



Diversity: Going Over Board?

The European Voice of Directors

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Summary Report

The European Confederation of Directors' Associations (ecoDa) organised its annual conference on 19 May 2011 on the topical issue of diversity in boardrooms with the kind sponsor of Eversheds. High level speakers including senior directors with international experiences, academics and representative from the European Commission debated this issue.

The Eversheds Board Report, an international independent study into boardroom culture which investigates the relationship between board composition, share price performance and company success before, during and after the financial crisis was presented at the time of ecoDa conference. As part of the research Eversheds was seeking to establish if the size and shape and skills set of a board played a tangible part in the success, or otherwise, of an organisation and why that might be the case. This report clearly indicated that better performing companies had fewer directors in total on their boards and that better performing companies also tended to have a higher percentage of female directors. However, only 55% of directors interviewed positively thought that diversity for its own sake was beneficial for board and only half that number were directly in favour of positive action to place more women onto boards.

According to directors who testified from their national experiences at the ecoDa conference, the impact of diversity on the functioning of the boards is clearly positive. Diversity generally favours more open debate, greater creativity and renewal in the board's composition. Moreover, when boards have to address difficult questions, different views, different ways of analysing things and a broader perspective to secure that all arguments are taken into consideration are required to find out the best solutions.

Regarding the implementation of this diversity, quota law has proved efficiency in Norway. In France, the French institute of directors (IFA) has called for quota law to speed up changes that did not occur quickly enough. Germany is still a poor

performer with regard to female representation in boardrooms. If the German Corporate Governance Code was updated in 2010 and introduced new recommendations on greater female representation both on the level of management and on the supervisory board, there is still a gap between announcing and acting. In Canada, according to the 2009 Catalyst Census, women hold only 10 per cent of the seat on the boards of all Canadian public companies and only 14 per cent of the directorship in the 500 largest companies. Furthermore, shareholders are not pushing for parity in Canadian boardrooms.

The speakers agreed that having diversity is a good risk management strategy and that diversity improves governance quality. Finding the right balance has to do with a vision on good governance, a view on adequate forms/models of governance and on the composition and functioning of boards. Diversity goes beyond gender diversity, it is about professional and international diversity. It is about mindset and introducing countervailing powers within the board.

However, diversity should not be resolved by ticking the box. Women should be chosen because of their qualifications and not because they are women. It is important that companies should not get diversity that they can not manage. Companies should have in fact the opportunity to make a choice for tailor made solutions and to take time to adjust to their needs. Diversity is indeed good as long as it serves the businesses. It should be also kept in mind that diversity is about providing equal opportunities and valuing minority opinions. One attendee challenged the discussion by pointing out that women equality will not be gained by boards' diversity and that too many concentrations on the same women will not enlarge the directors' network. Furthermore, overloading the agenda of listing companies and fixing quotas might generate down side effects like delisting.

Even where quota law has been taken, the speakers agreed that the law should not be perceived as an aim in itself but a tool helping the companies to start a process in the right direction. The law should be seen as "an order to reflect". Boards must instill the right mind-set and boardroom dynamics to make diversity effective. An atmosphere of respect and trust among people is first needed to let the people speak their mind. Education of board members should increasingly focus on board dynamics and personal behavior instead of only improving technical knowledge.

Companies should analyse the skills set around their board. To get the right person, they should address "questions outside the box"; they should test the courage to disagree with the policy, they should test the sensibility to ethical issues, they should carry due diligence on candidates and check their reputation. If board members don't open up their eyes, the board will be put into a group thinking mode. Stakeholders should be allowed to be involved in the board selection process.

Furthermore, it is essential to fix the shared goals as well the shared values of the company and to challenge them to avoid any predefined ideology. It will then be easier to manage diversity from a common platform and a common understanding. A more open minded board will lead at the end to better corporate culture. It is obvious that the chairman of the board has a pivotal and leading role to play in that perspective. Leadership programs should be developed in that sense.

In addition, mentoring, new training and certification programs, partnership with head hunters cabinets as well as executive women associations, directory book and on line offer of mandates constitute practical tools to enlarge the women directors' pool. However, it seems that finding good women directors is not the most difficult task for board which face more difficulties in finding non national directors, younger directors or directors with specific expertise (risk managers, for instance). In Germany, there is a much higher standard which is being used to select female

candidates – who usually comply with the international diversity as well – than for male candidates.

Taking all this in mind, one question remains: do boards have to be balanced? They are imbalanced by definition, executives having more information.

*The programme of the conference can be seen: http://www.ecoda.org/conference_fr.html.
For further details, please contact Béatrice Richez-Baum, Secretary General, beatrice.richez-baum@ecoda.org*