TC Notes

Practical leadership & technical guidance from Toronto Centre

The Business Case for Promoting Improved Gender Balance in Financial Institutions

SEPTEMBER 2017

TORONTOCENTRE

Global Leadership in Financial Supervision

Contents

Introduction[1]

A growing number of countries are adopting measures to promote an increase in women's representation on corporate boards and in senior executive roles. The measures being taken by both government and financial regulators come as a result of the slow pace of progress seen on growing the proportion of women serving in leadership roles in the corporate domain. While there is no doubt a social justice argument for achieving gender parity in leadership roles in the economy, the dialogue has focused on the business case for women's roles in the boardroom and executive suite. There is a strong economic rationale for making progress on women's representation in the corporate domain, and as a result, governments and financial regulators are increasingly demanding more focus and progress on gender balance from boards and business leaders.

While governments have taken a lead role in certain cases in putting this issue on the agenda of corporate boards, financial regulators should be driving greater focus and scrutiny on this matter via regulatory measures and disclosure requirements. The issue of greater gender balance in corporate leadership is fundamentally about better governance and stronger financial performance. As a result of the growing body of research which demonstrates the link between higher gender diversity on the board and executive suite and stronger performance, this topic has become one that financial regulators must consider in the context of effective corporate governance and strong regulatory supervision.

Objectives of this Note

This note intends to provide overview material for financial regulators to better understand:

- The business case and economic rationale for increasing women's representation on boards and in senior executive roles;
- The link between gender diversity and better corporate performance;
- A global overview of gender diversity initiatives undertaken by financial regulators and governments to drive progress on the representation of women on boards and in executive roles;
- Best practices to foster higher gender diversity and more robust board recruitment practices.

The Business Case for Women on Boards and in the Executive Suite

An extensive body of research by numerous reputable sources from academia, management consulting firms, financial institutions and other research organizations has demonstrated that firms with higher representation of women on boards and in senior leadership exhibit stronger financial performance. This research has created a compelling reason for both government and financial regulators to take measures to encourage, and in some cases, require, that companies and their governance bodies take measures to increase the representation of women in leadership roles in their organizations.

For example, the Credit Suisse Research Institute released a study in 2012, "Gender Diversity and Corporate Performance", which analyzed the performance of 2,400 large capitalization companies globally with and without women board members from 2005 onwards.[2] The report provided striking evidence that gender diversity is an important metric to consider in evaluating investments:

---

[1] This note was prepared by Jennifer Reynolds on behalf of Toronto Centre. Jennifer is the President & CEO of the Toronto Financial Services Alliance and the former President & CEO of Women in Capital Markets, Canada's largest industry association and advocacy group for women in the financial sector.

[2] Credit Suisse Research Institute, *Gender Diversity and Corporate Performance*, (Zurich: Credit Suisse AG, 2012).

- Large capitalization companies with at least one woman on the board outperformed peers with no women on the board by 26% over the six-year period
- The average Return on Equity (ROE) of companies with at least one woman on the board was 4% higher (16% vs 12%) than the average ROE of companies with no female board representation.
- Price/book value (P/BV) for companies with at least one woman on the board was one third higher (2.4x vs 1.8x) than those with no women on the board.
- Net income growth for companies with women on board averaged 14% vs 10% for those with no female representation.

McKinsey & Company conducted a study, "Women Matter,"[3] which also provides factual evidence that supports that higher representation of women in leadership roles in corporations leads to stronger financial performance. In the study, McKinsey selected companies from the UK, North America and Latin America with the highest level of gender diversity in top management positions and on boards and compared their performance to the average for their sector. These companies demonstrated strong outperformance on several metrics:

- Companies with the highest gender diversity in leadership were 15% more likely to outperform
- ROE was 22% for companies with the highest representation of women, vs 15% for those with the lowest representation
- Earnings before interest and taxes (EBIT) margin was 17% for companies with the highest representation of women vs the 11% sector average

Catalyst, a global research group focused on diversity in corporate leadership, published a study, "The Bottom Line: Corporate Performance and Women's Representation on Boards,"[4] which examined US Fortune 500 companies and the correlation between those companies with the highest number of women on boards and financial performance. Once again, the study revealed that those companies with higher representation of women outperformed those with fewer or no women on the board.

