CLIMB TO THE TOP — TRACKING GENDER DIVERSITY ON CORPORATE BOARDS

ANDRÉ CHANAVAT AND KATHARINE RAMSDEN

Statement of intent/Abstract
Analyzing data drawn from Thomson Reuters ASSET4 and Datastream, this paper reports on levels of board gender diversity for 4,255 companies around the world by industry and region; diversity policies and processes; and returns comparisons for the past five fiscal years (FY).

OCTOBER 2014

THOMSON REUTERS™

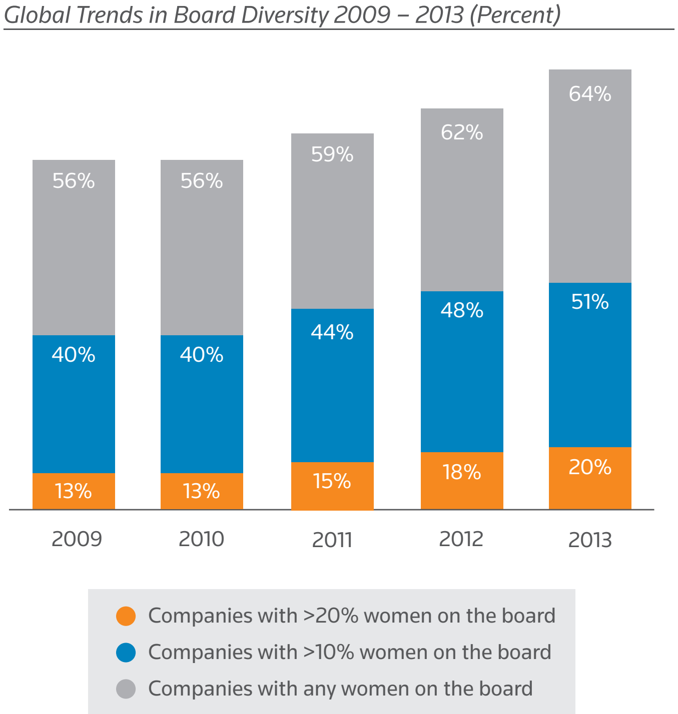
Gender diversity on boards has been the subject of study for some time, and by a wide variety of organizations and methodologies. Nearly all the research shows that while there are more women on boards each year, progress is slow. Hoping to provide some objective and comprehensive data around the topic from Thomson Reuters own data and analytical capabilities, as well as to spur further dialogue, we undertook analysis of 4,255 public companies around the globe.

So let's begin with the landscape of board diversity: What do we know about board composition today and the trends over the past five years?

GLOBAL TRENDS – THE ASCENT CONTINUES

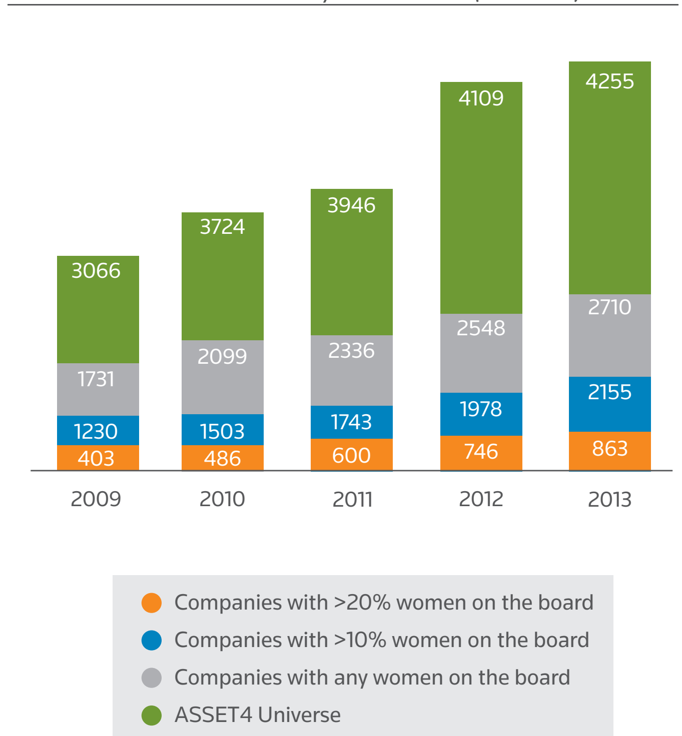
Since FY2009 there has been a steady, albeit incremental, increase in the presence of women on corporate boards. Indeed, for FY2013, the latest year for which we have complete information on all companies in the ASSET4 data set, 64% of the companies report women board members, up from 56% in 2009. Fifty-one percent report that 10% or more of their board is women, up from 40% in 2009. And 20% report 20% or more of their board members are women, up from 13% in 2009.

