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MINING THE METRICS OF BOARD DIVERSITY

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Statement of intent / Abstract
Using Thomson Reuters ASSET4 and Datastream analysis, this paper reports on levels of board gender diversity for 4,100 public companies around the world by industry and region; policies and processes around diversity; and returns for the past 5 years.

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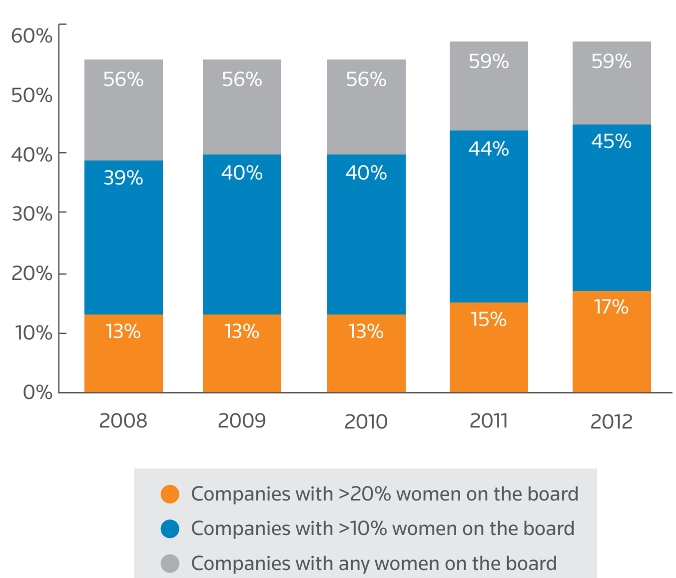
Gender diversity on boards has been the subject of study – and debate – for some time. Numerous organizations have undertaken campaigns to increase the number of women through a focus on corporate governance, diversity standards and metrics and networking for progress. Hoping to provide some objective and comprehensive data around the topic from Thomson Reuters data and analytical capabilities, as well as to spur further dialogue, we undertook analysis of some 4,100 public companies around the globe.

So let's start with the landscape of board diversity: what do we know about board composition today and its direction over the past five years?

GLOBAL TRENDS – MOVING IN THE RIGHT DIRECTION

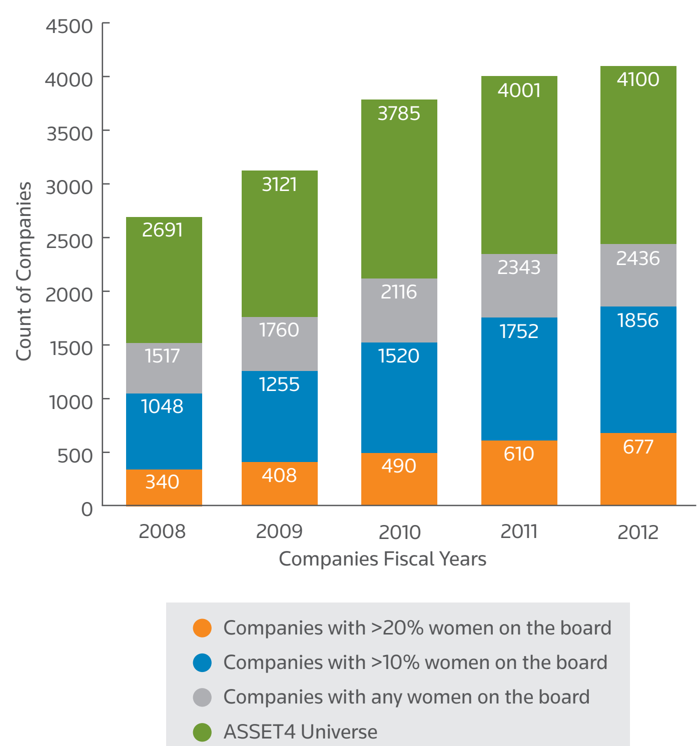
Since 2008 there has been a steady, albeit incremental, increase in the presence of women on corporate boards. Indeed, for 2012, 59% of the companies in our data set report women board members, up from 56% in 2008. Forty-five percent report that 10% or more of their board is women, up from 39% in 2008. And 17% report 20% or more of their board members are women, up from 13% in 2008.

