shareholders in encouraging gender balance as part of their stewardship activities is emphasized, along with the need for greater flexibility and support from wider society. Another interesting finding is that value creation arises not only from the greater direct contribution of women, but also from an associated human capital strategy and shift to a more modern, professional business culture which tends to be a by-product of a more inclusive approach to leadership and governance.

Many of the respondents recognise that female networks can play a valuable role in the delivery of improved gender diversity. This is an area in which EWoB is seeking to make a direct contribution – not only through our publications on the diversity landscape, but also though the launch of our X -BBRW Network (a platform for board-ready women), our cross-border mentoring programmes, a new platform of best practices, and a soon to be launched "Women Digital Leadership Programme", which will address the need and opportunity for women to lead change in the digital era.

EWoB is enormously grateful to each of the interview participants. We hope that we have done justice to their ideas and recommendations. Furthermore, EWoB is once again indebted to our project partners, ISS. Their hard work and professionalism has underpinned the quality of this publication. We also wish to express our appreciation of our sponsors: Deutsche Bank, Sodexo and PwC.

Marie-Ange Andrieux, Co chair of EWoB, and co-project owner
Roger Barker, Director of EWoB, and co-project owner
Cécile Coune, Co chair of EWoB

(In alphabetical order)

TABLE OF INTERVIEWEES

Market	Name	Gender	Roles
Belgium	**Baroness Lutgart Van den Berghe**	F	Executive Director, GUBERNA; Professor, University of Ghent; Board member of Proximus, Ablynx, CSL and SHV
	Thomas Leysen	M	Chairman of KBC Group, Umicore and Corelio
Denmark	**Liselotte Hyveled**	F	Board member of Novo Nordisk (employee representative)
EU	**Věra Jourová**	F	Commissioner, Justice, Consumers and Gender Equality, European Commission
Finland	**Risto Siilasmaa**	M	Chairman of Nokia, F-Secure and the Federation of Finnish Technology Industries
France	**Sophie Bellon**	F	Chairwoman of Sodexo and Board member of L'Oreal
	Philippe Desfossés	M	CEO of ERAFP
	Cédric Lavérie	M	Head of Corporate Governance, Amundi Asset Management
Germany and U.K.	**Elizabeth Corley CBE**	F	Vice Chair, Allianz Global Investors; Board member of Pearson and BAE Systems
Italy	**Emma Marcegaglia**	F	Chairman of Eni and President of Business Europe
Netherlands	**Carola van Lamoen**	F	Head of Governance and Active Ownership, RobecoSAM
	David Shammai	M	Senior Corporate Governance Specialist, APG
Sweden	**Eva Halvarsson**	F	CEO of AP2
Switzerland	**Peter Brabeck-Letmathe**	M	Chairman of Nestlé; Board member of Exxon Mobil Corporation
U.K.	**Lady Barbara Judge CBE**	F	Chairman of U.K. Institute of Directors
	Paul Lee	M	Head of Corporate Governance, Aberdeen Asset Management
	Helena Morrissey CBE	F	CEO of Newton Investment Management; Chair of U.K. Investment Association
	Sir Michael Rake	M	Chairman of BT Group, Worldpay Group, Majid Al Futtaim Holdings and Board member of McGraw Hill Financial
	Iain Richards	M	Head of Responsible Investment, EMEA Columbia Threadneedle Investments
	Sacha Sadan	M	Director of Corporate Governance, Legal & General Investment Managament

EXECUTIVE SUMMARY

Realizing Europe's Potential: Experiences and Best Practices, is a qualitative study on board gender diversity, based on interviews with twenty important business and governance leaders from across Europe, comprised of board members from large listed companies, institutional investors, and others. Key findings include:

1. Both European companies and investors are increasingly convinced that a well-diversified board adds value to the company. Board members from different backgrounds are more likely to approach issues from a broader variety of perspectives, leading to less 'group-think', more thorough decision-making and more effective supervision. This applies to all types of diversity but board gender diversity continues to be an important area of focus.

2. There is a growing body of evidence which makes the business case that board gender diversity can provide a competitive advantage. Companies with higher levels of board gender diversity can outperform in terms of employee productivity, innovation, customer reach, talent retention and risk management, by gender diverse boards setting the tone at the top in terms of strategy and culture. Diversity in the organization based on gender and other factors is increasingly seen as a key driver of sustainability for the long-term.

3. In addition to implementing best practices to improve overall Board gender diversity, many European companies are now sharpening their focus on developing the executive leadership pipeline for women. They are setting targets and implementing measurement frameworks to monitor and report on progress.

4. Board gender diversity provides a governance and management quality signal for an increasing number of mainstream institutional investors. Recent positive developments in disclosure and the quality and availability of data relating to gender and other aspects of diversity, is enabling investors to better factor diversity into investment analysis and decision making. Investors exercising their active ownership and stewardship responsibilities are increasingly factoring board gender diversity into their engagement and/or voting policies.

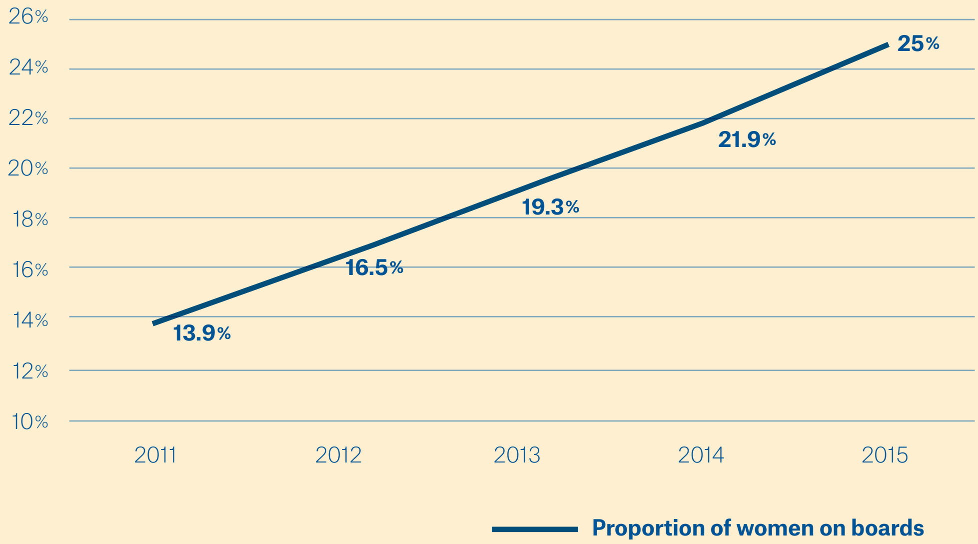
5. Investors report that the focus on gender diversity has contributed to a higher standard of professionalism by encouraging the nomination committee to more fully consider the board's needs in terms of the balance of skills and experience. The focus on gender diversity has been combined with a push for increased international diversity, younger candidates and more diverse profiles with skills often linked to the emerging challenges faced by companies.

INTRODUCTION

In order to foster public awareness and attention to the issue of the inclusion of women on the boards of large listed European companies, European Women on Boards (EWoB) commissioned Institutional Shareholder Services (ISS) to produce two studies. The first, a quantitative analysis of European board gender composition and related trends over the past five years *'Gender Diversity on European Boards : Realizing Europe's Potential: Progress and Challenges'*, was published in April 2016 and is a factual study and a snapshot of the situation at STOXX 600 companies (the largest 600 European listed companies).

