Global Perspective on Board Diversity

A 2014 Research Report

Introduction

Much has been written in the media in recent times about the need for corporate boards to diversify, especially in relation to female representation.

Today, directors are operating not only in a new environment, but one that is also changing at a pace unlike that which has been experienced in the past. Shareholders, regulators, and stakeholders have greater influence on the boardroom and customers have more purchasing power than ever before. Delivering an outstanding customer experience in this new and developing digital era has become a strategic imperative.

To understand how corporate boards are being structured to deal with these new challenges, TINZON GROUP, a global alliance of international Executive Search firms, recently undertook a comprehensive survey into the age and gender of executive and non-executive board members of publicly listed companies within its 10 member countries.

Almost 2,000 Directors in over 180 publicly listed companies took part in the study (Tables 1 & 2). One of our aims was to evaluate (on a global basis) what differences exist between the boards of companies in the Americas, Asia/Pacific and EMEA and what lessons could be learned.

Table 1

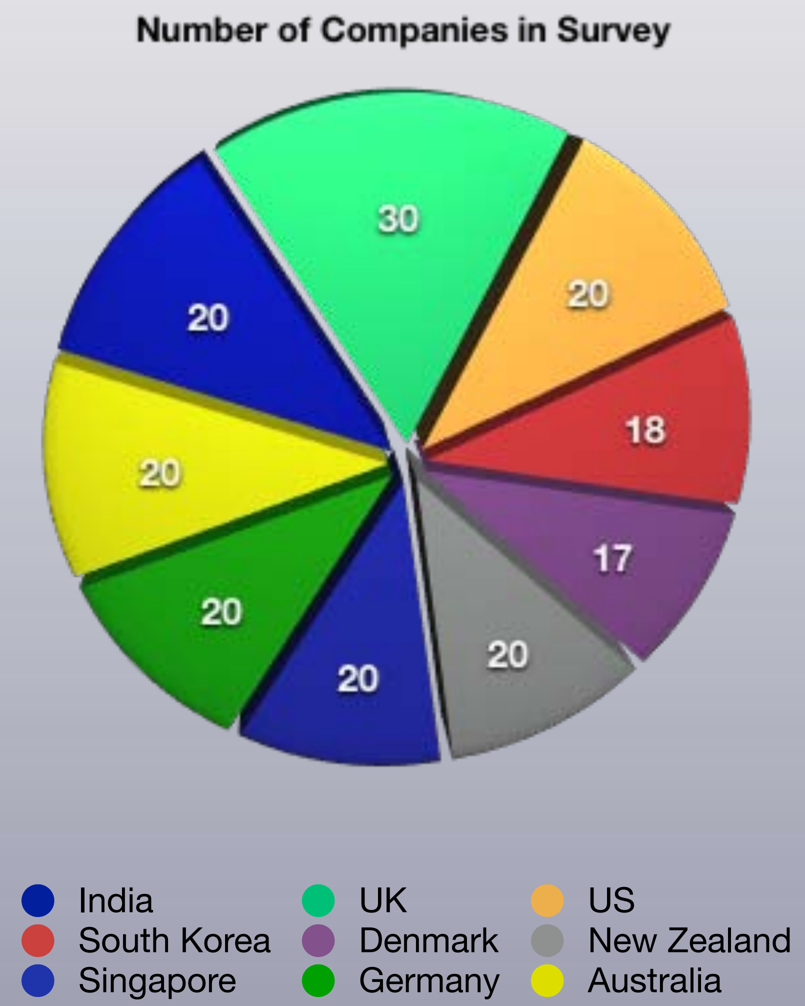
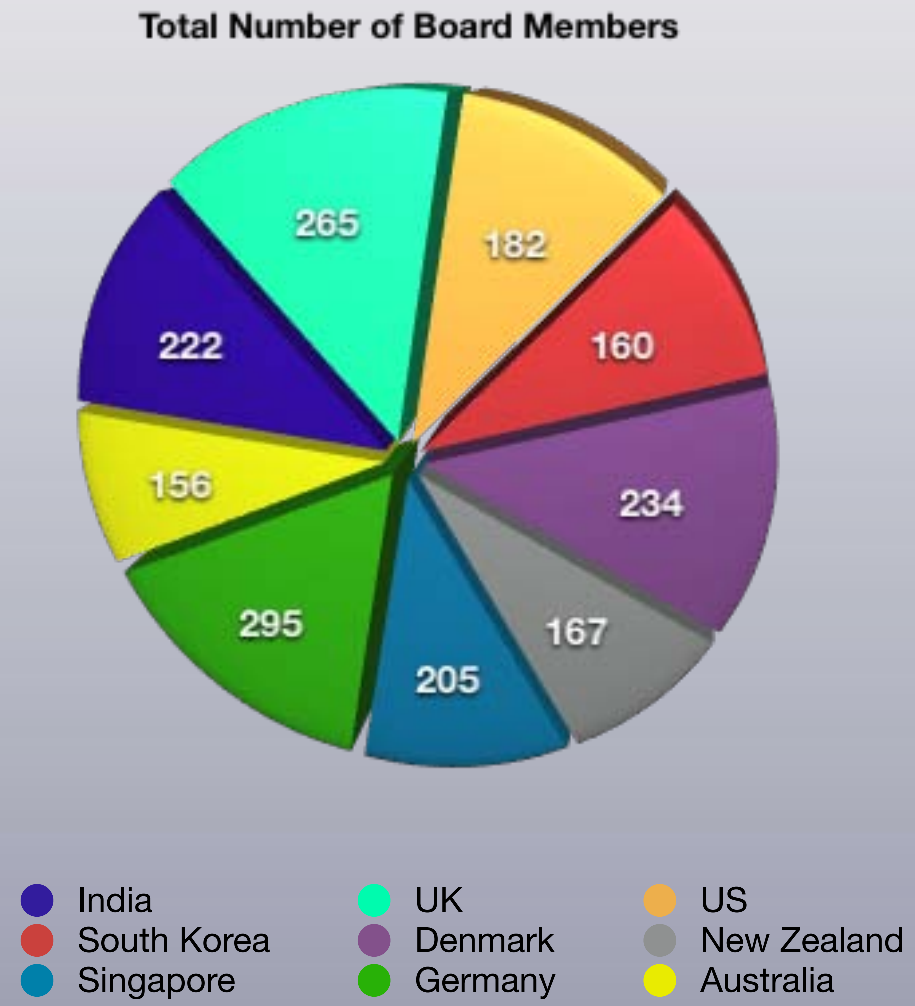