- ROE was 53% higher for companies in the top quartile of women's representation on boards relative to the bottom quartile of women's representation on boards (13.9% vs 9.1%).
- Return on Invested Capital was 66% higher for companies in the top quartile of women's representation on boards relative to the bottom quartile (7.7% vs 4.7%).

The European Union Commission conducted a study in 1997 that reviewed Fortune 500 firms and their track records promoting women to the executive suite[5]. The study revealed that the 25 companies with the best track record of promoting women to executive roles outperformed those that did not. These firms outperformed the industry median by 34% in revenue, 18% in asset value, and 26.5% in shareholder equity.

These studies are representative of a much larger body of global research which confirms that higher levels of gender diversity on boards and in executive roles are correlated with stronger financial performance. These studies have continued to gain prominence in the dialogue regarding governance and diversity practices in the realms of both governments and financial regulators. Consequently, an increasing number of financial regulators have implemented measures, or are considering measures, to

[3] McKinsey & Company, *Women Matter*, 2012.
[4] Catalyst, *The Bottom Line – Corporate Performance and Women's Representation on Boards*, 2007.
[5] Roy D. Adler, *Women in the Executive Suite Correlate to High Profits*, European Project on Equal Pay, (Malibu, CA: Pepperdine University, 1997).

encourage governing boards of public companies to take steps to increase the proportion of women in leadership roles.

The Link Between Gender Diversity and Stronger Corporate Performance

While the aforementioned research has established a clear correlation between gender diversity and corporate performance, lack of proof of causality is often provided as a refute to taking action based on the data and conclusions in these studies. Portfolio managers make decisions based on correlation as a normal course of business. Correlation established across countries, industries and company size provides ample reason for governments and financial regulators to consider how their countries can capitalize on increasing the proportion of women in the leadership of corporations and the economy.

Many studies have been conducted to establish the nature of the linkages between higher gender diversity and stronger performance. Several factors have been identified which explain that link, including; improved corporate governance; stronger assessments of risk; a more diverse set of leadership styles and a broader talent pool for leadership.

Improved Corporate Governance

There is a strong consensus within academic research that a higher proportion of women on the board improves corporate and social governance. Studies by Harvard Business School (2010)[6] and by Brown and Anastastasopoulos (2002)[7] indicate that boards with three or more women performed much better in terms of governance than companies with all male boards. They also found that gender diverse boards were more likely to focus on clear communication to employees, to prioritize customer satisfaction, and to consider diversity and corporate social responsibility.

Risk Aversion

There is considerable research around risk aversion and women which indicates that, on average, women are more risk averse than men. Research on the implications that fact has in the boardroom has been conducted and points to the benefits diverse assessments of risk can bring to corporate performance. Leeds University Business School conducted a study that showed that having at least one female corporate director appears to reduce a company's likelihood of becoming bankrupt by 20%. Two or more lowers the likelihood further. This negative correlation held true regardless of size, sector and ownership.[8] Credit Suisse analyzed the MSCI AC World constituents and found that the presence of women on boards lowers the level of gearing relative to the peer group where there are no women on boards[9]. The relevance of that statistic is that lower gearing has been a useful indicator of stock market outperformance. Lower gearing over the last 20 years has delivered outperformance of 2.5% per annum.

---

[6] Harvard Business School, 2010.

[7] David A.H. Brown, Debra L. Brown and Vanessa Anastasopoulos, *Women on Boards: Not Just the Right Thing . . . But the 'Bright' Thing* (Ottawa: Conference Board of Canada, Ottawa, 2002).