The second, this report, *'Gender Diversity on European Boards: Realizing Europe's Potential: Experiences and Best Practices'*, is a qualitative study, based on interviews with twenty important business and governance leaders from across Europe, primarily board members and other influential players from large listed companies and institutional investors. The purpose of this companion report is to provide a range of perspectives and practical examples of successful practices, to foster awareness and inspire further innovation.

Graph 1: Proportion of women on European boards (2011-2015)



SUMMARY OF QUANTITATIVE TRENDS

The companion study to this one, *'Gender Diversity on European Boards: Realizing Europe's Potential: Progress and Challenges'*, tracked the percentage of women on European large company boards as having almost doubled over the last five years from 13.9 to 25 percent. The trend toward greater gender diversity on boards has been driven principally by the addition of non-executive or supervisory board female directors as opposed to an increase in women in chair, CEO and executive director positions. The quantitative study examined the participation of women directors on the boards at STOXX 600 companies, over the period spanning 2011-2015, as well as related topics such as the inclusion of women directors on board committees and the promotion of women into board leadership positions. Women now comprise a quarter of all board members at large European companies, and even a greater percentage of audit and remuneration committee members (28.7 percent and 26 percent, respectively), and a slightly lower percentage of nomination committee members (22.6 percent). On the other hand, appointments of women to board and committee chair positions have tended to lag, with women now accounting for only 4 percent of board chairs, 16 percent of audit committee chairs, 22.3 percent of remuneration committee chairs, and 8.8 percent of nomination committee chairs. Furthermore, at the end of 2015, only 3.5 percent of European CEOs in the study universe are women, up from 3.0 percent in 2011.

The quantitative study identified trends occurring at company, country, and sector levels concerning board gender diversity. The average board now has 2.8 female directors, up from 1.5 in 2011. The number of companies without a female director has fallen consistently over the years covered, and stands at 5.4 percent in the STOXX 600 (represented by 32 companies) in 2015, down from 21 percent of companies in 2011. This trend toward greater gender diversity on boards has been driven principally by the addition of independent, non-executive female directors. Women on European boards are on average younger, newer to the board, have a higher number of outside directorships at listed companies, and are more likely to be independent outsiders than their male counterparts. However, the still relatively small number of female directors and the higher number of outside directorships they tend to hold highlights the need for further focus on initiatives designed to develop the executive director pipeline at European companies going forward.

While the difference in the development of board gender diversity across individual industry sectors is statistically small, significant gender disparity exists on a country-by-country basis. These facts point to country-specific factors such as quotas and targets being the key drivers of increasing board gender diversity.

SUMMARY OF CORPORATE AND INVESTOR INTERVIEWEES’ ASSESSMENT OF KEY TRENDS

The corporate and investor interviewees were asked whether the quantitative study trends were consistent with their expectations and to give their views on the likely pace and direction of change by 2020.

The pace and direction of change

Most of the corporate and investor interviewees viewed the overall trend towards more women on European boards as broadly positive and consistent with expectations of the pace of change to date. Now that there are more women directors on boards, representation of women in committee, committee chair and chairmen roles should also increase over time. Several interviewees highlighted that the pace of change is not necessarily linear and with the right ambitious targets in place, the rate could potentially increase sooner.

However, the fact that this momentum is primarily being driven by an increase in female non-executive or supervisory board members rather than executive directors was cited as a key concern. Several interviewees knew of experienced female managers who had left the executive track to pursue non-executive director portfolio careers, further diminishing the pool of experienced female executive talent. Improving the diversity of the executive pipeline by developing and retaining senior female talent was seen as an important area of focus going forward.

Quotas, voluntary targets and best practice initiatives

Most of the corporate and investor interviewees were not in favour of mandatory board gender diversity quotas being introduced at an EU level, as they felt this was better addressed at a country or company level. Although one corporate interviewee came out strongly in favour of quotas, some interviewees emphasized that no woman wanted to feel she had only been placed on the board to fill a quota. Many interviewees emphasized the importance of best practice board gender diversity initiatives such as the 30% Club in the U.K., focusing on specific, measurable, yet voluntary targets. However, it was acknowledged that much of the progress in recent years has been due to the threat or imposition of quotas.

Corporate and investor interviewees were asked about diversity targets below board level and whether consistent company reporting in this area should be mandatory across Europe.

Disclosure of diversity targets below board level

Improved disclosure of companies' gender diversity targets below board level was also raised as a discussion point, as part of a holistic approach to talent management. This area has received growing interest from investors in recent years. The U.K. Investment Association recently published a Productivity Action Plan involving a Human Capital Management reporting framework which includes gender diversity as one area. The Investment Association is collaborating with the PLSA, the trade body for U.K. pension funds, on how investors should assess this.

In the U.K., the company must disclose the number of male and female employees at the levels of Directors, Senior Managers and all employees in their annual report; other European countries such as France also require similar disclosures. However, views diverged on whether there should be consistent company disclosure on gender information across countries within the annual report. One continental European investor interviewee voiced their opinion in favour of this approach. Others cited existing voluntary corporate reporting best practice standards such as the Global Reporting Initiative as helpful. One investor expressed a strong preference for allowing companies to disclose voluntarily to allow each company to highlight particular priorities and areas of focus. In January 2016, The European Commission launched a public consultation on non-binding guidelines for reporting non-financial information. The consultation document asked whether the guidelines should provide more clarity on what companies should disclose as regards their board diversity. Feedback is expected later this year.

Variability by market, sector and company size

Corporate and investor interviewees were asked if board gender diversity should adopt a common format.

Most interviewees felt that there should not be a 'one size fits all' model of a diverse board to allow for company best practice to evolve, and several interviewees cited sectoral challenges with regard to sourcing appropriate female board candidates from Science, Technology, Engineering and Maths (STEM) backgrounds. However, this concern was not necessarily reflected in the statistics from the first EWoB quantitative study.

Moreover, the two investor interviewees with voting and engagement guidelines on board gender diversity as a single issue, ERAPF and LGIM, are quite specific about sectoral challenges and expect their investee companies to achieve the targets they outline. Some investors also noted that not all board candidates, even in engineering companies, require prior operating experience in that domain, complementary skillsets or backgrounds, for example, in stakeholder engagement or financial expertise, will also be of value to the board and limit the potential for 'group-think'.

DEVELOPMENTS AT EU LEVEL

The EU Commissioner for Justice, Consumers and Gender Equality, Věra Jourová, was asked whether the quantitative study trends were consistent with her expectations and to provide insight on the EU's proposed legislative framework.

"Discrepancies in terms of numbers of women on boards of the largest listed companies are substantial and growing in Member States, with the key indicator ranging from 4% to 35%. Therefore, in my view, only a legally binding EU-level measure would trigger the sustainable progress towards gender balance across the EU. This is why the Commission has launched a proposal for a Directive to break the glass ceiling everywhere in the EU and to ensure listed companies make full use of the available talent pool."