Table 2



How they match up

Even though corporate boards of listed companies worldwide are made up of both executive and non-executive directors, when it comes to gender diversity at executive and non-executive level, there are stark differences in each of the markets included in our survey (Table 3).

Particularly in Asia, the failure of companies to recruit and retain women in senior management and non-executive board positions is beginning to exacerbate the talent shortage that many organisations are already facing. It has been argued in the past that the lack of women in senior management roles in Asian companies was possibly due to cultural issues (women are the homemakers, responsible for family and household duties). However, in Asian markets such as Singapore, China and Hong Kong, family responsibilities have less of an influence on women's decisions to join the workforce, so other reasons as to the paucity of female employees need to be identified.

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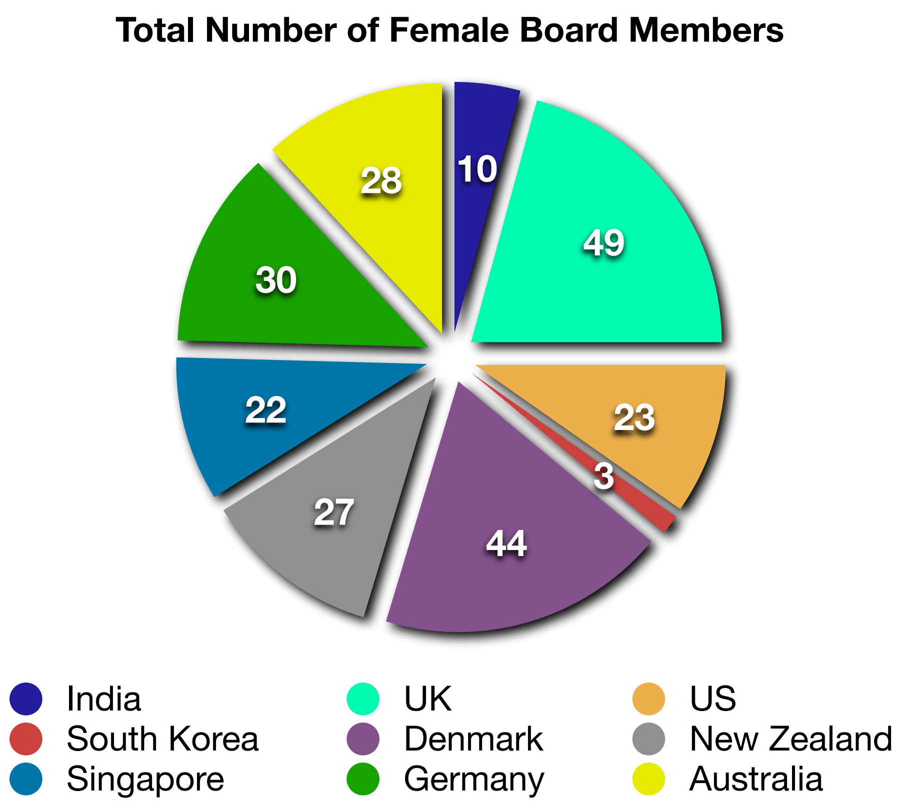
Given the rapid economic growth throughout Asia and the fact that over half of all graduates today are female, it has become a business imperative for companies to employ, retain and promote talented women. In order to do so, they need to ensure that such talent is, and is seen to be, valued and that, wherever possible, role models are identified and lauded.

Table 3



Fortunately, we are now starting to see some changes taking place. In our study, the number of female board members in India has improved to 9.5 percent, probably a direct result of the new Companies Act which requires every listed company and every public company of size to appoint a woman board director. Singapore topped the Asian scale with 13 percent of board members being female.

This figure is impressive when compared with Germany where the figure was just 10 percent.

On a less optimistic note, fewer than 2 percent of South Korean boards in our study have female members. It appears that there currently remains an unshakeable prejudice against women joining the workforce at any senior level. However, a new generation of business women may soon represent a meaningful challenge to the “glass ceiling”.

Not surprisingly, given Scandinavia’s reputation for the pursuit of equality, Denmark tops our survey with the highest percentage of woman board members at just under 19 percent.

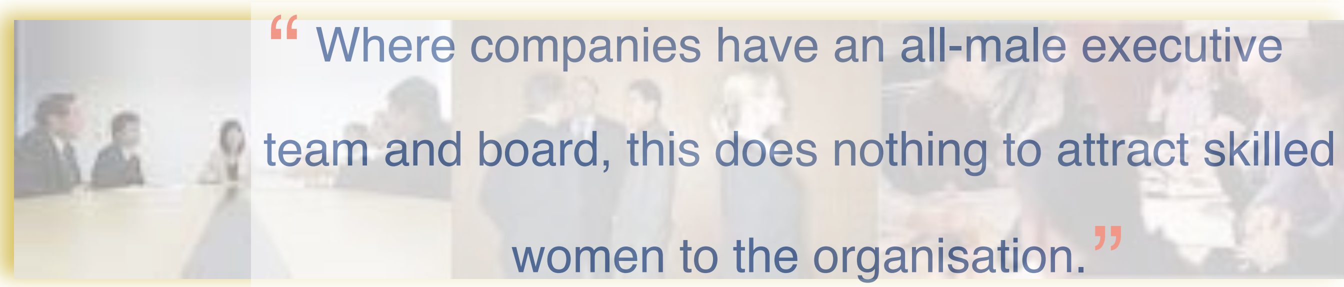
The impact of the Davies Report can clearly be seen in the UK, which comes in second with approximately 18.5 percent of corporate board members surveyed being female. However, this is still below the target of 25 percent and slightly less than the EU target of 19 percent.

Australia and New Zealand are similar at around the 18 percent mark for both countries.

Perhaps most surprisingly, given its emphasis on diversity, our findings showed the US – with only 12.6 percent of board members being female – significantly lagging behind Europe, Australasia and, indeed, Singapore.

