

# Companies and Countries with



Recent research has shown that companies with female directors tend to financially outperform their peers, and as board gender diversity becomes a hot topic, shareholders are taking notice. Not only that, but it is possible that by adding women to corporate boards, corporations can positively affect the entire United States—and global—economy.

**By JOHN OKRAY**



# Female Corporate Directors Outperform

We have all seen news stories discussing which countries are ranked the most prosperous and where citizens are considered the happiest. We spend even more time hearing about how to make companies more efficient and profitable. I thought it would be interesting to analyze what successful countries and companies have in common. After looking at numerous studies and statistics, one thing is clear—successful

countries and companies have, on average, more female corporate directors. This is not to suggest that simply adding more female corporate directors will transform a country or company into an outperformer overnight. However, having women participate at the top of the corporate food chain appears to be a byproduct of cultures that meaningfully value equality and diversity. Can it be a coincidence that countries with more female directors tend to be the wealthiest, most prosperous, best educated, least corrupt, and happiest? There are a few situations where a country, like Japan, with a low percentage of female directors, will do satisfactorily in one category (such as gross domestic product per capita), but then meaningfully underperform in others (such as happiness). As research begins to show that companies with female directors tend to financially outperform their peers, pressure by shareholders on laggard corporate boards may force change. Moreover, some countries are not waiting for proof from their capital markets to correct the gender imbalance.

## Legal Requirements for Female Corporate Directors

A growing number of countries have imposed, or are currently debating, mandatory quotas for female directors.<sup>1</sup> Such a requirement has not been imposed in the United States yet. However, if corporations in both developed and emerging

market countries begin to significantly outpace their U.S. peers, this notion may gain traction. It would be unfortunate to get to a point where U.S. corporations must face legal remedial measures to have a respectable percentage of female corporate directors.

- *Norway*: In 2002 public limited companies were given until July 2005 to have at least 40 percent female directors. An extension was granted, and compliance was reached in 2009.
- *Belgium*: A plan adopted in 2011 requires public companies and companies listed on the country's stock exchange to have 30 percent female directors. When a board member leaves, the seat must be filled by a woman until the quota is reached. Companies have between six and eight years, depending on their size, to comply.
- *France*: A law that passed in 2011 imposes a quota of 40 percent female directors by 2017, with a target of 20 percent by 2014.
- *Iceland*: A 2011 law requires 40 percent of corporate directors from each sex for publicly owned and publicly listed companies with more than 50 employees.
- *Italy*: A law that passed in 2011 requires that public company boards be at least one-third female by 2015.
- *European Union*: The European Commission has set a target of at least 40 percent female corporate directors by 2020.
- *Germany*: As of November 2013, a law was expected to be implemented requiring companies registered on the German stock exchange to have at least 30 percent female directors and large firms to publish their plans for elevating more women into top executive roles.
- *Spain*: A law that passed in 2007 requires public companies with more than 250 employees to have at least 40 percent female directors by 2015. Companies that reach quota are given preference for government contracts.
- *Malaysia*: Companies with more than 250 employees are required to have at least 30 percent female directors or senior management by 2016.



- *United Arab Emirates*: A 2012 law requires companies and government agencies to have female directors.<sup>2</sup>
- *Netherlands*: Government guidelines suggest companies must have at least 30 percent female directors by 2016 at companies with more than 250 employees. Companies that do not meet the deadline must prepare a plan on how they will achieve the quota.
- *Austria*: State-owned companies are required to have 25 percent female directors by 2013 and 35 percent by 2018. Private companies expected to follow these standards voluntarily.
- *Israel*: A 1999 law requires at least one female director on public company boards.
- *Finland*: As of 2010, all listed companies must have at least one female and one male on the board.

It is worth examining in more detail the factors that countries with an above average percentage of female corporate directors have in common. To eliminate any possible bias, I looked at published studies and data from different countries and from governmental, nongovernmental, and nonprofit organizations. Also included are several categories that could be considered measures of a country's success. The countries included in the top and bottom 10 tables below are those that appeared in the recent GMI Ratings' 2013 Women on Board Surveys, for which there were a sufficient number of public corporations and amount of data to compare.<sup>3</sup>

### Companies with Female Directors Outperform Financially

In March 2011, the nonprofit organization Catalyst released a report titled the *Bottom Line: Corporate Performance and Women's Representation on Boards (2004–2008)*.<sup>4</sup> The report summarized an analysis of the financial performance of Fortune 500 companies over a five-year period. As shown in Tables 1, 2, and 3, companies with higher representation of female directors over the period significantly outperformed those with low representation by 84 percent on return on sales, by 60 percent on return on invested capital, and by 46 percent on return on equity.