At the heart of the proposal lies a transparent selection process of the board members aiming to reach a quantitative target of 40% of the under-represented sex based on clear criteria and a comparison of the candidates' qualifications. The proposal includes some disclosure requirements for large listed companies to reveal information about the gender representation on their boards, distinguishing between non-executive and executive directors and about the measures taken with a view to attaining the quantitative objectives of the directive.

The proposed directive focuses its quantitative target of 40% on non-executive directors which are not involved in the daily management of the company. Nevertheless, the proposed directive gives Member States an alternative option – to set a target of 33 % for both types of directors combined.

The Commissioner believes that the progress towards more gender balance in supervisory functions would trigger progress in relation to executive directors of the listed companies.

"It is also up to the companies and their internal 'culture', in case they wisely intend to attract more executive directors on boards, they should themselves design and implement their own initiatives to give equal opportunities to women to develop their careers, such as setting targets and timelines, monitoring and reporting on the situation. Professional development programmes such as mentoring, sponsorship and networking are also useful tools to improve the situation."

The Commissioner highlights the directive involves a flexible approach and allows choosing between the "procedural requirements" of the directive and an alternative efficient national approach which is more suitable to the national circumstances of an individual Member State. This leaves Member States a wide margin of discretion as long as they can plausibly explain that their national approach has produced or will produce the effects the Directive aims to produce.

"The proposed directive focuses its quantitative target of 40% on non-executive directors which are not involved in the daily management of the company. Nevertheless, the proposed directive gives Member States an alternative option – to set a target of 33 % for both types of directors combined."

Věra Jourová, EU Commissioner for Justice, Consumers and Gender Equality

EXPERIENCES AND BEST PRACTICES

Corporate experiences and best practices

Summary of corporate experiences and best practices highlighted by interviewees:

1. **Role of top leadership in creating the right corporate strategy and culture**
2. **Importance of setting targets for gender diversity**
3. **Importance of tracking the numbers**
4. **Continue to emphasize the need for diverse longlists from executive recruiters**
5. **Board effectiveness and the professionalization of board practices**
6. **Diversity and Inclusion committees**
7. **Training to avoid unconscious bias**
8. **Support flexible working and career breaks for both genders**
9. **Support for domestic responsibilities**
10. **Support mentoring programmes**
11. **Encourage executives to take on a non-executive role outside the company**
12. **Broader educational / societal initiatives at school and university level**

Role of top leadership in creating the right corporate strategy and culture

Nearly all of the interviewees mentioned the role of top leadership in creating the right corporate strategy and culture. Sir Winfried Bischoff, Chairman of the U.K. Financial Reporting Council gave a speech to the U.K. Institute of Directors in 2014 outlining this.

"It is essential that boards lead by example and set the tone at the top in order to influence the behavior of management and staff. That leadership must come, in particular, from the Chairman and Chief Executive, who need to be seen to live the values they espouse and to be very clear about any practices for which there is zero tolerance. The CEO, with the support of the executive team, has responsibility for setting an example to the company's employees, and communicating to them the expectations of the board in relation to the company's culture, values and behaviours."

One of the contributors to our study, Sodexo, is often cited as an example of a forward-thinking company with regard to the advancement of female leadership. Sodexo came in first place in the French feminization index for the second consecutive year and was recognized by the United Nation's Women's Empowerment Principles in 2016. Sodexo's Chairwoman, Sophie Bellon, says, "One initiative encapsulates all of our efforts: the governance body we have put in place called SWIFt (Sodexo Women's International Forum for Talent). SWIFt underpins Sodexo's strategy for improving gender balance within our Group. Launched in 2009 by Michel Landel, our CEO, SWIFt comprises 35 senior managers representing 15 different nationalities and all of the Company's business segments, with the aim of increasing the number of women in senior positions and in all management levels." SWIFt guides Sodexo's efforts through practical suggestions in key areas such as target setting, flexibility at work, mentoring through 14 local networks, and strengthening the executive pipeline by enrolling high-potential women in leadership development initiatives. The company's stated objective is to reach 40% women among Sodexo's top senior executives by 2025. Today, 42% of Sodexo's Board, 38% of its Executive Committee, 31% of its senior executives, 42% of its middle management and 54 % of its total workforce are women.

"One initiative encapsulates all of our efforts: the governance body we have put in place called SWIFt (Sodexo Women's International Forum for Talent). SWIFt underpins Sodexo's strategy for improving gender balance within our Group."

Sophie Bellon, Chairwoman of Sodexo

Importance of setting targets for gender diversity

Lutgart Van den Berghe, Executive Director of GUBERNA, the Belgian company director governance organization, reiterates that a key business case for greater board gender diversity is to avoid 'group-think', to engender more thorough board decision-making and more effective board supervision. As a non-executive director serving on several company boards, her rationale for setting an initial target of at least three female non-executive directors on a board is as follows:

"Non-executive directors can make a difference if there are at least three. It is hard to go against the tide if you are alone, or only two." A similar concept was behind the 30% Club's voluntary target setting in the U.K..

Peter Brabeck-Letmathe, Chairman of Nestlé in Switzerland also referenced this point through a quote by the former company chairman that, "One woman on the board is an alibi; two women on the board is a policy and three women of the board is a strategy."

"Female candidate directors should be very critical about accepting the board mandates offered to them, and satisfy themselves they can effectively bring value to the table."

Lutgart Van den Berghe, Executive Director of GUBERNA

Even though a hard quota requirement has been introduced for Belgian listed companies which will take effect from 2017, Van den Berghe herself advocates specific voluntary targets backed up by requirements to disclose progress annually, as the best model in Europe, based on the approach adopted in Sweden. She prefers this to quotas, which she views as a blunt instrument to accelerate behavioural change. However, now that the quota system has been introduced in Belgium, Van den Berghe offers pragmatic, constructive advice to help the new system work. "Female candidate directors should be very critical about accepting the board mandates offered to them, and satisfy themselves they can effectively bring value to the table."

"As Nestlé's former chairman told me, one woman on the board is an alibi; two women on the board is a policy and three women of the board is a strategy."

Peter Brabeck-Letmathe, Chairman of Nestlé

The debate in the U.K. about target setting has recently been refocused on improving the pipeline of female executive directors. Sir Philip Hampton and Dame Helen Alexander have taken forward the Davies "Women on Boards" Review initiative in the U.K. with a renewed target of 30% female representation at executive committee level by 2020. A recent example of voluntary positive action in the U.K. is the public statement from Aviva committing that 30% of its executive committee will be female in line with the target set by the 30% Club.

Importance of companies tracking the numbers

Elizabeth Corley, Vice Chair of Allianz Global Investors (AllianzGI), says: "Statistics matter a lot at AllianzGI. We were already tracking and reporting gender information before our shareholder Allianz SE began asking for this as it is now required to disclose under the German laws." Tracking the numbers at AllianzGI, shed light on some of the reasons for senior female managers leaving. "We noticed that we were seeing a number of retirements at Managing Director level, and when we dug into the data, we found the care of elderly relatives was drawing senior women away 5 to 10 years before their expected retirement. We saw a small number of men take on caring responsibilities too, but the senior men asked for relocation or sabbatical while the women just moved closer to their parents and retired."

AllianzGI also tracks the numbers to monitor its progress towards explicit diversity targets it has set for the next 5 years. It is a hard target for representation at Executive level and aspirational target at Managing Director level. There are no targets at the Director, Vice President and Associate Vice President levels now, but these may come over time.