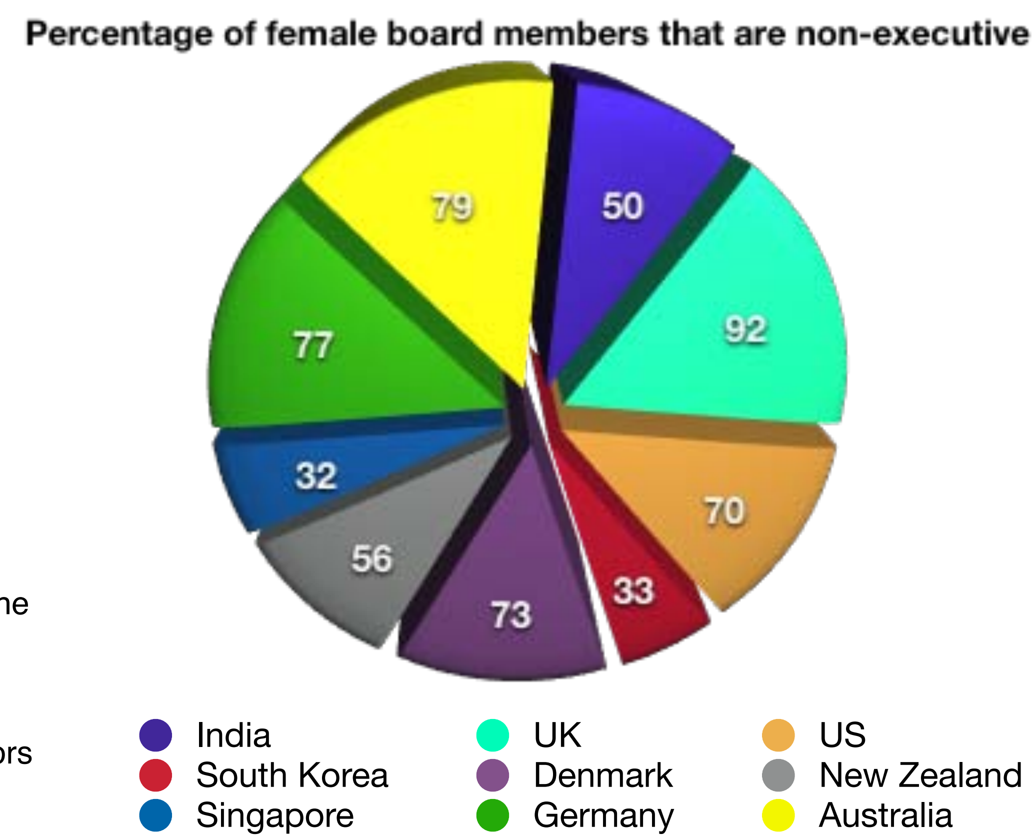
Many of those who took part in the survey (particularly men) claimed that the reason behind the lack of women on the board was a direct function of the lack of women in the executive ranks. Conversely, many of the women suggested that the problem lay with their inability to access the male dominated networks on corporate boards. With the increased focus on the requirement for gender diversity on boards (especially in Western Europe and the US) it is likely that the latter excuse will be diminished over the coming years.

However, the problem of the lack of supply will continue until such time as significantly more progress is made on keeping women in the workplace in executive roles throughout their working lives. This will, in turn, require companies to put in place positive programmes to encourage flexible working practices and more “family-friendly” policies throughout the organisation.



This raised another issue for us to investigate: the status of women on company boards. Again, the results were quite startling with wide variations across our global markets. In nearly all countries, the vast majority of female board members are non-executive rather than executive (Table 4). Surprisingly, India emerges as the country with the highest representation of female executives on company boards, again probably the result of the recently introduced Companies Act.

Table 4



Elsewhere in the world, more than three quarters of the females on European boards are non-executive, the UK showing this strongest with only one in ten female board members coming from the executive ranks. New Zealand fares significantly better with more than one in three female board members being executive, a proportion not achieved by the US where the percentage of female executive board members falls below 30 percent. However, North America, alongside Europe, did show the highest female participation at senior management level, but at a level below the boardroom.