More recently the Credit Suisse Research Institute released *Gender Diversity and Corporate Performance* in August 2012.<sup>5</sup>

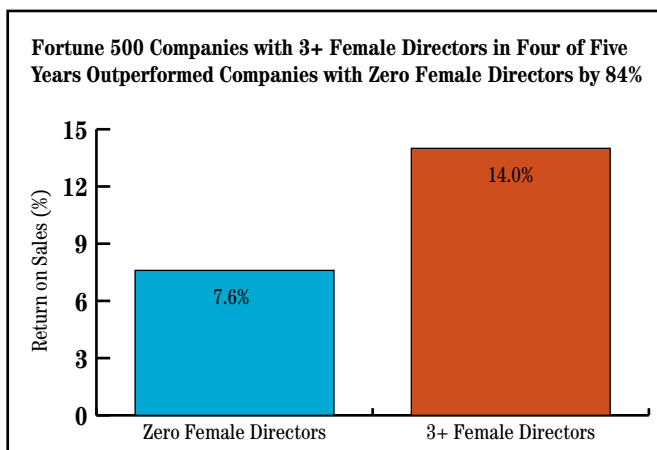
Its research spanned 2,360 companies in the MSCI AC World Index (covering 85 percent of global investable equity markets across 45 countries) and more than 14,000 data points from 2005 to 2011.

The report contained a number of noteworthy observations:

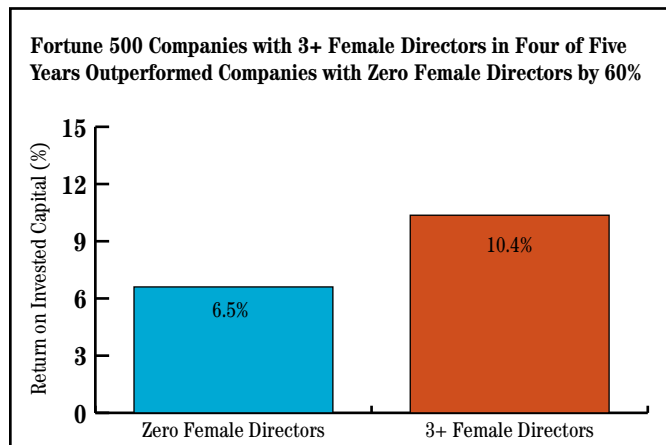
- *Better Stock Performance*: The stock prices of large capitalization companies and small-to-mid capitalization companies with women board members both outperformed their peer companies without women board members by 26 percent and 17 percent, respectively, over six years.
- *Higher Return on Equity*: During the six-year study, companies with at least one woman on the board earned an average return on equity of 16 percent versus only 12 percent for companies with no female board members.
- *Higher P/BV Multiples*: Companies with women on the board had price-to-book values of 2.4x, a third higher than companies without a female director, which had only 1.8x.
- *Better Average Growth*: Net income growth for companies with female directors averaged 14 percent over the six-year study, versus only 10 percent for companies without female directors.

The study authors make two other general observations: (1) It would, on average, have been better to invest in companies with women on their boards, and (2) a specific consequence of greater

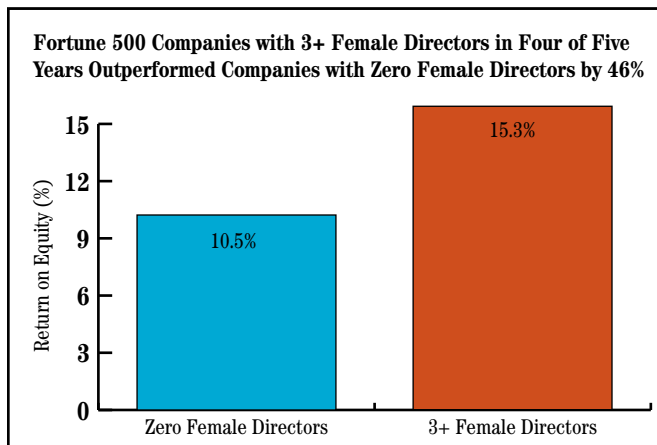
**Table 1: Return on Sales**



**Table 2: Return on Invested Capital**



**Table 3: Return on Equity**





board diversity is reduced volatility for shareholders, evidenced through enhanced stability in corporate performance and share price returns.