[8] Wilson, Nick and Ali Altanlar, *Director Characteristics, Gender Balance and Insolvency Risk: An Empirical Study*, May 30, 2009.

[9] Credit Suisse Research Institute, *Gender Diversity and Corporate Performance*, (Zurich: Credit Suisse AG, 2012).

Leadership Skills

Many studies have been conducted on the impact of gender diversity in the workplace and the impact of male and female leadership styles. Studies by both McKinsey[10] and NASA[11] found that women and men bring different leadership behaviours to the environment. For instance, women were found to be strong with defining responsibilities clearly, as well as mentoring and coaching employees. Men showed a propensity to be strong at acting independently and taking corrective action when required. Bringing that diversity of leadership skills together in the boardroom is thought to not only positively impact board dynamics and decision-making, but also to foster a better balance in leadership skills in the company.

Talent Pool

Women represent 54% of female university graduates, up from 51% in 2000. According to UNESCO, male and female tertiary graduation rates for North America and Western Europe hit parity in the 1980s and have continued to move up in favor of female graduates since[12]. One must conclude that if that vast talent pool is not being accessed by companies and countries than a significant inefficiency exists in the talent pipeline. More importantly, an enormous opportunity exists for companies who tap that wider pool of talent and develop high performing women into leaders for the organization.

The Broader Economic Implications for Women in Leadership in the Economy

There is a broader economic argument for companies and countries to focus on driving greater gender equality in their economies which is also influencing the debate on government and financial regulator roles in stimulating progress on the representation of women in leadership in business.

McKinsey recently published a report that indicated that fully closing gender gaps in work would add as much as $28 trillion to annual GDP by 2025, while achieving "best-in-region" rates of progress would add $12 trillion[13]. These figures are significant for all regional economies and should not be ignored, in particular, in the context of lower global GDP growth rates.

As noted, women represent an increasing proportion of university graduates throughout the world. Capitalizing on 100 percent of the talent pool is imperative if economies want stronger GDP growth in the future. That, combined with the fact that the aging workforces in many developed economies is creating a significant shortfall of talent for highly skilled, qualified jobs, increases the need for companies to include women in their pipeline of talent at all levels of the organization. In Europe, it is expected that there will be a shortfall of 24 million people in the active workforce by 2040. If the gender gap in the workforce were eliminated than the shortfall drops to 3 million[14].

In light of these demographic trends, governments and financial regulators are increasingly considering their role in driving the private sector to capitalize on 100 percent of the talent pool in the country and the potential growth that women can represent for the economy.

---

[10] McKinsey & Company, *Women Matter 2: Female Leadership, A Competitive Edge for the Future*, 2008.
[11] Gloria R. Leon, "Men and Women in Space," *Aviation, Space and Environmental Medicine*, vol. 76:1 (June 2005), B84-B88(5).
[12] Global Education Digest, *Comparing Education Statistics Around the World*, UNESCO, 2010.
[13] McKinsey Global Institute, *The Power of Parity: How Advancing Women's Equality Can Add $12 Trillion to Global Growth*, 2015.
[14] McKinsey & Company, *Women Matter: Gender Diversity, A Corporate Performance Driver*, 2012.

Global Overview of Gender Diversity Initiatives by Regulators and Governments

The number of board seats held by women globally currently sits at 15 percent[15] and progress has been slow over the last decade. However, as research continues to grow demonstrating the positive impact that increasing gender diversity can have on companies and economies, the topic has gained prominence in many countries around the world at both the government and regulatory level. While some countries have not yet begun to consider the issue of gender diversity in leadership roles in the economy, there is a growing number of countries that have taken measures to promote progress on the representation of women on boards and in senior executive roles.

The types of initiatives that have emerged globally have ranged from mandated quotas for board representation to measures to promote the subject of gender diversity on the board agenda via disclosure requirements and transparency. The debate on which measures to implement centers on whether business leaders and directors can be encouraged to incorporate meaningful gender diversity policies and practices into recruitment and talent development, or whether the blunt instrument of quotas is required to drive progress.