There is clearly a cultural bias in many parts of Asia against the promotion of women through the management ranks. However, this cultural imbalance is changing and it is expected that, over the coming years, significantly more Asian women will rise to executive level as cultural inhibitors to workplace engagement are overcome.

The proportion of Asian women undertaking MBAs has increased dramatically over the past few years and when this generation reaches more senior levels one can expect to see a more diverse board. Once this has happened, one of the major inhibitors to female engagement, namely the perception that they can never break into an all male club, will be dissipated.

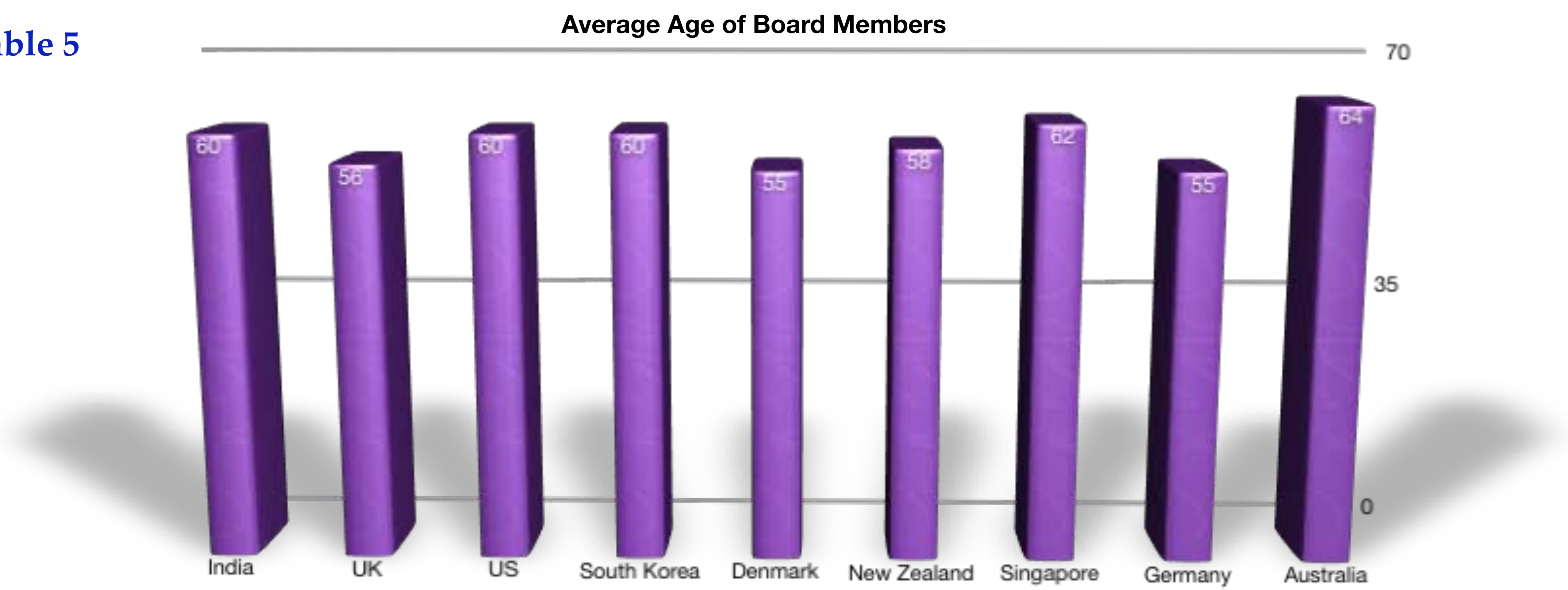
Age Variations in the C-Suite and Boardroom

In addition to the gender issue, our research also included the age of executive and non-executive directors.

Interesting geographic trends were noted. Europe has the youngest average age for both executive and non-executive board members with Denmark, Germany and the UK having an average board member age of 55 years. Asia and the United States are slightly older with an average age of 60 years. Somewhat surprisingly, given their close geographical proximity and trade ties, New Zealand and Australia diverge where New Zealand has an average age of 58 while Australia has the highest average age of all at 64 (Table 5).