Interestingly, the Catalyst and Credit Suisse research reports were not necessarily groundbreaking, as they reaffirmed and expanded on previous studies on this topic. For example, in 2007, McKinsey & Company, an international management consulting firm, released *Women Matter—Gender Diversity, a Corporate Performance Driver*.<sup>6</sup> The research suggested that “the companies where women are most strongly represented at board or top-management level are also the companies that perform best.”

Specifically, McKinsey conducted two broad studies and concluded:

- *Study 1:* Companies with three or more women in top management functions scored higher in a number of key organizational excellence categories than companies with no women at the top—namely work environment and values, direction, coordination and control, leadership, external orientation, motivation, capability, accountability, and innovation.
- *Study 2:* “There can be no doubt that, on average” companies with a higher proportion of women on the executive committee and having at least two women on the board outperformed their sector in terms of return on equity (11.4 percent versus an average 10.3 percent), operating result (earnings before interest and tax at 11.1 percent versus 5.8 percent), and stock price growth (64 percent versus 47 percent between 2005 and 2007).

### Happier Countries Tend to Have More Female Corporate Directors

*“We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.”*

—Declaration of Independence

The importance of happiness has not waned since the founding of the United States. In 2011 the United Nations General Assembly passed a resolution proclaiming that “the pursuit of happiness is a fundamental human goal” and invited countries to develop

methods for measuring happiness as a factor when formulating public policy.<sup>7</sup> In response, Columbia University’s Earth Institute developed the *World Happiness Report*. The 2013 report measures positive emotions including happiness, negative emotions, and evaluations of life as a whole.<sup>8</sup> Sweden, Canada, and Norway had the three highest percentages of female directors at 36.1 percent, 27.0 percent, and 26.8 percent and also rated very highly on the World Happiness Report at 5th, 6th, and 2nd, respectively. Japan, South Korea, and Chile had the three lowest percentages of female directors at 1.1 percent, 1.9 percent, and 2.8 percent and fared much worse, at 43rd, 41st, and 28th respectively. The United States, with 14 percent female directors, ranked 17th in the report. Table 4 compares the average number of female directors at the 10 happiest versus the 10 least happy countries.

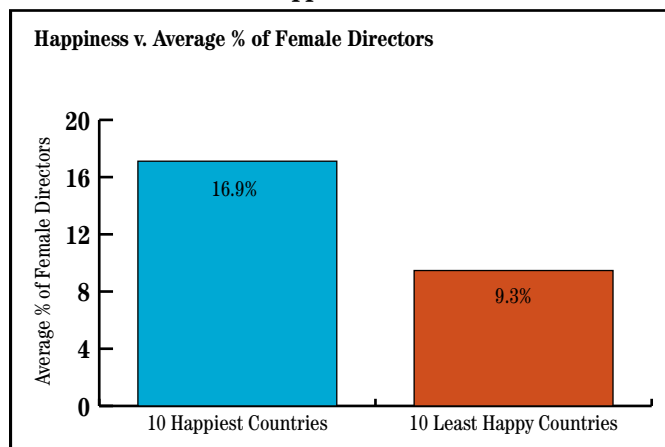
### Prosperous Countries Tend to Have More Female Corporate Directors