In the EU, quotas have been the chosen mechanism for many countries, including Austria, Belgium, France, Germany, Iceland, Italy, Norway and Spain. As a result, there has been a significant increase in women on boards in the region. Today, 23% of board seats on EU's largest listed companies are held by women. Women also hold at least 25% of board seats in 10 countries in the EU. There is little doubt that this type of progress in the representation of women on boards would not have been made without mandated quotas. However, while the heavy hand of quotas has been effective in increasing the representation of women on boards in many countries, there is an ongoing dialogue on whether it denigrates the perceived value and contributions of the women who are brought on to a board as a result of a quota. Additionally, some question whether the use of quotas inspires a meaningful cultural change which generates stronger representation of women in management and executive roles in the organization.

Norway was the first country to implement quotas for listed company directors and it has resulted in the proportion of women on boards rising to 42% in 2016. However, in a backlash to the quota, a number of companies choose to delist and take the company private to avoid the quota. Furthermore, criticism emerged around the "over-boarding" of a relatively small group of women and hence the broadness of the impact on women's representation in corporate boardrooms. In India, where a quota was implemented requiring a minimum of one women on listed boards, many companies responded by adding female family members instead of seeking out qualified, independent female board members. Mandated quotas are certainly effective in increasing the number of women on boards. A question remains with respect to how effective they are as a mechanism to drive cultural change in the boardroom and in the corporation.

Another common approach some governments and financial regulators have utilized is what is known as "comply or explain" disclosure requirements. Legislation or regulation is implemented which requires companies to provide disclosure around various measures, policies and targets to increase gender diversity on the board and in senior executive roles. The theory of the approach is that by putting the topic on the agenda of the board it will highlight the importance and value that diversity can bring to the organization and prompt boards and senior leaders to take proactive steps to improve the representation of women in leadership. Additionally, the requirement to publicly disclose the proportion of women on the board and executive team as well as the policies the board has adopted regarding the representation of women, should create some scrutiny and public pressure which will further encourage positive action.

[15] Deloitte Global Centre for Corporate Governance, *Women in the Boardroom: A Global Perspective*, 2016.

The problem with this approach is that companies do have the option to take no action and merely "explain" why they have not adopted and implemented policies and targets to increase the proportion of women on the board or executive team. Without any repercussions for not taking action, the approach relies on public scrutiny and on the board's assessment of the impact that not taking action may, or may not, have on the organization.

Despite the lack of "teeth" that comply or explain disclosure requirements may have, several governments and regulators have used this approach to successfully drive progress. The UK implemented comply or explain disclosure requirements in 2012 and the representation of women on the FTSE100 has since risen from 12% to 26%. The success of this approach in the UK cannot be solely attributed to the implementation of disclosure requirements by the financial regulator, but also to the government's focus on the issue, which included appointing an independent annual review of representation of women on boards. Additionally, advocacy groups and certain institutional investors heightened the focus on making progress on gender diversity in the UK. In other countries where there has been less coordinated focus on the problem, the comply or explain approach has resulted in less impact in terms of driving meaningful progress on the number of women on boards.

The following table provides a summary overview of mechanisms utilized to increase gender diversity in corporate leadership in various countries[16] [17].

Country	Policy
Australia	In 2010, the securities regulator amended the Corporate Governance Council Principles and Recommendations to include disclosure relevant to diversity on the board and in senior management. The regulator recommends that companies disclose a board diversity policy that includes the establishment, review and reporting of measurable objectives that apply to both board and senior executive positions. In 2015, the Australian Institute of Company Directors announced a voluntary target of 30% for women on boards to be reached by 2018.
Austria	In 2011, the Austrian government implemented female quotas for the supervisory boards of majority-owned state companies. A quota of 25% was to be met by 2013 with an increase to 35% by 2018. All such companies are already in compliance with the 35% representation. In 2012, "comply or explain" regulation was adopted requiring public companies to report initiatives taken to increase the proportion of women in senior leadership and on boards. In 2015, the requirements were amended to include the disclosure of the percentage of women on the board and in management roles and of plans to promote women to those positions within the year. The Austrian Chamber of Labour is recommending a 40% quota for women on boards and executive positions in all business sectors.
Belgium	In 2011, Belgium's parliament enacted a law applicable to public enterprises and companies that are listed on the stock exchange requiring that 30% of seats on