However, when looking at the age of senior executives, further regional variations become apparent. Not surprisingly, most Chief Executive Officers (CEOs) are in their fifties, but New Zealand, Denmark, the UK and, to a lesser extent, the US, have CEOs who are in their early fifties, while for the rest of the world they tend to be in their mid to late fifties. Singapore has the highest with an average age of 58.

Table 5



We also noted regional age differences in the finance department. The age range of CFOs in our survey was late 40s to late 50s. Career opportunities for up-and-coming finance heads in Scandinavia seem better than in any other region, with Denmark having the youngest CFOs (late 40s). The UK, Germany and Australia follow this trend whereas Asian companies seem to prefer their CFOs older – mid to late 50s.

In virtually all markets covered in our survey, the career opportunities for finance leaders have never been better. While some challenges remain for CFOs looking to take up an executive position on their company's board, the increasing demand for their unique combination of analytical, technical and strategic capabilities will make them a compelling fit.

The way forward

There is evidence to suggest that greater gender diversity in the management of companies coincides with improved corporate financial performance and higher stock market valuations. Furthermore, companies can also benefit internally from the different but complementary leadership styles that women bring to the workplace. There is evidence to support the claim that feminine leadership can create a team-oriented, collaborative and non-competitive culture within an organisation.

However, the gendered nature of most company management structures continues to ensure women have little opportunity to gain access to the top echelons of management hierarchy. Furthermore, as was apparent in our survey, good management practices continue to be based on what could be called stereotypical masculine traits. Where women employ management behaviours that do not fit with the leadership models accepted by employees, managers and senior executives, this potentially leads to a lower performance evaluation, even though the actual results they achieve are in line with (or exceed) the corporate objectives.

Assuming changes are made to these stereotypical management behaviours, for women to reach senior management positions there must first be an adequate pipeline of female employees feeding into the senior management echelons. In the West, women are generally well represented in the workforce but the same cannot be said for the Asian region. However, even in the West there is a significant drop-off of executives moving from middle management into senior management positions. While clearly there is an obvious correlation with age at this level, much more work needs to be done in order to ensure that women remain engaged with the workplace throughout their ‘child-bearing period’.

Given the large numbers of female graduates from Asian universities, especially those with business and science degrees, the low uptake of female workers at senior levels is a concern and an enormous waste of talent. The growing shortage of senior management talent makes this is an issue that companies can no longer ignore. It is likely that as this generation moves up the corporate ladder, they will increasingly refuse to accept the current norms.

Ongoing government support in areas such as childcare and maternity leave will be needed in all areas if greater gender diversity is to become a reality. In Asia, the South Korean government has started to take action by providing loans and subsidies to businesses to create childcare facilities. Sweden has led the way for some time on this issue, with the government not only heavily subsidising child daycare facilities but also providing extended paid leave for parents to care for their newborn child. Companies also need to do much more here to encourage women into the workforce. By providing an appropriate balance between work and family life, more women will remain in the workforce which, in turn, will provide the corporate pipeline with more potential female leaders.

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The lead for any initiative, however, must come from the top. Simply leaving the gender diversity issue with the HR department will ultimately achieve very little: CEOs must make a visible commitment to driving change within the organisation. The same must also happen in the boardroom with the chairman and the head of the nominations committee ensuring that gender diversity is not just given lip service.

Even though gender diversity in the boardroom remains a contentious issue globally, progress is being made. Whilst it continues to be an important consideration in areas such as Australasia, Europe, Scandinavia and North America, other sectors such as Asia show little progress. However, there are encouraging signs that, at both corporate and government levels, important advances in gender diversity are being realised.

The Tinzon Group

Tinzon Group, formed in 2013, is a forward-looking global alliance of 12 well-established international Executive Search firms, each of which is highly networked in their specific industry sectors and country.

Operating from key business centres across the world with member firms in EMEA, the Americas and Asia/Pacific, we are able to give our clients the local, regional and global coverage they need.

The consultants in each firm are experienced professionals and, on a collaborative basis, they offer a wealth of global expertise to SMEs, publicly-listed companies, corporate boards, Governments and not-for-profit organisations.

If you have any questions regarding our survey, or would would like to approach us regarding a senior appointment, we welcome your call.

You can reach us by clicking on the following link or copying and pasting the link into your browser: http://www.tinzongroup.com/international