Global Trends in Board Diversity 2009 – 2013 (Percent)



By the numbers, out of the 4,255 companies in our 2013 ASSET4 Universe, just over 2,700 report gender-diverse boards, approximately 2,100 report 10% or more and 863 report 20% or more of their boards are female.

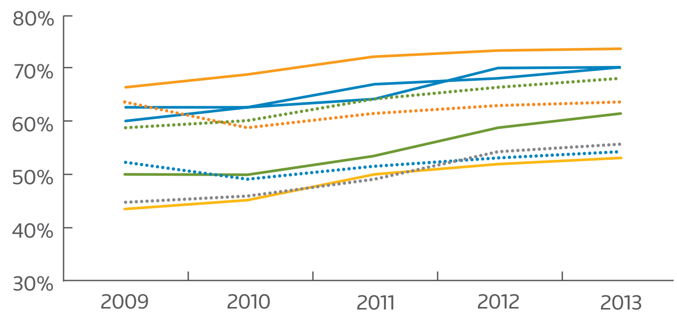
Global Trends in Board Diversity 2009 – 2013 (Numbers)



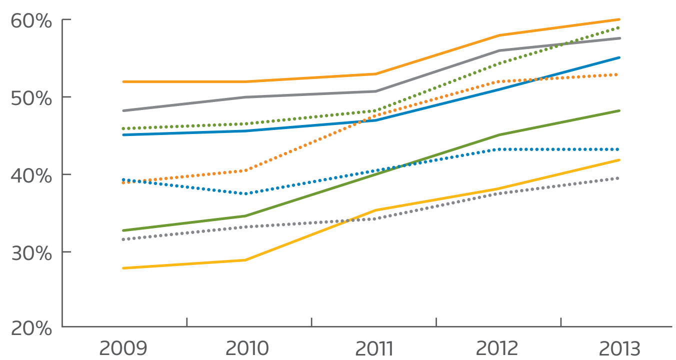
INDUSTRY TRENDS – PROGRESS DIFFERS BY SECTOR

Below are the same data arrayed by sector, providing insight into those sectors that lead – and lag – in the gender diversity of their boards.

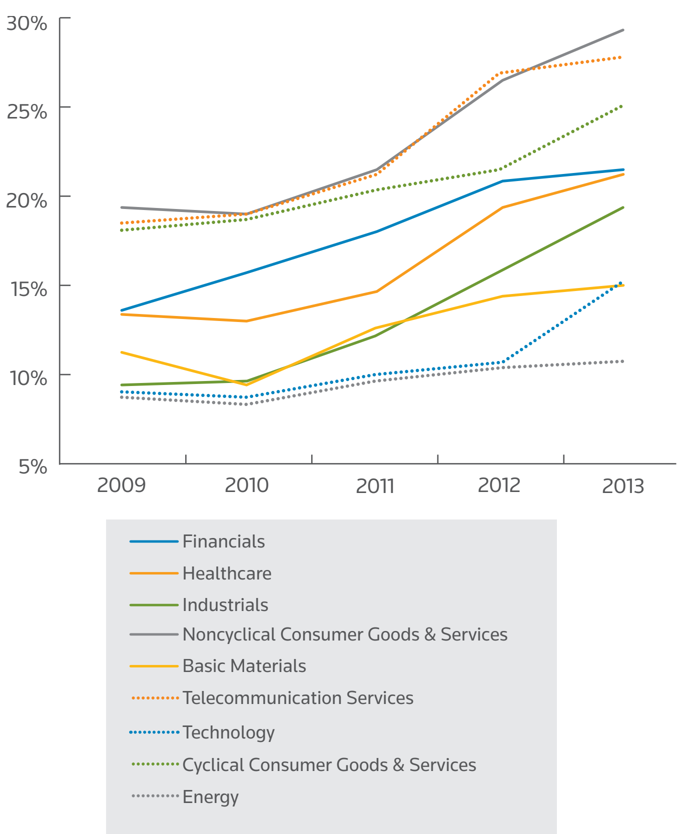
Percent of Companies/Any Women on Board by Sector