Global Trends in Board Diversity 2008 – 2012 (Percent)



To put this in context, out of the 4,100 companies in our 2012 ASSET4 universe, just fewer than 2,500 report gender diverse boards, approximately 1,800 report 10% or more and just 600 report 20% or more of their boards are female.

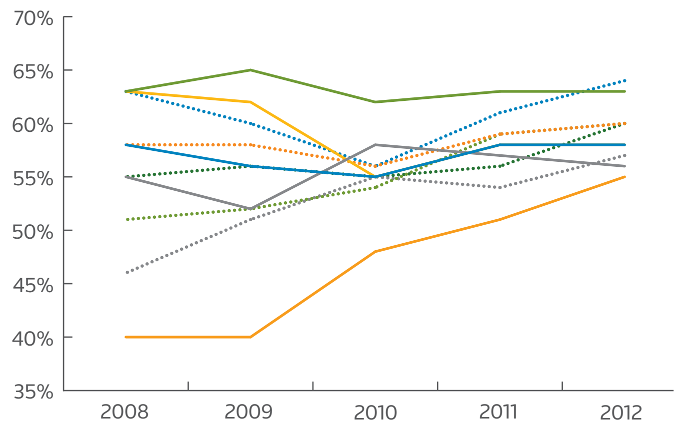
Global Trends in Board Diversity 2008 – 2012 (Numbers)



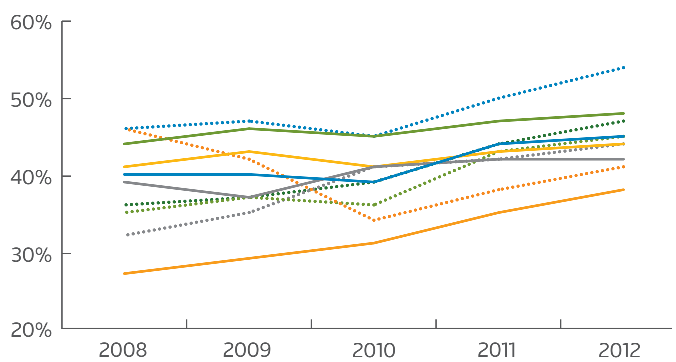
INDUSTRY TRENDS – PROGRESS DIFFERS BY SECTOR

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

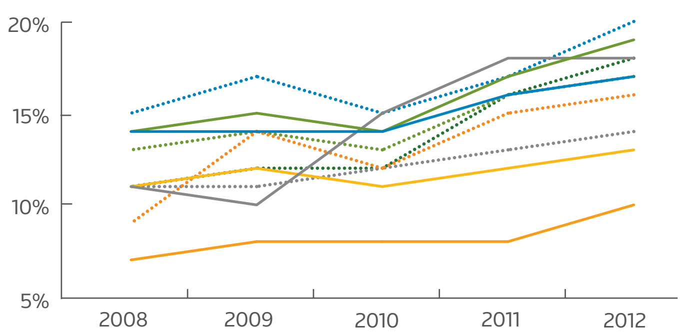
Percent of Companies/ Any Women on Board by Sector



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



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

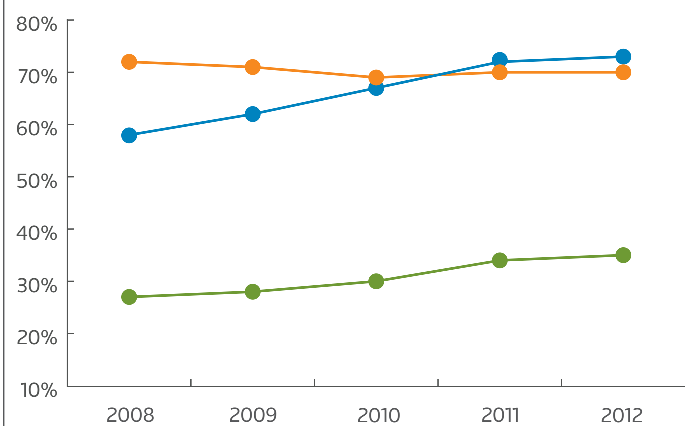


Financials
Healthcare
Industrials
Non-Cyclical Consumer Goods & Services
Basic Materials
Telecommunication Services
Technology
Cyclical Consumer Goods & Services
Energy
Utilities