[16] Credit Suisse Research Institute, *Gender Diversity and Corporate Performance*.
[17] Deloitte Global Centre for Corporate Governance, *Women in the Boardroom: A Global Perspective*, 2016.

Country	Policy
	management boards be filled by women. Under the new rules, each time a board member leaves he or she is to be replaced by a woman until the quota is fulfilled. Large listed companies are required to achieve the target by 2017 while small and medium sized enterprises must meet it by 2019. Members of boards that do not meet the quotas will lose the benefits that come with their jobs. Belgium's federally state-owned enterprises are currently compliant with the quota.
Canada	In 2014, the Ontario Securities Commission added "comply or explain" disclosure requirements for Toronto Stock Exchange listed companies regarding gender diversity on boards and in senior executive roles. It requires that companies disclose: i) director term limits or other renewal measures, ii) the number and percentage of women on the board and in executive positions, iii) policies regarding women's appointment to boards, iv) how nominating committees consider women in the identification and selection process for directors, any v) targets with respect to women's representation on the board and in executive roles. All but two provincial securities regulators in Canada have adopted the disclosure requirements. The federal government is currently proposing similar comply or explain disclosure requirements for all federally incorporated public corporations. In 2011, Quebec government implemented a 50% quota for government-owned enterprises. In 2016, the Ontario government set a 40% target for female appointments to provincial boards and agencies by 2019.
Denmark	In 2008, a "comply or explain" code was implemented which requires boards of publically-listed companies, non-listed companies and government institutions to consider gender diversity for board appointments and management positions and to set targets for improving women's representation in these roles. Since 2013, companies that have women underrepresentation (less than 40%) on the board or in management roles are required to disclose in annual reports or on their website their progress towards the minimum 40% representation. Companies must also disclose their policy for reaching gender equality in management positions at large.
EU	The European Commission has been monitoring progress on female board representation and has put forward proposals including setting a target of 40% by 2020. Opposition from some member states has prevented a Directive on Equality to be passed. However the EC announced a gender equality strategy for 2016-2019 which sets out goals to promote equality in decision making positions.
Finland	As of 2010, the Finnish Corporate Governance Code recommends all listed companies to have at least one man and one woman on the board. There are no

Country	Policy
	penalties for non-compliance beyond the need to explain why the target has not been met. The Code recommends that companies define and report on their principles related to diversity of board members. Those principles should always include having both genders represented on the board. The government has since set a target for listed companies and publicly-owned entities to have at least 40% representation of both genders on their boards.
France	Parliament passed a bill in 2011 applying a 40% quota for female directors by 2017. The quota applies to listed companies, private companies with total assets greater than 50 million Euro, and government organizations. The sanctions for non-compliance are that nominations would be void and fees suspended for all board members. The regulatory governance code requires that companies disclose their board diversity policies and targets.
Germany	The German Corporate Governance Code was amended in May 2010 to include a statement recommending boards of directors consider diversity when recruiting to fill board positions. In 2015, parliament set a quota of 30% of non-executive board seats for listed companies. Companies that are not in compliance need to appoint a woman to fill the vacant seat or leave it empty. The German Corporate Governance Code was updated in 2015 to reflect the legislation. It also contains recommendations to promote gender diversity on boards and in management, including setting targets for senior management roles and board representation.
Iceland	In 2010 a quota of 40% from each sex was enacted, to be reached by September 2013. The quota is applicable to publically-owned and private limited liability companies with more than 50 employees.
India	In 2013, the government revised the Companies Act to make it mandatory for all listed companies and other large public limited companies to appoint at least one female director to the board. The act also states that seats vacated by women should be filled with women within three months of the vacancy. The Securities and Exchange Board of India amended its disclosure to include a similar provision.
Italy	In 2011, a gender quota was put in place requiring a third of all listed companies' board members to be women by 2015 or the securities regulator can levy fines of up to EUR 1 million, and if the noncompliance continues past a three-month period, the board of directors and the auditors can be replaced.
Japan	The government is currently promoting policies for gender equality including by setting a target of 30% for women's representation in leadership positions by 2020. The Tokyo Stock Exchange requires that companies disclose the number and percentage of women serving on the board.