Percent of Companies/10% or More Women on Board by Sector



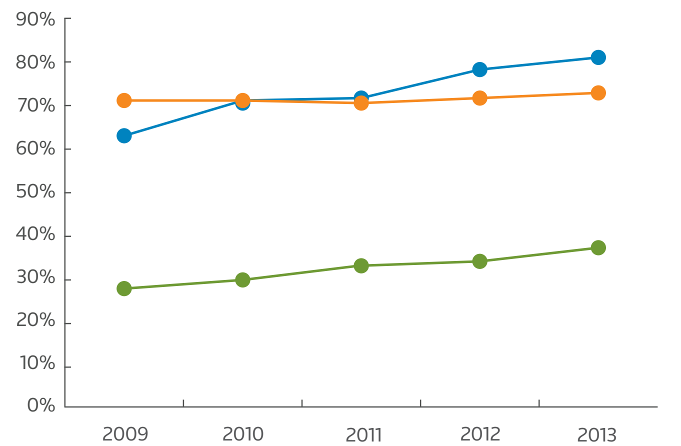
Percent of Companies/20% or More Women on Board by Sector



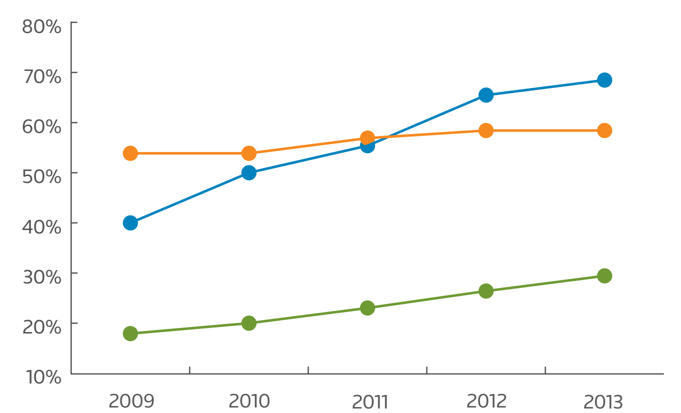
REGIONAL TRENDS – EMEA LEADS THE WAY

Analyzing this data by region reveals some interesting insights. Although among companies with any women on their boards the EMEA and Americas regions are very close, EMEA's lead widens in the more than 10% and especially in the more than 20% analyses. Asia Pacific region statistics are well below, at each reported level of board diversity. (We discuss later in this paper geographic differences in the presence or absence of laws or quotas regarding inclusion of women on boards and whether there appears to be an impact.)

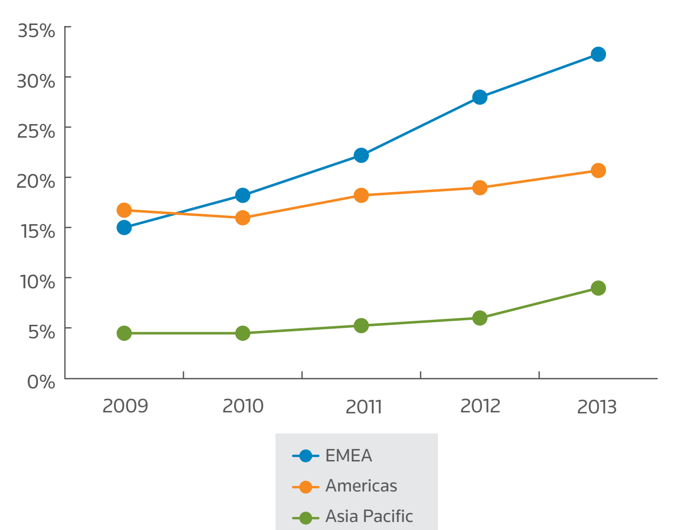
Percent of Companies/Any Women on Board by Region



Percent of Companies/10% or More Women on Board by Region



Percent of Companies/20% or More Women on Board by Region



WHAT CAN ESG DATA CONTRIBUTE TO OUR UNDERSTANDING OF BOARD DIVERSITY?