"Statistics matter a lot at AllianzGI. We were already tracking and reporting gender information before our shareholder Allianz SE began asking for this as it is now required to disclose under the German laws."

Elizabeth Corley, Vice Chair of Allianz Global Investors

Continue to emphasize the need for diverse longlists from executive recruiters

Sir Michael Rake, Chairman of BT Group highlights, "Until very recently, the headhunters required for governance reasons, tended to introduce you to people you already knew. And we were absolutely not getting beyond that level of people you could have introduced them to yourself. In terms of females, the headhunters just weren't looking hard enough at different sectors."

Helena Morrissey, CEO of Newton Investment Management feels the situation has improved, "the search community now take the requirements on the skills matrix more seriously but there is still an issue that their criteria are pretty narrow and you tend to see the same women put forward on all the lists. There is still a tendency to fish in the same pool." However, Morrissey feels mandatory public advertising of board appointments is probably a step too far right now. "The world is not ready for this yet. Some Chairmen are very opposed and feel that if qualified female candidates put their hands up, [e.g. through participating in a programme such as the 30% Club or the Professional Boards Forum, where Chairmen work on fictitious case studies with candidates] they will be spotted anyway." This is in line with the recent FRC feedback paper on U.K. Board Succession Planning which noted that, "Public advertising did not have many supporters and there was no evidence given of its usage."

"The search community now take the requirements on the skills matrix more seriously but there is still an issue that their criteria are pretty narrow and you tend to see the same women put forward on all the lists. There is still a tendency to fish in the same pool."

Helena Morrissey, CEO of Newton Investment Management

Paul Lee, Head of Governance at Aberdeen Asset Management feels the situation has definitely improved. "A great benefit of the focus on diversity is that companies are now drawing from a much larger pool of candidates, especially those with backgrounds such as human resources directors or in the charitable sector, two areas traditionally more populated by women." He feels such candidates bring a genuinely different perspective to issues such as executive remuneration, for instance. "This is a huge step forward as companies are now fishing for talent in pools where they were not fishing before."

"A great benefit of the focus on diversity is that companies are now drawing from a much larger pool of candidates, especially those with backgrounds such as human resources directors or in the charitable sector, two areas traditionally more populated by women."

Paul Lee, Head of Governance at Aberdeen Asset Management

Board effectiveness and the professionalization of board practices

Both company and investor interviewees highlighted that one of the overall positive outcomes of the focus on the business case for gender and other forms of diversity at board level, has been an increased focus on the professionalization of board practice overall.

— The role of the nomination committee

Carola van Lamoen, Head of Governance and Active Ownership at RobecoSAM comments that, "A solid nomination process helps companies select qualified board members. The company's nomination committee should install a nomination process, which addresses the following:

1. Required skills, attributes and board composition should be determined by the nominating committee.
2. Based on these identified attributes and skills, periodically a gap analysis should be performed.
3. Based on this gap analysis, a profile should be drafted for new board members.
4. When nominating new board members, it should be clear to shareholders what specific attributes a board member adds to the board. The nomination policy and gap analysis should be available for shareholders."

There is an open question as to what extent it is appropriate for the nomination committee to involve itself in appointments below the board. A recent report by ICSA and EY noted that, "Companies have traditionally distinguished between board succession and management succession (excluding the CEO and CFO) when defining the role of the nomination committee. This distinction is becoming blurred. There is a growing view that the board (through the committee) has to take some responsibility for ensuring not only that potential future board members are being identified and developed, but also that there is adequate 'bench strength' in management to run key parts of the company, and there is a movement towards nomination committees looking deeper into the organisation, in some cases several levels below the board."

— Board induction for new non-executive directors

Lady Barbara Judge, Chairman of the U.K. Institute of Directors, highlights the benefit of professional board induction for all non-executive directors newly appointed to a board, irrespective of background, as general good board practice. This helps new non-executive directors to contribute confidently and appropriately. At board level, she suggests two types of induction should be offered systematically:

- Subject matter induction (industry and company specific)
- Board interaction/behaviour induction

Lady Judge reiterates that diverse board perspectives are important in the context of overall board effectiveness and that gender diversity is one aspect of this. She feels that a well-balanced board should strive to include leaders from all types of personal background. With regard to non-executives specifically, some should have executive experience but those with professional advisory or academic backgrounds, also add value. To work in practice, overall board effectiveness requires an appreciation of the distinct roles of the executive directors to set strategic priorities and non-executive directors to provide oversight and challenge appropriately. She says, "I've encountered some non-executive directors new to a board, being rather overbearing in their style of contribution, for instance, particularly those with purely executive backgrounds." Professional board induction programmes help all new non-executive directors gain both sector-specific knowledge and behavioural self-awareness to add value.

"I've encountered some non-executive directors new to a board, being rather overbearing in their style of contribution, for instance, particularly those with purely executive backgrounds." Professional board induction programmes help all new non-executive directors gain both sector-specific knowledge and behavioural self-awareness to add value."

Lady Barbara Judge, Chairman of the U.K. Institute of Directors

Liselotte Hyveled, employee representative board member of Novo Nordisk in Denmark, explains that she has seen the benefit of sector-specific board training in particular, which her firm offers to all board members. Liselotte Hyveled is a Project Vice President in Global Development with a sectoral MBA focused specifically on Medical Business Strategies. She says, "The shareholder-elected board members often come from different industries, therefore training focused on the pharma industry and sector and company-specific challenges is very beneficial in my view. As I already have a broad knowledge of the pharma industry I attended this training both to learn more about specific areas which were new to me such as the production side of our business and, more particularly, to network with the newly-elected board members. A solid understanding of the diversity of board members' competencies and

"I attended [board] training both to learn more about specific areas which were new to me such as the production side of our business and, more particularly, to network with the newly-elected board members. A solid understanding of the diversity of board members' competencies and personalities in my view increases board effectiveness."

Liselotte Hyveled, employee representative board member of Novo Nordisk

personalities in my view increases board effectiveness. In addition, as I am new to the board role myself, the company paid for me to attend an executive board education course at Copenhagen Business School which I found very helpful."

Diversity and Inclusion committees

Legal & General Group believes an Executive Committee on Diversity & Inclusion is crucial. Clare Payn, Head of Corporate Governance North America at Legal & General Investment Management (LGIM) sits on Legal & General Group's Diversity & Inclusion committee, and brings knowledge of best practice from LGIM's portfolio companies to the Legal & General Group committee. Recently LGIM assessed which U.K. listed companies were viewed as providing the best unconscious bias training, and reached out to a large retailer to understand their approach and lessons learned. Other initiatives championed by the Legal & General Group Diversity and Inclusion committee include a review of their recruitment processes to make sure they are not inadvertently discouraging qualified women, for example by the language used in a job advertisement.

Unconscious bias training

Elizabeth Corley, Elizabeth Corley, Vice Chair of Allianz Global Investors (AllianzGI), explains the rationale for why AllianzGI has recently focused on this area, as a practical step to boost the female executive pipeline. "Unconscious bias is genuine and it impacts promotion prospects, remuneration, project and travel opportunities." It manifests where either men or women think women with personal commitments would not be interested in or able to take on the more challenging roles, "which of course are the ones most needed to develop a career." Corley notes that this bias may be framed as "protective," rather than as overtly discriminatory.