Country	Policy
Malaysia	All public and limited liability companies with over 250 employees must have at least 30% women on their boards or in senior management.
Netherlands	Government guidelines suggest that a minimum of 30% of board members and management positions of all companies with more than 250 employees should be women. The act is not mandatory and was implemented on a comply or explain basis. The goal was to be reached by January 2016; if not, companies would be required to prepare a plan on how they intend to achieve it. The act was extended to 2017 and the government stated that if targets are not met they will mandate a gender quota. The Dutch Corporate Governance Code was revised in 2017 to reflect the act.
Norway	In 2002, the government gave a deadline of July 2005 for private listed companies to raise the proportion of women on their boards to 40%. By July 2005, the proportion was only at 24% and so in January 2006 legislation was introduced giving companies a final deadline of January 2008, after which they would face fines or dissolution of the company. Full compliance was achieved by 2009. In 2016, the government approved several proposals to promote a balance representation of genders on management teams, including setting targets of 40% representation in management and executive roles and annual reporting to parliament on progress in all business sectors.
Poland	The corporate governance code for listed companies recommends balanced gender representation on boards. Since 2016, listed companies are required to publish a description of their diversity policy for governing bodies and key managers on their websites. There are no formal sanctions for non-compliance.
Spain	In 2007, a gender equality law was passed obliging public companies and IBEX 35-quoted firms with more than 250 employees to attain a minimum 40% share of each sex on their boards by 2015. Companies reaching this quota were to be given priority status in the allocation of government contracts, but there are no formal sanctions. In 2014, a new act was passed requiring listed and non-listed companies to set minimum targets for women on their boards. In 2015, Spain's securities regulator set forth recommendations for diversifying boards, including a target of 30% representation of women by 2020, on a comply or explain basis.
South Africa	The Johannesburg Stock Exchange recently included a specific requirement for the boards of listed companies to disclose targets set for gender and race representation at the board level, as well as the progress made against these targets.
Sweden	The government asked boards of listed companies to have at least 40% representation of each gender by 2016. Though progress was made, the target

Country	Policy
	was not met and the government drafted a law requiring 40% representation by 2020. The draft was not approved. The Swedish Corporate Governance Code stipulates that companies strive for gender parity on boards and in 2016 defined a goal of 40% representation by 2020. Certain companies are also required to disclose diversity policies and information on diversity of the board.
United Kingdom	In 2010, the UK government commissioned the Lord Davies Report to consider the obstacles that prevent women from reaching senior positions in business and the business case for gender diverse boards. In response to the report, the Financial Reporting Council amended The UK Corporate Governance Code in September 2012 and implemented "comply or explain" guidance around effective board governance and gender diversity considerations. In 2015, the voluntary target of 25% representation for FTSE100 boards recommended by Lord Davies was met and in 2016 the target was increased to 33%. The UK Corporate Governance Code requires companies to report annually on their diversity policies and include gender diversity in the annual evaluation of board effectiveness.
United States	In 2010, the securities regulator in the US added additional disclosure requirements for board nominating committees which required them to report on any additional factors that are considered when identifying nominees for directors, such as board diversity. Companies are required to disclose if they consider diversity in the identification and evaluation of director nominees, and if they have a policy with regard to consideration of diversity in identifying director nominees and how the policy is implemented and evaluated. Certain states have passed resolutions suggesting or requiring companies to set goals around gender diversity on the board.