*“Live Long and Prosper.”*

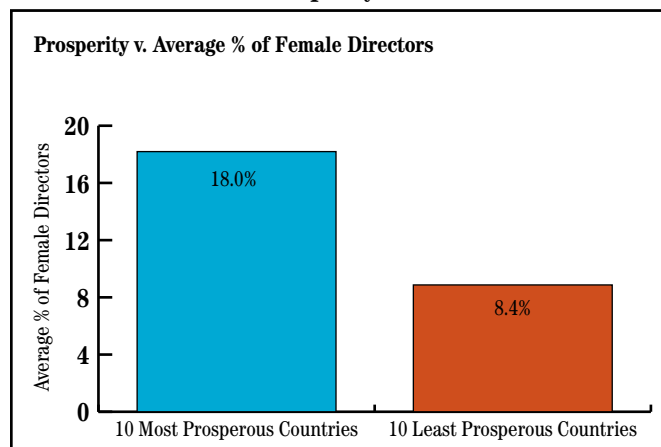
—Mr. Spock

According to the Random House Dictionary, prosperity is “a successful, flourishing, or thriving condition, especially in financial respects; good fortune.” The Legatum Institute in London, an independent nonpartisan public policy organization, published the comprehensive 2013 Legatum Prosperity Index.<sup>9</sup> This index of national prosperity measures traditional economic indicators as well as well-being and life satisfaction. Sub-indices include economy, entrepreneurship and opportunity, governance, education, health, safety and security, personal freedom, and social capital. Several countries with the highest percentages of female directors received top prosperity rankings (Norway 1st, Canada 3rd, Sweden 4th, Denmark 6th, Australia 7th, Finland 8th), while many of the countries with the lowest percentages of female directors received much lower prosperity rankings (Brazil 46th, Mexico 59th, Russia 61st, Indonesia 69th, India 106th). Interestingly, Norway has topped the Prosperity Index each year since 2009, the same year the country came into full compliance with its 40 percent female director quota. The United States ranked 11th on the prosperity report. Table 5 compares the average number of female directors at the 10 most prosperous versus the 10 least prosperous countries.

**Table 4: Happiness of Countries**



**Table 5: Prosperity of Countries**





## Well-Educated Countries Tend to Have More Female Corporate Directors

The United Nations Development Program compiles data on member states from a number of sources, including education data from the United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics.<sup>10</sup> The institute evaluates a number of factors for its education rankings, such as enrollment, literacy, expenditures on education, pupil/teacher ratio, length of education, and graduation rates.

Several countries with high percentages of female directors received top education index rankings (Norway 99.0 percent, Sweden 91.3 percent, and Canada 90.8 percent), while many of the countries with lower percentages of female directors received much lower educational index rankings (China 62.7 percent, Indonesia 57.7 percent, and India 45.9 percent). The United States received a 99.4 percent education index ranking. Table 6 compares the average number of female directors at the 10 most educated versus the 10 least educated countries.

## Wealthier Countries Tend to Have More Female Corporate Directors

Countries with higher average percentages of female directors typically have the highest GDP per capita. This includes Norway (\$99,558), Australia (\$67,036), Denmark (\$56,210), Sweden

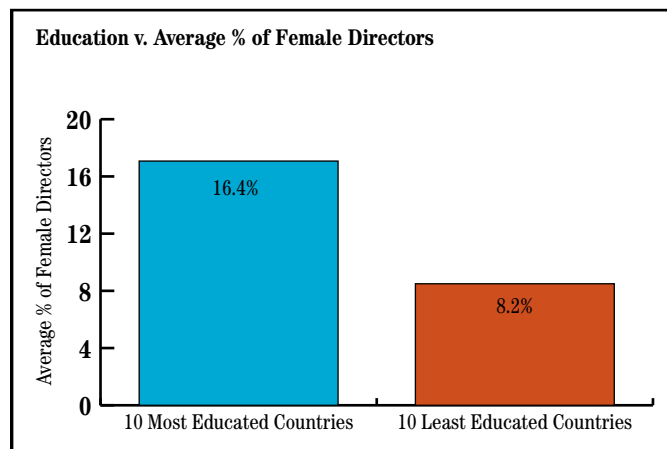
(\$55,245), and Canada (\$52,219). Countries with lower average percentages of female directors usually had much lower GDP per capita, such as Malaysia (\$10,012), Mexico (\$9,747), China (\$6,188), Indonesia (\$3,557), and India (\$1,489). The U.S. GDP per capita was \$49,965.<sup>11</sup> Again, Norway, with the highest GDP per capita, has been in compliance with its 40 percent female director quota since 2009.