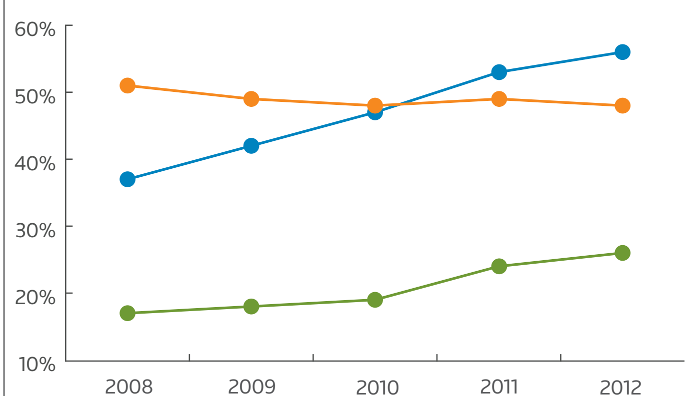
REGIONAL TRENDS – EMEA LEADS THE WAY

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 more than 20% analyses. AsiaPac 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 impact.)

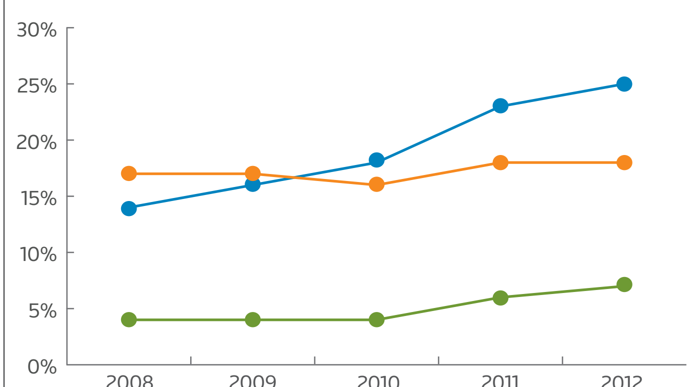
Percent of Companies/Any Women on Board by Region



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



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



EMEA
Americas
Asia Pacific

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

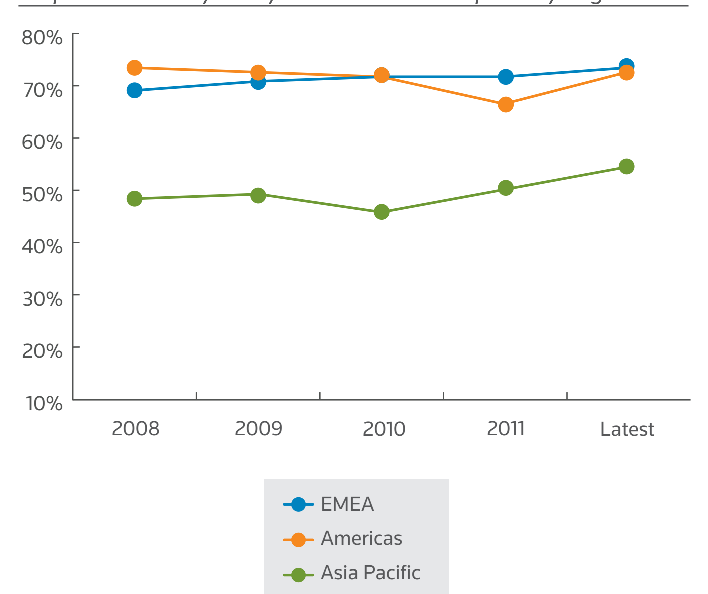
What has been the rate of adoption over the past five years by companies of processes to promote diversity and equal opportunity? And what – if any – link exists between the number of controversies published in the media relating to diversity and equal opportunity?