Best Practices to Achieve More Gender Diverse Boards

Whether governments and regulators impose quotas or utilize a comply or explain approach to drive a higher representation of women on boards, boards should have robust recruitment practices to bring the right skill sets to the boardroom. Too often, boards are built via relationships within a small homogenous network. While this type of recruiting creates a comfort level within the boardroom, many studies have shown that homogeneity is negatively correlated with strong governance and strong performance.

For instance, a study was published in the Academy of Management Journal which looked at the proportion of domain experts, i.e., directors whose primary professional experience is within the firm's industry, on the board[18]. Boards very often require domain expertise for new board members, with the thought that that will make them more effective, valuable board members. In fact, the study showed that expert-dominated boards can compromise board effectiveness. Often experts are more entrenched in their thinking and less able to respond to new or unfamiliar situations. They also can be overconfident in their

[18] Andras Tilcsik and Juan Almandoz, "When Having Too Many Experts on the Board Backfires," *Harvard Business Review*, August 29, 2016.

decision making. Finally, they are less likely to explore and discuss alternatives. Boards with fewer domain experts tend to create an environment where more questions are asked and deliberated upon by the board. The study explored the link between the degree of domain experts on the boards of a group of banks and found a positive correlation between the proportion of domain expert directors and the probability of bank failure. The higher the number of domain experts the higher the propensity for the bank to fail. This does not suggest that industry experts do not add value to boards, merely that a homogenous skill set is not optimal for board effectiveness.

Strong diversity policies and practices are critical to building the most effective boards, and to ensuring women's representation on boards grows. As a result, financial regulators are increasingly requiring these policies and practices to be disclosed and reported on. Key areas for boards to focus on include; developing, implementing and monitoring progress on gender diversity policies; maintaining robust and up to date board competency matrices and formal board evaluation processes, and ensuring the corporation has renewal mechanism which ensure a healthy turnover in board directors.

Gender Diversity Policies

In order to challenge current board recruitment practices, companies need to develop and implement robust gender diversity policies and practices to ensure they are accessing female talent. Too often, board recruitment screens out candidates by credentials such as CEO experience or domain expertise. Boards need to challenge themselves to recruit a diverse mix of skills, knowledge and backgrounds and to go outside existing networks to bring new perspectives to the table. Policies which ensure female candidates are considered for all director and senior executive roles are critical to challenging myths around the lack of qualified female candidates for these positions.

Competency Matrices and Formal Board Evaluation Processes

Well thought-out competency matrices should also be used to highlight the skills the board should have to be most effective. These competencies should include not only professional expertise but also skill sets that make directors effective in boardroom discussions and in decision making. Formal board evaluation practices should be conducted regularly to ensure existing board members continue to add value and to determine where gaps in skills and competencies may exist on the board.

Renewal Mechanisms

Boards must find a balance between seeking renewal for new skills and retaining long-term directors who still make valuable contributions to the board. Too often, board members are kept on long past the point where they are adding value or remain independent. Boards should have mechanisms to encourage board renewal, such as term limits or a mandatory retirement age. Clearly a fundamental condition for creating the opportunity to increase the representation of women on boards is the presence of a disciplined approach to board renewal.

Conclusion

The adoption of legislative and/or regulatory measures to increase the proportion of women in leadership roles on boards and in executive positions will no doubt progress at different rates depending on the social and business climate in individual countries. In view of the large body of research that demonstrates the correlation between higher gender diversity and better corporate performance, combined with the research which supports that more gender diverse boards demonstrate stronger governance practices, financial regulators should be considering their role and approach in encouraging gender diverse boards. Implementing progressive measures to encourage boards and executives to broaden the talent pool to include women, and to challenge themselves to think critically about the skill sets that they require on boards, will surely bring about positive results including improved financial performance of regulated firms.