## Less Corrupt Countries Tend to Have More Female Corporate Directors

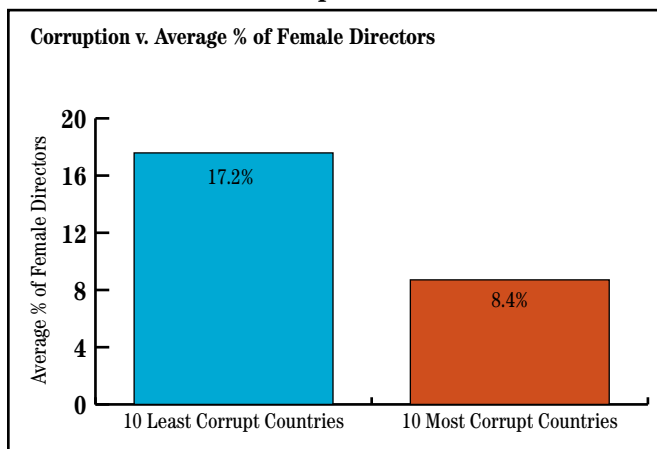
According to Transparency International, corruption is the abuse of entrusted power for private gain. Corruption has been a major concern for companies doing business globally and is being fought through the enforcement of laws such as the U.S. Foreign Corrupt Practices Act, the Travel Act, and the U.K. Bribery Act. Transparency International is a nonpartisan nongovernmental organization that strives to stop corruption and promote transparency, accountability, and integrity at all levels and across all sectors of society. Since 1995 it has ranked countries through its Corruption Perception Index.

Denmark, Finland, and Sweden ranked as very low corruption countries (tied for 1st, tied for 1st, 4th, respectively) and had an average of 22 percent female directors while Mexico, Indonesia, and Russia ranked as the much more corrupt countries (105th,

**Table 6: Education in Countries**



**Table 7: Corruption in Countries**



**Table 8: Percentage of Female Directors by Industry**

Industry Sector	Percentage of Industry with Zero Female Directors	Percentage of Industry with 1 or 2 Female Directors	Percentage of Industry with 3+ Female Directors
Consumer Discretionary	25	61	14
Consumer Staples	28	52	20
Energy	61	38	1
Financials	29	63	8
Health Care	33	62	5
Industrials	40	56	4
Information Technology	49	48	3
Materials	39	53	8
Telecommunications	55	38	7
Utilities	6	69	26
<b>Grand Total</b>	<b>36</b>	<b>56</b>	<b>8</b>



118th, 133rd, respectively) and had an average of 5.5 percent female directors. The United States ranked 17th on the corruption index.

Table 7 compares the average number of female directors at the 10 least corrupt versus the 10 most corrupt countries.

### Spotlight on the United States

Analyzing the U.S. data reveals geographic areas and industry sectors that have significantly more female directors than others (See Table 8).<sup>12</sup> A number of industries continue to be male dominated, and as a consequence, states that have concentrations of companies within these industries may have a lower percentage of female directors. Looking at states with at least 50 Russell 3000 Index companies, the three having the highest percentage of companies without female directors are Texas (52 percent), California (45 percent), and Colorado (43 percent). Factors weighing down these states are that 38 percent of Texas companies are in the worst-performing energy sector, 39 percent of California companies are in the poorly performing information technology sector, and 22 percent and 12 percent of Colorado companies are also in the energy and information technology sectors, respectively. Conversely, only one-third of companies in the New York, New Jersey, and Connecticut do not have female directors, supported by 33 percent of the area's companies being in the better-than-average financials sector. The Midwest states of Illinois, Minnesota, and Ohio performed even better, with only a quarter of companies having no female directors, supported by their higher percentages of companies within the consumer discretionary and consumer staples industries.

Thus, the problem, and potential solution, appears to be one that specific industries could address to avoid unnecessary scrutiny or placing requirements on the entire U.S. capital market. For example, they need a sufficient number of highly qualified senior executives to be good candidates for corporate boards in their industries.

According to the U.K. Corporate Governance Code, if a director "has served on the board for more than nine years from the date of their first election," it may impact the director's judgment and make him or her non-independent.<sup>13</sup> However, many companies in the United States have not yet formally adopted this corporate governance principle and thus have a considerable number of long-

tenured directors (See Table 9).