However, sometimes the bias may simply reflect underlying assumptions as to gender-appropriate behaviour. A male executive she knows recently undertook an expert review of the write-ups of the language used to assess male and female candidates in another company. The CVs were reviewed blind with the names removed. "Any references to the strength of character in the men was positive "strong, confident" but for the women it was negative in tone "assertive, sharp-elbowed." So much of this unconscious bias comes out in the language used so that is why training is required."

Support flexible working and career breaks

Several interviewees mentioned specific good practice with regard to flexible working and career breaks as being helpful in facilitating women's progress towards senior levels of management. Elizabeth Corley, Vice Chair of AllianzGI highlighted that it is currently producing an internal guide on the different forms of flexible working (working from home, compressed weeks, job-sharing) and is training its managers on how this works in practice.

She says, "Managers need to be honest if flexible working is not going to work in a certain role too." AllianzGI will try to retrain or transfer people who require flexible working arrangements into appropriate roles, if their request is turned down.

Sir Michael Rake, Chairman of BT Group says "With the technology we have at BT Group, we've been able to facilitate flexible working, but you have got to have the right culture and the right level of conscientiousness, as well as the technology." Looking back to his earlier career at the accountancy and professional services firm KPMG, he says, "I think we learned the importance of creating an environment in which it was easier for women to have a career which included, for example, career breaks or included being able to work remotely from home with modern technology during the holiday period."

Support for domestic responsibilities

Companies need to be aware of the lack of support for domestic responsibilities, notably childcare, as this can also be a real problem for female executives in certain markets. For example, school hours can present a major issue in many parts of Europe but according to Corley at AllianzGI, "in Asia, 50% of senior management in AllianzGI is female." The greater female representation in Asia may be a result of grandparents being more likely to look after children in extended families in many Asian countries.

Importance of mentoring and other educational programmes to improve the executive director as well as the non-executive director pipeline

The importance of mentoring programmes was mentioned by most interviewees. The 30% Club, the initiative founded in 2010 by Helena Morrissey, CEO of Newton Investment Management and Chair of the U.K. Investment Association. The 30% Club is dedicated to boosting female representation on U.K. boards, through voluntary positive action and target setting. It includes both company chairmen and 27 leading institutional investors who between them manage GBP 10 trillion. The 30% Club now has multiple international chapters.

The 30% Club operates a cross-company mentoring programme in which around 650 female senior managers have participated since the initiative began in 2014. Around two-thirds of the Chairmen acting as mentors are men, and the participants may choose either a male or female mentor. It has been easier for boards to find female non-executive directors than executive directors in the U.K. through such initiatives, even though the U.K. is the market with the highest proportion of female CFOs on listed company boards. Even in Norway, which introduced a quota for gender representation at board level, there have been discussions about forming a 30% Club chapter to help boost female representation in the layer below the board to help boost the potential executive director pipeline in Norway, which has lagged behind that for non-executive directors.

Encourage executives to take on a non-executive role outside of the company

Sir Michael Rake, Chairman of BT Group explains that the company actively encourages its senior executives, both female and male, to take on a non-executive directorship role on another company board. BT Group considers it a good thing for their senior staff to do to broaden out their experience and because many will want to go on to do further non-executive roles later in life. However, he says, "we are very fussy about who they can join. I won't let them join banks, because it's too risky and it takes up too much time."

Thomas Leysen, Chairman of KBC Group suggests companies could focus on developing female senior managers in their late 30s and 40s, who are at the level below the executive committee and suggest they find placements on mid or smallcap boards to broaden the talent pool. He says, "This will simultaneously allow for the widening of the talent pool, as well as give valuable exposure to the managers concerned. This may also address the concern of some companies which may not want their most senior managers or executive committee members to take on external roles."

"Companies could focus on developing female senior managers in their late 30s and 40s, who are at the level below the executive committee and suggest they find placements on mid or smallcap boards to broaden the talent pool."

Thomas Leysen, Chairman of KBC Group

Broader educational initiatives at both school and university level

Several science, technology, engineering, and mathematics (STEM) related educational initiatives were highlighted by interviewees. Risto Siilasmaa, Chairman of Nokia, is also Chairman of the Federation of Finnish technology industries, the members of which are responsible for half of Finnish exports and three quarters of Finnish R&D businesses. In this capacity, Siilasmaa has been very active in the Finnish educational system promoting two initiatives. The first is aimed at primary and secondary female school pupils to get them to view technology as something that is "fun rather than for geeks."

The second is aimed at educating university-level female students about entrepreneurship. One way to gain the necessary experience to be a CEO of a large public company is through the entrepreneurial route. "Just grow your own company and then make your exit. With all that experience, maybe over the years you may want to try your hand at running a public company. There are a few examples of Finnish female executives who have taken this route".

"Eni promoted two events in early April 2016, to encourage female students in the last two years of high school to pursue studies in science, technology, engineering and mathematics (STEM). Eni's equal opportunity policies and initiatives were illustrated at the events. The entry-level positions and the university studies typical of the Oil & Gas industry plus the masters' programmes organized by Eni were also presented."

Emma Marcegaglia, Chairman of ENI

Emma Marcegaglia, Chairman of ENI highlights that as part of the Italian Ministry of Education's initiative "The students want to count – the Month of STEM", Eni promoted two events in early April 2016, to encourage female students in the last two years of high school to pursue studies in science, technology, engineering and mathematics (STEM). Eni's equal opportunity policies and initiatives were illustrated at the events. The entry-level positions and the university studies typical of the Oil & Gas industry plus the masters' programmes organized by Eni were also presented.

Investor approaches to board gender diversity

Summary of investor approaches to board gender diversity

1. **The majority of interviewees factor board gender diversity into integrated engagement and active ownership strategies**
2. **Some investors interviewed highlighted additional strategies which focus on improving Board gender diversity as a specific, single issue, including a link to their voting policies**
3. **Some interviewees challenged other investors to take action on this issue, while acknowledging factors impeding this.**

Integrating board gender diversity and related factors into the investment process

Investors reported seeing board diversity as a material investment factor for three reasons:

1. An appropriate mix of skills and experience is required for the Board to operate effectively
2. Diversity reduces the risk of 'group-think', and hence reduces the risk of unintentional value destruction for example by the pursuit of high-risk mergers and acquisitions
3. It can be a management quality signal that the company is forward-thinking and seeking to make the best use of their employees, along with the other capitals at their disposal

"Quality at board level is important for the sound management of the company. As a result [of board diversity] decisions will be more balanced and taken from a broader perspective. This increases board effectiveness."

Carola van Lamoen, Head of Governance and Active Ownership at RobecoSAM

Carola van Lamoen, Head of Governance and Active Ownership at RobecoSAM comments that, "Quality at board level is important for the sound management of the company. In addition to the qualities of individual members, board composition is also very important. This includes variety and balance in terms of experience, education, age, gender and ethnicity. The last aspect can also be summarized by the term 'diversity'. As a result, decisions will be more balanced and taken from a broader perspective. This increases board effectiveness."