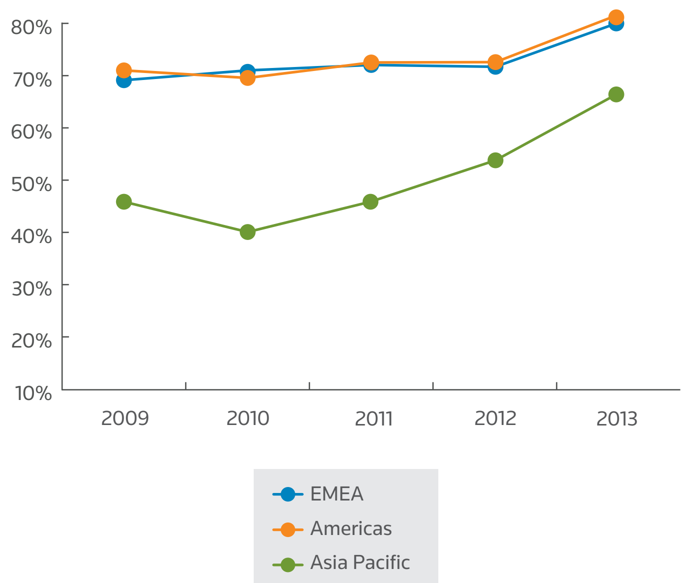
What has been the rate of adoption over the past five years by companies of processes to promote diversity and equal opportunity? And what – if any – link exists between the number of controversies published in the media relating to diversity and equal opportunity?

Before delving into what our data shows, what does "diversity and equal opportunity" mean and what are our analysts searching for? Our ASSET4 content collection team (one of the largest focused solely on ESG data) continually read through publicly-available sources, such as company CSR (corporate social responsibility) reports, annual reports and company websites, searching for answers to hundreds of questions relevant to ESG criteria.

In this instance, companies need to make a direct statement. They either describe, claim to have or mention the processes in general by which they strive to promote diversity or equal opportunities or exclude discrimination, harassment or unfair treatment of their workforce regardless of gender, age, ethnicity, disabilities, religion or sexual orientation.

For the last five fiscal years we screened our sample of 4, 255 global publicly-listed companies to see if either yes, they describe processes by which they strive to promote diversity or equal opportunities, or no, they have none.

Corporate Diversity Policy and Processes Adoption by Region



Our first observation is that globally there has been progress over that time span, with a moderate increase in the adoption of processes to help drive equal opportunity and diversity in the world's largest companies, from 63% in FY2009 to 74% in FY2013.

We then split the ASSET4 universe into three regions: EMEA, Americas and Asia Pacific. In the chart above we can see that Asia Pacific companies have shown the greatest increase in the implementation of diversity and equal opportunity processes over the past five years, but remain well below the levels reported in other regions.

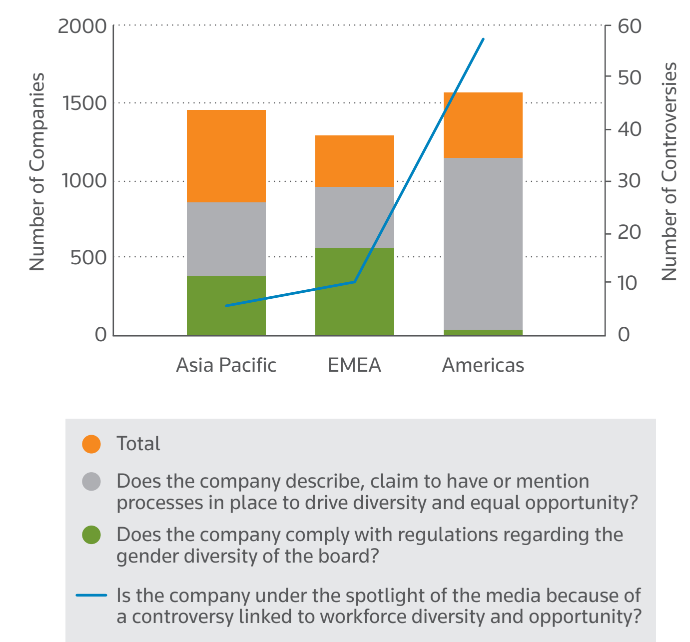
Although across the board Asia Pacific companies have shown increased implementation of processes for equal opportunity and diversity, Australian companies have shown the greatest improvement, followed by Indian and South Korean firms. It should be noted that the dramatic rise in Australian companies having such processes and policies is driven by the "comply or explain" approach adopted by the Australian Stock Exchange in January 2011 in which companies disclose in each annual report the objectives for achieving gender diversity.