To put this in better perspective, for U.S. companies comprising the broad Russell 3000 Index to attain 40 percent female directors, they would need to replace 97.21 percent of male directors having more than 10 years tenure with female directors.<sup>14</sup> However, to get to 30 percent female directors for the largest of the companies comprising the S&P 500 Index, only 46.49 percent of the male directors having more than 10 years tenure would need to be replaced with female directors. Companies with an overabundance of long-tenured male directors may ultimately face pressure from investors on both the board diversity and independence corporate governance fronts.

### Lack of Female Board Chairs

One problem for corporations globally is the rarity of female board chairs. Almost universally a board chair will have a material impact on the recruitment and selection of new board members. In the United States, female board chairs are found at only 3.0 percent, 2.5 percent, and 2.3 percent of the S&P 500, S&P MidCaps, and S&P SmallCaps Index companies, respectively. The Nordic countries have the greatest percentage of female board chairs, but still only comprising 5.6 percent. Industrialized Asia has less than 1 percent of female board chairs, which may explain in part why this area is the worst performing region, with only 3 percent overall female directors. To correct the overall deficiency of female directors, a focus on board chairs and chairs of nominating committees could be needed.

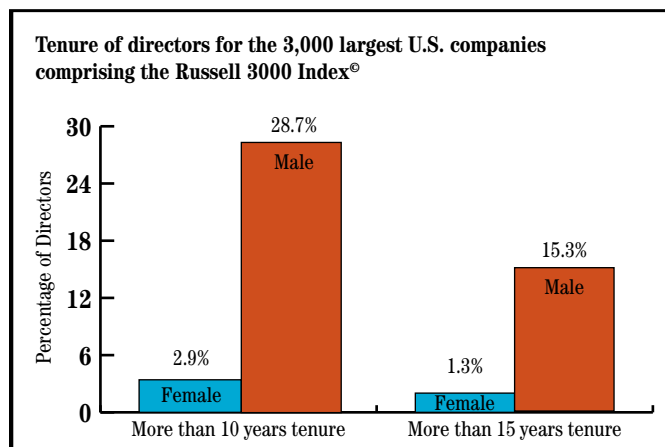
### Conclusion

Corporations have faced a number of high-profile corporate governance battles over the past few years—majority voting for directors, pay for performance, say-on-pay advisory votes, shareholder access, environmental issues, etc. Board gender diversity has become a hot topic, or even legal requirement, in many countries, and board gender diversity may be the next battlefield. Directors serving on compensation committees who approved perceived excessive compensation packages were targeted during their next election cycle by a meaningful percentage of institutional investors. Will directors become similarly targeted for failing to nominate a diverse slate of board candidates? Or will the U.S. government or stock exchanges step in to force their hands?

Based on all of the cited studies showing the positive effects of having female corporate directors, it seems there should be little need to implement Byzantine solutions to this perceived problem in the United States. Directors have a fiduciary duty to act in good faith and in the best interests of their companies. They are also hopefully aware of the fact that women already control a majority of U.S. wealth, hold a majority of U.S. stock ownership, make 80 percent of health care decisions, have surpassed men in Internet usage and online spending, make or influence 85 percent of all purchasing decisions, and purchase more than 50 percent of traditional male products, including automobiles, home improvement products, and consumer electronics.<sup>15</sup>

According to the quadrennial America's Place in the World survey released on Dec. 3, 2013, by the Pew Research Center and Council of Foreign Relations, for the first time in nearly 40 years a majority (53 percent) of Americans believe the United States plays a less important and powerful role as a world leader than it did a

**Table 9: Tenure of Directors in the United States**





decade ago.<sup>16</sup> Seventy percent of Americans said the country is less respected than in the past. If the United States and corporate America want to rise back to the top of the global rankings and avoid government-mandated affirmative action in the boardroom, the full and voluntary inclusion of women as corporate directors appears to be a logical first step. ☉

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## Endnotes

<sup>1</sup>*Gender Diversity and Corporate Performance*. Credit Suisse Research Institute. August 2012. Available at [www.credit-suisse.com/newsletter/doc/gender\\_diversity.pdf](http://www.credit-suisse.com/newsletter/doc/gender_diversity.pdf).