From a broader economic perspective, women represent a vast pool of untapped talent around the globe. The Economist made an assessment that the increase in female employment in the advanced world "has been the main driving force of growth in the last couple of decades. Those women have contributed more to global GDP growth than have either technology or the new giants, China and India."[19] According to the OECD, if OECD countries saw full convergence of men and women in the labour force, they would benefit from a 12 percent increase in GDP over 15 years. For some emerging economies, increases of 20% or more could be achieved over the same period.[20]

In view of the immense potential for growth, governments, financial regulators and business should be focused on capitalizing on the growth potential women offer to the economy. Those who ignore more than half of tertiary graduates around the globe as a talent pool for leadership in corporations and the economy will surely not be the winners in the years to come. Governments and financial regulators should be proactive about encouraging companies to pursue gender diversity initiatives at all levels of the organization, and in particular in leadership roles, in order to fully realize their growth and performance potential.

[19] "A Guide to Womenomics," *The Economist*, April 12th, 2006.
[20] OECD, *Closing the Gender Gap: Act Now* (Paris, OECD, 2012).

References

Adler, Roy D. *Women in the Executive Suite Correlate to High Profits*. European Project on Equal Pay. Malibu, CA: Pepperdine University, 1997.

Brown, David A.H., Debra L. Brown and Vanessa Anastasopoulos. *Women on Boards: Not Just the Right Thing . . . But the 'Bright' Thing*. Ottawa: Conference Board of Canada, 2002.

Catalyst. *The Bottom Line – Corporate Performance and Women's Representation on Boards*. 2007. http://www.catalyst.org/system/files/The_Bottom_Line_Corporate_Performance_and_Womens_Representation_on_Boards.pdf

Credit Suisse Research Institute. *The CS Gender 3000: Women in Senior Management*. Zurich: Credit Suisse AG, 2014.

Credit Suisse Research Institute. *Gender Diversity and Corporate Performance*. Zurich: Credit Suisse AG, 2012. https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=88EC32A9-83E8-EB92-9D5A40FF69E66808

Deloitte Global Centre for Corporate Governance. *Women in the Boardroom: A Global Perspective*. 2016.
https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Risk/gx-ccg-women-in-the-boardroom-a-global-perspective4.pdf

McKinsey & Company. *Women Matter*. 2012.
http://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Organization/Our%20Insights/Women%20matter/Women_matter_mar2012_english%20(1).ashx

McKinsey Global Institute, *The Power of Parity: How Advancing Women's Equality Can Add $12 Trillion to Global Growth.* 2015.

Wilson, Nick and Ali Altanlar. *Director Characteristics, Gender Balance and Insolvency Risk: An Empirical Study*. May 30, 2009.

Additional Readings

Citi GPS. *Women in the Economy – Global Growth Generators*. 2015.
https://www.cfr.org/content/publications/Women_in_the_Economy.pdf

Global Education Digest. *Comparing Education Statistics Around the World*. UNESCO, 2010.

"A Guide to Womenomics." *The Economist*, April 12th, 2006.

Leon, Gloria R. "Men and Women in Space." *Aviation, Space and Environmental Medicine*. 76:1 (June 2005), B84-B88(5).

McKinsey & Company. *Women Matter 2: Female Leadership, A Competitive Edge for the Future*. 2008.

OECD. *Closing the Gender Gap: Act Now*. Paris: OECD, 2012.
http://www.oecd.org/gender/closingthegap.htm

Tilcsik, Andras & Juan Almandoz. "When Having Too Many Experts on the Board Backfires." *Harvard Business Review*. August 29, 2016. https://hbr.org/2016/08/when-having-too-many-experts-on-the-board-backfires

Women on Boards Davies Review. *Improving the Gender Balance on British Boards*. 2015. https://ftsewomenleaders.com/wp-content/uploads/2015/10/Davies-Review-Five-year-Summary-October-2015.pdf