EMEA has shown an overall steady increase in the percentage of processes on par with the Americas. Companies from the UK and France lead in that respect, driven by regulation: in France, for example, a law passed in January, 2011 requires companies with more than 500 employees to have at least 40% women on their boards by 2017. In effect since October 2012, the UK Corporate Governance code requires companies to report annually on their boardroom diversity policy and to include gender diversity in the evaluation of board effectiveness, also encouraging companies to disclose this information earlier.

So, is there a link between the increases in processes adopted by companies and controversies associated with diversity and equal opportunity.

The chart below shows that the two regions that have the most companies complying with regulations dealing with gender diversity also have the fewest controversies. With controversies being relatively low for the world's largest companies (and even given that all of the news data is collected in English only), it is local government regulations that appear to have had the greatest effect in getting companies to drive transparency and performance on this subject.

Corporate Diversity Compliance and Controversy by Region

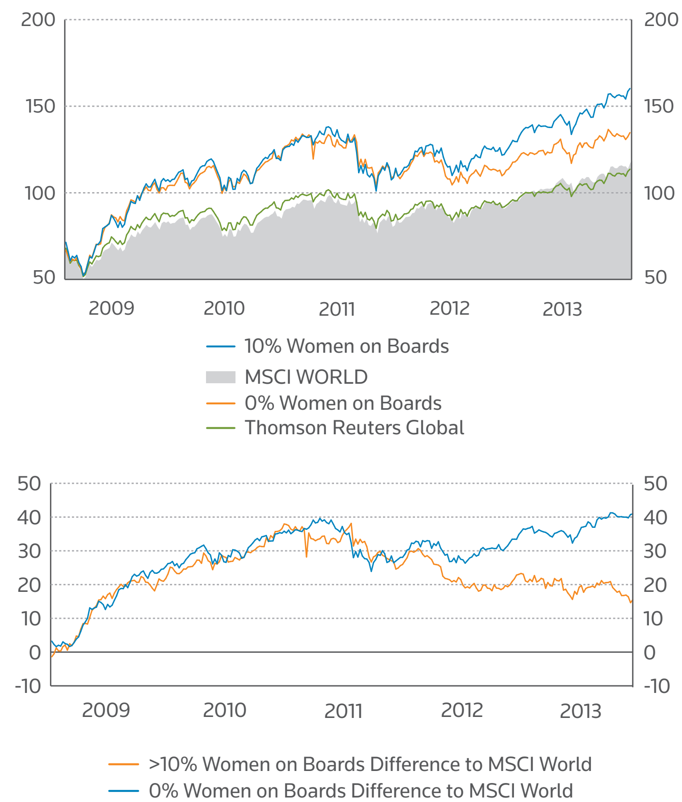


THE QUESTION OF PERFORMANCE AND GENDER-DIVERSE BOARDS

So what about performance? Globally we observe that companies with mixed boards tend to have better tracking in relation to a benchmark such as MSCI World, whereas those companies with no women on their boards display slightly more volatility. Analysis carried out across sectors also shows that companies with mixed boards not only have lower tracking errors but in many cases also have better returns. We can't for certain attribute this purely to the change in culture that mixed boards might bring, since there are so many other factors influencing a share price, but based on multiple tests, we have observed higher or similar returns in companies with mixed boards.

The chart on the right was created by taking a sample of 1,843 international companies that had met certain criteria pertaining to their board gender composition from fiscal years 2009 until 2013. The green line is an index made up of 853 global companies that have had no women on their boards from FY2009 until FY2013. The blue line is an index made up of 990 global companies that have had more than 10% women on their boards from FY2009 until FY2013. Both indices are diverse in terms of their geographic and sector composition with both indices also sharing financials and industrials as their top weighted sectors[1].

Returns Comparison:
Women on Boards and No Women on Boards to Benchmark



Source: Thomson Reuters Datastream

IN CONCLUSION

- Although 2013 data shows 64% of the 4,255 global companies in our ASSET4 universe have women on their boards, just 20% report greater than 20% of their board members are women. The trend, while moving in the right direction, still shows how few corporate boards are truly gender diverse.
- By sector, Healthcare, Financial and both Noncyclical and Cyclical Consumer Goods & Services companies lead in gender-diverse boards.
- By region, EMEA leads, with companies in the Americas close behind.
- Adoption of policies and processes regarding gender diversity and equal opportunity has been increasing and is particularly high among companies in Europe and the Americas.
- Indices made up of companies with mixed boards have low but generally positive tracking errors to benchmark, e.g., MSCI World; in other words, they outperform their benchmark index. Indices with no women on their boards had slightly higher tracking errors, indicating potentially more volatile portfolios and on average underperformed relative to mixed boards.