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 in Environmental, Social and Governance data) continually reads 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 environmental, social and governance 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.

Using our sample of 4,100 global publicly-listed companies and screening for the last five fiscal years we looked at: if yes or no companies did claim to have a process and if yes or no there were controversies published in the media for that given fiscal year.

Corporate Diversity Policy and Processes Adoption by Region



Our first observation is that globally little has changed 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 64% in FY2008 to 66% in FY2012.

For the next phase, we split the ASSET4 universe into three regions, each having over 1200 companies: EMEA, Americas and Asia Pacific. In the chart above we can see that Asia Pac companies have shown the greatest increase in the implementation of diversity and equal opportunity processes.

Although across the board Asia Pacific companies have shown increased implementation of processes for equal opportunity and diversity, Australian companies stood out with 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 should disclose in each annual report the objectives for achieving gender diversity.

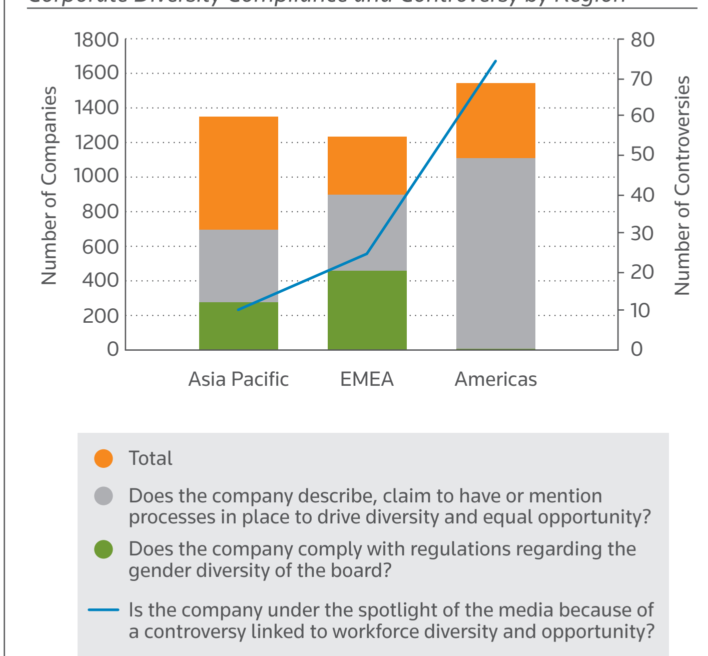
In the Americas the percentage of companies having processes has consistently been the highest relative to the two other regions although the trend has remained largely unchanged. This is primarily a North American story driving these results, with 72% of Canadian and American companies having such processes, even though there are no 'comply or explain' regulations or quotas.

Finally, EMEA has shown 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 requiring companies with more than 500 employees to have at least 40% women on their boards by 2017. Starting in 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 – or is it mostly driven by voluntary/regulatory disclosure?

The below chart, based on the latest available information, shows that the two regions which have the most companies complying with regulations to do with gender diversity also have some of the lowest number of controversies. That said, in relation to the total number of companies it represents a small ratio: in the case of North American companies, just under 5% have had controversies during the last couple of years, the highest out of all the regions. With controversies being relatively low for what are the world's largest companies (and

Corporate Diversity Compliance and Controversy by Region



even given that all of the news data is collected in English language 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.