<sup>2</sup>*U.A.E. Promotes Women in the Boardroom*. New York Times. Available at [www.nytimes.com/2012/12/20/world/middleeast/uae-requires-women-board-members.html](http://www.nytimes.com/2012/12/20/world/middleeast/uae-requires-women-board-members.html).

<sup>3</sup>Includes Australia, Austria, Belgium, Brazil, Canada, Chile, China, Denmark, Finland, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Malaysia, Mexico, Netherlands, Norway, Poland, Russia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. GMI Ratings' 2013 Women on Boards Survey available from [www3.gmiratings.com/home/2013/05/gmi-ratings-2013-women-on-boards-survey/](http://www3.gmiratings.com/home/2013/05/gmi-ratings-2013-women-on-boards-survey/).

<sup>4</sup>Available at [www.catalyst.org/system/files/the\\_bottom\\_line\\_corporate\\_performance\\_and\\_women%27s\\_representation\\_on\\_boards\\_%282004-2008%29.pdf](http://www.catalyst.org/system/files/the_bottom_line_corporate_performance_and_women%27s_representation_on_boards_%282004-2008%29.pdf).

<sup>5</sup>Available at [www.credit-suisse.com/newsletter/doc/gender\\_diversity.pdf](http://www.credit-suisse.com/newsletter/doc/gender_diversity.pdf).

<sup>6</sup>Available at [www.mckinsey.com/~media/mckinsey/dotcom/client\\_service/Organization/PDFs/Women\\_matter\\_oct2007\\_english.ashx](http://www.mckinsey.com/~media/mckinsey/dotcom/client_service/Organization/PDFs/Women_matter_oct2007_english.ashx).

<sup>7</sup>UN General Assembly (July 19, 2011). Resolution available at [www.un.org/en/ga/search/view\\_doc.asp?symbol=A/RES/65/309](http://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/65/309).

<sup>8</sup>Available at [unsdsn.org/files/2013/09/WorldHappinessReport2013\\_online.pdf](http://unsdsn.org/files/2013/09/WorldHappinessReport2013_online.pdf).

<sup>9</sup>Available at from [www.prosperity.com](http://www.prosperity.com).

<sup>10</sup>Generated from International Human Development Indicators tables available from [hdrstats.undp.org/en/tables/](http://hdrstats.undp.org/en/tables/). Data derived from the United Nations Educational, Scientific and Cultural Organization (UNESCO).

<sup>11</sup>GDP figures are for World Bank 2012 report available at [data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?order=wbapi\\_data\\_value\\_2012+wbapi\\_data\\_value+wbapi\\_data\\_value-last&sort=desc](http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?order=wbapi_data_value_2012+wbapi_data_value+wbapi_data_value-last&sort=desc). Last accessed November 10, 2013.

<sup>12</sup>*Variation in Female Board Representation within the United States*. GMI Ratings. July 2012. Available from [www3.gmiratings.com/home/2012/07/variation-in-female-board-representation-within-the-united-states-lamb-and-gladman](http://www3.gmiratings.com/home/2012/07/variation-in-female-board-representation-within-the-united-states-lamb-and-gladman).

<sup>13</sup>Available at [www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf](http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf).

<sup>14</sup>Director Tenure and Gender Diversity in the United States: A Scenario Analysis. GMI Ratings. June 2013. Available from [www3.gmiratings.com/home/2013/06/director-tenure-and-gender-diversity-in-the-united-states-a-scenario-analysis/](http://www3.gmiratings.com/home/2013/06/director-tenure-and-gender-diversity-in-the-united-states-a-scenario-analysis/).

<sup>15</sup>*The Top 30 Stats You Need to Know When Marketing to Women*, available at [thenextweb.com/socialmedia/2012/01/24/the-top-30-stats-you-need-to-know-when-marketing-to-women/](http://thenextweb.com/socialmedia/2012/01/24/the-top-30-stats-you-need-to-know-when-marketing-to-women/).

<sup>16</sup>See [www.people-press.org/2013/12/03/public-sees-u-s-power-declining-as-support-for-global-engagement-slips/](http://www.people-press.org/2013/12/03/public-sees-u-s-power-declining-as-support-for-global-engagement-slips/).



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