The point, regarding the governance and management quality signals, can also appear in reverse form. **Cédric Lavérie**, Head of Corporate Governance at Amundi observes that, "Laggards in terms of board gender diversity also often have low overall diversity and less transparency on nomination and succession policies."

The investors interviewed integrate board diversity into the investment process in different ways, which is to be expected, given their different investment philosophies and organisational structures. Many consider gender diversity within the broader context of succession planning and board effectiveness. However several interviewees highlighted an additional focus on board gender diversity as a single issue.

"Laggards in terms of board gender diversity also often have low overall diversity and less transparency on nomination and succession policies."

Cédric Lavérie, Head of Corporate Governance at Amundi

Board gender diversity in integrated engagement and active ownership strategies

At **APG Asset Management** in the Netherlands, the approach to gender diversity is mainly reflected in its engagement activities, with both social as well as governance considerations at the fore. Board gender diversity is viewed as one important form of diversity amongst several. Engagement with portfolio companies is often carried out jointly by the portfolio managers in conjunction with the responsible investment and governance team, which use a variety of ESG data screens to inform input. Diversity throughout the organization is more of a social issue that underpins companies' long-term legitimacy and thus is a sustainability issue. The governance assessment focuses more specifically on board level gender diversity, and is seen primarily as a business issue. For example, it could be viewed as material if a company in the retail sector with a large female consumer base, has a track record of poor gender diversity at Board level.

David Shammai, APG's senior corporate governance specialist highlights effecting change appropriately, which involves weighing up a variety of priorities. In the context of board gender diversity in Europe, APG is seeing a growing number of cases where the need to appoint women directors has led to the nomination of over-boarded directors. "This puts shareholders in the very uncomfortable position of having to make a choice effectively between lack of diversity and overly busy directors who don't have sufficient time to meet their board responsibilities. We believe that this is not good for board effectiveness and probably also not good for credible diversity." APG expects companies in these cases to broaden their choice of director candidates further. "For example, for some companies where language is seen as a barrier to diversify board selection, perhaps it makes sense to have non-nationals as directors, even if they are non-native, yet fluent, speakers of the national language."

"For some companies where language is seen as a barrier to diversify board selection, perhaps it makes sense to have non-nationals as directors, even if they are non-native, yet fluent, speakers of the national language."

David Shammai, Senior Corporate Governance Specialist, APG

Aberdeen Asset Management in the U.K. is a long term investor with an average holding period of its active portfolio in excess of 8 years. Aberdeen's diversity policy is reflected in its investment guidelines and filters all companies in its active portfolio universe according to a valuation (V-) rating, (from 1 to 5), based on a quantitative assessment of its expected financial performance and a qualitative (Q-) rating, (from 1 to 5) based on a qualitative assessment of the sustainability of the company's business model. Board diversity, including gender diversity, is one of the elements assessed in the governance section of the Q-rating and a company needs a rating of at least 3 to be included in Aberdeen's investment universe.

Gender diversity on its own will typically not drive Aberdeen's voting decisions but gender diversity may prompt exceptions to other governance expectations. On board tenure for example, Aberdeen will typically vote against non-executive board members with more than 12 years of service if they are concerned with the overall level of independence of the board. Paul Lee, Aberdeen's Head of Corporate Governance highlights that, "this expectation may be set aside to preserve board diversity, for example, if a woman has been on the board for more than 12 years and her dismissal would lower gender diversity below a certain minimum threshold."

At **Amundi Asset Management** in France, in terms of investment approach, it uses an ESG screen including board diversity in the G part (with ratings from A to G, A being the best). Companies being ranked G are excluded from all actively managed funds and companies between E, F and G are excluded from SRI funds. Once the ESG screen is applied, the portfolio manager has the discretion to take into account further the question of diversity. The materiality of ESG issues, including diversity, is promoted by Amundi's team of SRI analysts through regular sector and thematic presentations to the investment teams. Its ESG ratings are sector-based so the weight of the diversity (in the G and also the S dimensions) varies between sectors.

Cédric Lavérie, Head of Corporate Governance at Amundi comments that, "Board balance, succession planning, nomination processes and adequacy of appointments/renewals are at the heart of our proxy-voting and engagement activities on corporate governance. Useful information/explanation on appointments/renewals has long been a weakness in [company] disclosure but it is progressively changing and it will allow us to expand our engagements from requests for more disclosure to more constructive dialogue on the dynamics of the board. The information on board effectiveness reviews is still unfortunately, in most cases, not very useful as issuers are still reluctant to disclose negative assessments. However, the focus on board gender diversity has led to an increased professionalization. It forced a renewal of members (sometimes giving the long-needed excuse for issuers to replace the most ineffective male members), it led to increased work by the nomination committee and the board on what were the needs in terms of balance of the board in terms of profiles, skills and overall diversity. In numerous cases, gender diversity was combined with increased international diversity, younger candidates and more diverse profiles with skills often linked to the new challenges faced by companies."

Columbia Threadneedle is primarily focused on active long investment strategies. It has a team-based approach in which colleagues share investment ideas and then the fund manager makes the decisions for their fund.

When Columbia Threadneedle looks at the ESG characteristics of a company, the profile of the board is a key area of focus. **Iain Richards**, Head of Responsible Investment, EMEA says, "We look to understand the quality of the leadership of the business. If there is an entrenched board with little diversity, this is one of a series of red flags. The board is effectively a model for the whole business and, in seeking change, it is a logical place to start." He acknowledges there are longer-term structural and cultural challenges which need to be addressed to improve the level of diversity in the executive pipeline at companies. Columbia Threadneedle assesses culture on quantitative and qualitative measures.

On diversity there is an overall annual review at present, as well as reviews across specific portfolios. Annual deep dives on an issue are done to understand the state of play in certain markets and inform subsequent ongoing monitoring.

To aid quantitative ESG assessment, Columbia Threadneedle uses detailed interactive databases of factors relating to boards. From this it can run reports on board gender diversity across all of a portfolio's company boards, or more broadly. It incorporates this into the performance, risk and ESG attribution reporting on portfolio characteristics provided to clients. Iain Richards, Columbia Threadneedle's Head of Responsible Investment, EMEA says, "Clients welcome the assurance and insights provided by the fact that there is a meaningful and effective approach in place that can draw out such issues."

Columbia Threadneedle incorporates board gender diversity into its stewardship approach. As part of its prioritisation of issues, it engages with company Chairmen on the topic, based on the significance and need to address boardroom issues. Board gender diversity is not a single issue topic of engagement with its portfolio companies, although it has prioritised it as a key area of focus at companies considered to be particular laggards. That will escalate, with companies having had a period of grace following the reviews undertaken around aspirational targets on diversity, looking towards 2017, Columbia Threadneedle will be considering how voting action may contribute appropriately to tackling boards that remain resistant to reform.

"We look to understand the quality of the leadership of the business. If there is an entrenched board with little diversity, this is one of a series of red flags."

Iain Richards, Head of Responsible Investment, EMEA at Columbia Threadneedle

Columbia Threadneedle has a strong internal commitment to diversity, has published papers on the issue, recognises the impact the issue can have from a macro/productivity level to micro/performance level. It was the first asset management firm to disclose its gender diversity data in 2015 and was the first asset manager to sign the UK Government's Women in Finance Charter. It maintains an internal Diversity and Inclusion committee, which provides objective advice and input on these issues when they come for review.