We hope these data inspire questions, fuel debate and power progress. In the "climb to the top" we would ask:

What will drive the remaining 36% of these companies to add any women to their boards and 80% of these companies to set board gender goals of greater than 20%?

What can be learned from the industries and regions that lead in board diversity, and how might these insights be applied more broadly?

Might performance and diversity go hand in hand? Will the increasing focus by investors on screening for companies with gender-diverse boards and robust diversity policies increase the trends? And if there is alpha generation in diverse boards, might even greater diversity increase the performance gap between companies that enable women to climb to the top versus those that do not?

[1] *Since a number of companies began their fiscal year 2009 period after June 30th 2008, the charts start from the 1st July, 2008 and run to just before publication of this paper 9th October, 2014.*

Using Thomson Reuters Datastream user-created index functionality, we equally weighted both indices and used USD as currency. The charts are rebased to 100 starting July 1st 2008 and calculate the weekly change in the price of all the indices.

ABOUT THE AUTHORS

André Chanavat is Product Manager, Environmental, Social & Governance (ESG) at Thomson Reuters. Based in Zürich, he works closely with institutional customers globally and is helping to develop ESG views and capabilities on Thomson Reuters products. Prior to joining Thomson Reuters, Mr. Chanavat worked for Interactive Data Corporation providing fixed income research and support to their evaluations department. In 2009 he joined ASSET4, a Swiss company specializing in ESG, now part of Thomson Reuters. Mr. Chanavat holds a bachelor's degree from Durham University.

Katharine Ramsden is Global Head, Thought Leadership at Thomson Reuters. Prior to joining the company in 2008, she worked as a writer, editor, consultant and marketing communications professional in the financial industry, holding positions with Merrill Lynch, Dean Witter and Paine Webber; as a financial journalist; and as an analyst at Greenwich Associates. A graduate of Mount Holyoke College, she earned her master's degree at Columbia University in the School of Journalism. She has served on numerous nonprofit boards in education, literacy and environmental causes.

ABOUT THE AUTHORS

METHODOLOGY

Except where otherwise indicated, data is for the 4,255 companies in the ASSET4 ESG database.

THOMSON REUTERS DATA SOURCES

ASSET4 provides objective and transparent environmental, social and governance (ESG) information and analysis tools to enable professional investors to benchmark, compare and integrate extra-financial information into their investment processes. The most comprehensive environmental, social and governance (ESG) database containing information on 4,000+ global companies and over 500+ data points, including all exclusion (ethical screening) criteria and all aspects of sustainability performance, collected and standardized by our 120+ experienced analysts to ensure data accuracy and comparability.

We cover the following indices S&P 500, ASX300, MSCI World, MSCI Emerging Markets, FTSE100, Bovespa and more on over 500+ data points and 250+ key performance indicators to give you the most in-depth coverage in the industry.

Datastream provides vast reserves of historical financial content, enabling research on the correlations and relationships between global economic indicators and asset classes. Access up to 50 years of history, millions of global instruments and indicators and coverage for 175 countries in 60 global markets. Real-time market data seamlessly integrates streaming real-time market data, economic news, First Call research reports, and more in a single integrated application. Datastream simplifies the graphical exploration of trends and relationships between series and allows sophisticated analysis across a broad range of financial instruments.

ABOUT THOMSON REUTERS

Thomson Reuters is the world's leading source of intelligent information for businesses and professionals. We combine industry expertise with innovative technology to deliver critical information to leading decision makers in the financial and risk, legal, tax and accounting, intellectual property, and science and media markets powered by the world's most trusted news organization. With headquarters in New York and major operations in London and Eagan, Minnesota, Thomson Reuters employs approximately 60,000 people and operates in over 100 countries. Thomson Reuters shares are listed on the Toronto and New York Stock Exchanges.

For more information about Thomson Reuters, please go to **thomsonreuters.com**.

For more information, contact your representative or visit us online.

THOMSON REUTERS™