THE QUESTION OF PERFORMANCE AND GENDER-DIVERSE BOARDS

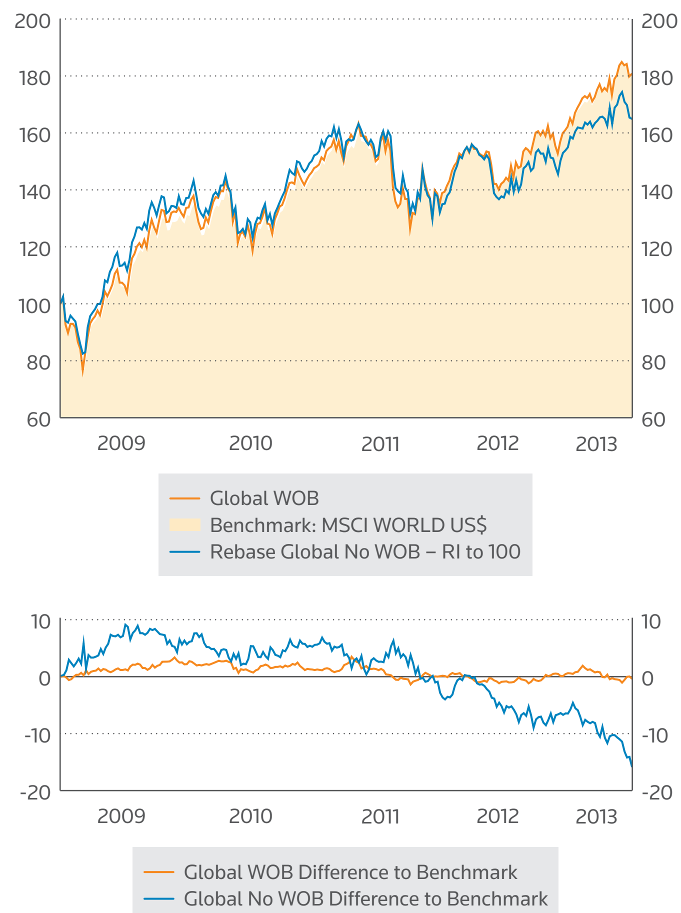
So what about performance? Globally we observe that companies with mixed boards tend to have better tracking in relation to a benchmark such as in this example MSCI World whereas those companies with no women on their boards display slightly more volatility. Analysis carried out across sectors also shows 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 over 2000 companies that had data pertaining to their board gender composition for fiscal year 2007. To prevent a look-ahead bias, all companies were screened using fiscal year 2007 data (which would have been available beginning of January 2009).

Those companies with no women on their boards for FY2007 are represented by the blue line, which includes 948 constituents, while companies with mixed boards in FY2007 are shown by the orange line, with a total of 1209 constituents.

Using Thomson Reuters Datastream custom index functionality, we were able to use the market value of those companies converted into USD to act as the weight. The charts are rebased to 100 starting January 1, 2009 and calculate the total return of these custom indices. The total return includes an aggregate daily dividend as an incremental amount to the daily change in price index.

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



Source: Thomson Reuters Datastream

IN CONCLUSION

- Although 2012 data shows 59% of the 4,100 global companies in our ASSET4 universe have any women on their boards, just 17% 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, Technology, Industrials and Non-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 Canadian and American companies, even without legislation or quotas.
- Controversy appears to have less impact on adoption than local legal requirements, where they exist.
- Indices made up of companies with only mixed boards have low but generally positive tracking errors to another reference benchmark e.g.: MSCI World. In other words, very similar performance and marginally better than their benchmark index. Companies with no women on their boards on average underperformed relative to mixed boards and had slightly higher tracking errors, indicating potentially more volatility.

We hope these data provide answers that inspire questions. Inquiries such as:

What will drive the remaining 41% of these companies to add women to their boards, and 83% of these companies to set board gender diversity goals of greater than 20%?

What can we learn from the industries and regions that lead in board diversity and how can those insights be applied more broadly?

If neither controversy nor local legal requirements or quotas seem to be universal drivers, might a focus by investors on screening for companies with board diversity increase these trends? And if there is an alpha generating aspect to the presence of women on boards, might greater gender diversity increase the performance gap between companies that do versus ones that do not?

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 Bachelors degree from Durham University.

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METHODOLOGY AND SOURCES

METHODOLOGY

Except where otherwise indicated, data is for the 4,100 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.

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