Investor strategies which focus on improving board gender diversity as a single issue

Some investors interviewed highlighted additional strategies which focus on improving board gender diversity as a specific, single issue. Their approaches are outlined below for reference.

— AP2, Sweden

The second AP fund of Sweden (AP2) focuses on diversity as one of four parts of its sustainability strategy. AP2 launched its Female Representation Index in January 2003, to compile detailed data on the proportion of women represented on boards and in executive positions at Swedish publicly-quoted companies. The Index is based on the assumption that the boards of Swedish quoted companies recruit their members from personnel who occupy leading positions in these companies. Measuring the proportion of women both in executive positions and in these quoted companies as a whole provides a good basis for judging the degree to which the recruiting base for Swedish boards has developed over time. Statistics showing the percentage of women studying engineering, economics and law, compared to the percentage occupying management positions in the private sector, provides an indication of the extent to which women drop out of the job market, despite their qualifications and experience. The data has been collated since 2002 and is updated every year.

"By producing this information for the Female Representation Index we can contribute to a more fact-based discussion on the issue of women within boards and management. The reason that we wanted to gather these facts was not from a political perspective or to pursue gender issues, but rather that we were worried about missing out on competence."

Eva Halvarsson, CEO of AP2

Eva Halvarsson, CEO of AP2 says: "The reason that we wanted to gather these facts was not from a political perspective or to pursue gender issues, but rather that we were worried about missing out on competence. By producing this information for the Index we can contribute to a more fact-based discussion on the issue of women within boards and management." AP2 also works actively on the issue of Board gender diversity at a company level through AP2 representatives sitting on the boards of nomination committees of Swedish companies. Through nomination committee membership it encourages three year board development plans for companies, and appropriately broad executive searches based on professionally conducted profiling plus ongoing monitoring and reporting of progress.

— ERAFP, France

ERAFP's diversity policy, which includes board gender diversity, is reflected in its investment guidelines. It is also included in the overall sustainable and responsible investment (SRI) analysis and rating of issuers. It is one of the SRI criteria that determine the SRI rating of each company in the investment universe. The investment strategy is determined based on a best-in-class approach as measured by SRI ratings. All companies need a minimum qualitative rating of 3 (on a scale of 1 to 5) to be included in the investment universe.

In its engagement and voting guidelines, ERAFP encourages boards to recruit nominees from as wide a spectrum as possible in order to ensure a high degree of diversity, notably as regards female representation. That could constitute a favourable factor in support of an appointment. ERAFP encourages companies to undertake measures that will allow them in the medium term to have a board consisting of a significant proportion of women. In France, the 2011 Copé-Zimmerman law requires boards of directors of listed companies to comply with gender quotas, with the objective of 40% of female members by 2017. In Europe, except in cases where national laws set higher targets, many companies are encouraged to comply at least with the objective set by the former European Justice Commissioner Viviane Reding: 40% of female members by 2020. With this in mind, ERAFP considers that by the end of the 2016 general meetings season all European and US companies should have a board made up of at least 35% women, and will therefore vote against any appointment that prevents this target from being achieved. Lastly, ERAFP will support the relevant proposals in any country where there is an initiative involving investors aimed at increasing the proportion of women on boards.

"Christine Lagarde of the International Monetary Fund in the wake of the financial crisis said that Lehman Brothers had been Lehman Sisters, the economic crisis might have looked quite different. I agree and I am convinced that boards make better decisions when their composition is diverse, with different perspectives balancing power struggles and assessing risk."

Philippe Desfossés, CEO of ERAFP

Philippe Desfossés, CEO of ERAFP, references the oft-quoted remark made by Christine Lagarde of the International Monetary Fund in the wake of the financial crisis, "If Lehman Brothers had been Lehman Sisters, the economic crisis might have looked quite different. I agree and I am convinced that boards make better decisions when their composition is diverse, with different perspectives balancing power struggles and assessing risk."

— Legal & General Investment Management (LGIM), U.K.

Board gender diversity is a specific voting issue in LGIM's U.K. voting policy which is implemented as part of a targeted engagement program aimed at FTSE 350 companies with low female board representation. In 2015, LGIM wrote to the chairs of the remaining 26 all-male boards in the FTSE 250 to request meetings. For companies which fail to provide adequate explanation and disclosure of plans to redress the situation, LGIM would escalate its action by taking the decision to vote against the Board Chairman and/or the Chair of the Nomination Committee.

Following this engagement, LGIM voted against several Chairs for a lack of response and the continued absence of a robust diversity policy or female talent on the board. One company followed up on the vote action which resulted in an engagement meeting with the senior independent director; the remaining companies with all-male boards appointed a woman before or at their AGM or have committed to doing so. Therefore LGIM did not need to take any voting action against these companies. However, LGIM will follow up with all of the companies in 2016 to ensure that progress in the FTSE 250 continues to be made.

— Robeco, N.L.

Carola van Lamoen, Head of Governance and Active Ownership at RobecoSAM observes that, "General diversity, including gender diversity, is of strategic importance for companies." In 2015 RobecoSAM and Tilburg University researched the link between gender diversity of company boards and stock returns. They found a positive link between board diversity and stock performance, especially from 2009 onwards.

The paper notes that academic literature comes up with various explanations for a positive effect of gender diversity. One of them is that companies with higher gender diversity show better corporate governance. Adams and Ferreira (2009) find that female directors have better attendance records, and that more gender-diversified boards record fewer attendance problems of male directors. This aligns with the observation made by several interviewees that a focus on improving gender representation at the board brings second-order effects related to increased board professionalism.

CHALLENGES AND AREAS FOR IMPROVEMENT

Summary of challenges and areas for improvement:

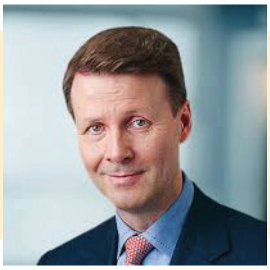
1. **Easier to recruit female non-executive directors than female executive directors**
2. **Push to increase female non-executive directors on boards may be cannibalizing the female executive pipeline**
3. **International management experience**
4. **Societal challenges regarding men taking on domestic responsibilities**
5. **Perceived sector-specific challenges relating to recruiting women with science, technology, engineering and mathematics (STEM) backgrounds (although not all empirical evidence agrees)**
6. **Most institutional investors still see gender diversity as a secondary issue**

Easier to recruit female non-executive directors than female executive directors

In 2010 the U.K. Government announced the target of 25% of FTSE 100 boards to be female by 2015. In 2010 the FTSE 100 was 12.5% female, but by 2015 the 25% target had been achieved. 550 new women were appointed in just over four years, but the vast majority of these were to Non-Executive roles. Within the STOXX 600, the European Women on Boards quantitative study noted that, "unprecedented numbers of women have been appointed to non-executive or supervisory board positions during the last few years – often driven by the imposition or threat of board quotas. However, much more needs to be done in order to widen and deepen the role of women in corporate leadership." It is understandable that it takes longer to develop senior leaders within an organisation into executive roles than to hire from outside into non-executive roles, and the pace of change in the last five years should not be underestimated as a necessary but not sufficient first step. However, focus is now turning to building the executive pipeline. Risto Siilasmaa, Chairman of Nokia, comments that, "The real key to gender parity would be to get more female executives. That's what we really should be focused on."

Push to increase female non-executive directors on boards may be cannibalizing the female executive director pipeline

Several interviewees, both corporates and investors, voiced concern that an unintended consequence of the focus on board gender diversity is that executives are leaving and moving into non-executive portfolio careers which in the short-term is diminishing the executive pipeline. **Risto Siilasmaa**, Chairman of Nokia, comments: "I am not saying that it is only a bad thing, it is a good thing we are getting more female non-executive board members. But from the perspective of what I feel is the key issue, getting more females into CEO and other executive management roles, it has had a negative impact."



"The real key to gender parity would be to get more female executives. That's what we really should be focused on."

Risto Siilasmaa, Chairman of Nokia, Finland

Elizabeth Corley, Vice Chair at AllianzGI notes that, "An emerging challenge is keeping senior women in the 45-60 age bracket on the executive pathway, so there is a chance for them to reach the CEO position rather than seeing them be drawn away into non-executive director roles, given there is such demand."

Sacha Sadan, Director of Corporate Governance at LGIM says, "When there is one more big executive director role left in people – you want to say "keep going"! There is traction with the Chairmen on this issue but if we want to fix the executive pipeline, we need to start engaging with the CEO too."

International management experience

Two interviewees commented that executives in many industries needed international operating experience. This often comes to senior managers in their 30s and early 40s, at a time which clashes with the peak years for raising a young family. Risto Siilasmaa, Chairman of Nokia, noted that a key weakness he had seen in several candidates put forward by executive headhunters is "a lack of international experience as a global company has different needs to a domestic company. The people who have moved abroad have been mostly men; there are very few women."

Peter Brabeck-Letmathe, Chairman of Nestlé highlights the practical reason some women lack international management experience, "many women are not able to make all of the sacrifices expected from a truly international career to make it to the top, including several long term relocations, which is sometimes hard to reconcile with personal life objectives and priorities."

Societal challenges regarding men taking on domestic responsibilities

Several interviewees noted that they don't see board gender diversity automatically going to 50% unless society and the whole ecosystem in which we work begins to change. Sir Mike Rake suggests that "if, over the next ten years, we are able in society to have an environment where it is increasingly easier for women to pursue a career and family, for example, or where it becomes increasingly the case, that the woman is the primary wage earner and the man less so, you could start to move up to 40-45%."

"If, over the next ten years, we are able in society to have an environment where it is increasingly easier for women to pursue a career and family, for example, or where it becomes increasingly the case, that the woman is the primary wage earner and the man less so, you could start to move up to 40-45% [levels of board gender diversity]."

Sir Michael Rake, Chairman, BT Group

Liselotte Hyveled, employee representative board member of Novo Nordisk says for women to progress on the executive career track, there needs to be more parity between women and men with regard to the domestic sphere. "I am fortunate in that my husband has a job which doesn't involve travel and he takes on considerable domestic responsibility. Even in Denmark that is still unusual. This allows me to focus on my career which, needless to say, involves long working hours and considerable international travel."

Sector-specific challenges relating to recruiting women with science, technology, engineering and mathematics (STEM) backgrounds

Sector-specific challenges relating to recruiting women with science, technology, engineering and mathematics (STEM) backgrounds were addressed by several interviewees. Emma Marcegaglia, Chairman of ENI in Italy highlighted a number of studies on the Oil & Gas sector facing particular challenges to increase gender diversity. She explains the reasons are often related to companies in this sector having business operations in countries where, due to cultural tradition or social structure, women are still disadvantaged. In addition, she cites a further obstacle could be that playing a central role in this business sector requires working in the field at operating sites or in risky countries.

However, the European Women on Boards quantitative study found that differences in the development of board gender diversity in individual industry sectors are smaller than the differences in development between individual countries. This implies that market-specific factors such as quotas and best practice recommendations are more influential in the growth of women on boards than industry-specific factors.

Sacha Sadan, Director of Corporate Governance at LGIM acknowledges there will be a different starting point for board and general workforce gender diversity according to sector but expects companies to provide specific measurement and targets. "There is a world of difference between a company saying "it's really hard, there are no women in mining to pick from," as opposed to "it's really hard but we're trying to move female representation from 5% to 15% of the workforce." Also, they should be prepared to address questions such as 20% of geological degrees are awarded to women, so why are those female graduates choosing another company?"

"There is a world of difference between a company saying "it's really hard, there are no women in mining to pick from," as opposed to "it's really hard but we're trying to move female representation from 5% to 15% of the workforce."

Sacha Sadan, Director of Corporate Governance at LGIM

Most institutional investors still see gender diversity as a secondary issue

While no interviewee said that board gender diversity was unimportant to them or their organisation, some questioned the extent to which other investors saw the issue as genuinely material. In October 2015 Hermes Investment Management surveyed a group of institutional investors. Only 23% saw gender diversity at board level as important, but 53% believed that diversity of experience is important. As one interviewee said, "investors talk about diversity a lot but often it doesn't translate to action. In hundreds of company meetings last year, Chairmen repeatedly tell us that other investors are not raising gender diversity with them as an issue."

Two interviewees noted that asset management has its own diversity challenges, and that can inhibit an investor from raising gender diversity as an issue. The Gadhia Review cites research by Columbia Threadneedle Investments which found that just seven per cent of funds in the U.K.

are managed or co-managed by women. Even assuming that the dedicated environmental, social and governance (ESG) specialists within investors see board gender diversity as important, often the final voting decision sits with the fund manager not the ESG team; sometimes ESG specialists may not attend company meetings with the fund manager. This contributes to gender diversity often being raised at best on an ad hoc basis. Also, some active fund managers may look primarily at financial metrics and diversity may not always sit easily within their current analytical framework.

KEY FINDINGS AND CONCLUSIONS

The representation of female directors on the boards of the largest European listed companies has almost doubled in the last five years. While a cause for celebration, this increase was almost totally due to an increase in the number of women being appointed as non-executive directors or to supervisory boards. As this report has shown, both corporate and investor attention is now focusing on how female representation can be boosted in the executive pipeline. One unintended consequence of the focus on board diversity is that female executives are moving to non-executive director roles when, according to one investor, "there is one more big executive director role left in them – you want to say "keep going"!"

Both European companies and investors are increasingly convinced that a well-diversified board adds value to the company. Investors report that the focus on gender diversity has contributed to a higher standard of professionalism by encouraging the nomination committee to more fully consider the board's needs in terms of the balance of skills and experience. Board members from different backgrounds are more likely to approach issues from a broader variety of perspectives, leading to less 'group-think', more thorough decision-making and more effective supervision. It can also be a management as well as governance quality signal that the company is forward-thinking and seeking to make the best use of their talent.

Recent positive developments in disclosure and quality and availability of data relating to gender, and other aspects of board diversity, is enabling investors to better factor diversity into investment analysis and decision making. Investors exercising their active ownership and stewardship responsibilities are increasingly factoring board gender diversity into their engagement and/or voting policies. The focus on gender diversity has been combined with a push for increased international diversity, younger candidates and more diverse profiles with skills often linked to the emerging strategic challenges faced by companies.

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