WOMEN'S
EMPOWERMENT
PRINCIPLES

BUILDING INCLUSIVE BOARDS TO ACHIEVE GENDER EQUALITY

Guidance Note | **Principle 1**

INTRODUCTION

Women's active participation and decision-making in the economy is crucial for long-term economic prosperity. According to a study of 353 Fortune 500 companies, on average, the companies with the best financial performance had more women in their top management teams than lower performing companies.[1]

Yet, barriers to women's full economic participation, employment and progression into leadership roles and board membership persist. For example, in 2018, women held 16.9 per cent of board seats and 4.4 per cent of CEO positions worldwide.[2] Among fortune 500 companies across the U.S. in 2018, 17.9 per cent of board seats were held by Caucasian women, and 4.6 per cent were held by minority women.[3] In the EU, 23.3 per cent of board members of the largest publicly listed companies are women.[4] In various sectors in major cities across Canada, women hold 40.8 per cent of board seats, with non-racialized women outnumbering racialized women by a substantial margin.[5]

Companies and organizations achieve success in the global economy when they take action to eliminate gender stereotypes in the workplace and ensure that the talents, skills and perspectives of women are welcomed and valued in the boardroom. However, women cannot be considered a homogeneous group and when tackling barriers to their participation, an intersectional lens can be used to target women of diverse backgrounds with differing identities and abilities.

Box. 1 WEPs Tool Kit

This guidance note forms part of a toolkit to help companies implement the Women's Empowerment Principles (WEPs). It illustrates the barriers that women face in accessing leadership roles and board seats, the benefits of board diversity and the many strategies that companies have taken to secure parity on boards and ensure that women's perspectives and talents are equally valued in decision-making. It specifically aims to support WEPs signatories in prioritizing and establishing high-level corporate leadership for gender equality (Principle 1) as well as in proactively recruiting and appointing women to executive positions and to the corporate board of directors (Principle 2). For further guidance on how to promote gender equality and women's empowerment in the workplace, marketplace and community, visit www.weps.org

THE ROLE OF THE BOARD IN DRIVING GENDER EQUALITY AND WOMEN'S EMPOWERMENT

The board is the governing body of a company, and its elected members – the board of directors – represent the company's shareholders.[6] Every public company must have a board of directors,[7] as it creates a separation between the company's owners and managers.

While governance structures differ across companies, many of them have adopted a two-tier corporate hierarchy with *inside* board Directors – high-level managers within the company – and outside board Directors – recruited to provide an unbiased perspective to the board.

The board meets regularly to set policies for corporate management and oversight.[8] It therefore plays a key role in setting the corporate agenda for gender equality and women's economic empowerment in the workplace, marketplace and community. However, neither diversity of board members, nor a gender-sensitive boardroom agenda, will happen on its own. It requires strong leadership and targeted action to overcome the barriers to women's access to leadership roles and board seats. These barriers often fall within the realms of supply and demand.

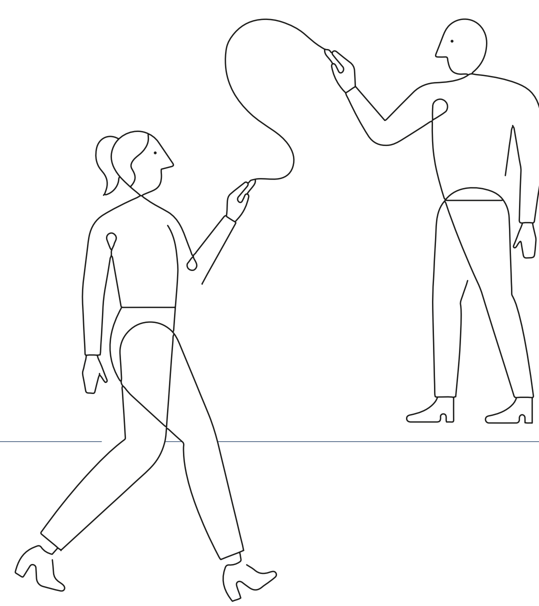
Demand-side obstacles are defined as those influencing the selection and appointments of women, whether for internal or external board director positions.[14] These obstacles include upholding the status quo, lack of prioritization of diversity in board composition, and are often based on gender stereotypes and perceptions of women's limited capabilities.[15]

Supply-side obstacles are defined as those affecting the pipeline progression of board-ready women.[16] These include the lack of opportunities for female mentorship, sponsorship and skill-building,[17] as well as a lack of whole-life balance provisions that enable parents and other care givers to progress in their careers and take on leadership roles.

There are opportunities for companies and organizations to eliminate demand-side and supply-side barriers by implementing changes in governance structures and eliminating barriers along the pipeline progression.

Box. 2 Barriers to women's leadership

A key challenge to women's leadership is gender stereotypes that associate ambition and leadership with masculinity and subsequently devalue women's talents and skills. In fact, research indicates that women across the U.S. often have to provide more evidence of their competence than men, and Black women in particular are more to likely to have their judgment questioned in their area of expertise.[9] Stereotypes have resulted in women, particularly mothers, experiencing disadvantages in hiring and promotion.[10] For every 100 men promoted to, or hired as managers, only 85 women are promoted or hired.[11] *Glass ceilings, glass walls and sticky floors* have siloed women into limited roles, particularly entry-level positions, and continue to block them from climbing the corporate pipeline and attaining senior leadership positions.[12] At the same time, men are given a significant advantage when seeking positions above management level, including senior management, or board positions.[13]



THE BUSINESS CASE

Implementing gender diversity on boards is not only fair and morally correct, it is also a matter of good business. Building gender equality into the corporate governance and board leadership translates into tangible success for companies. In fact, a study developed by the International Labour Organization (ILO) found that companies with gender-balanced boards are approximately 20 per cent more likely to have improved business outcomes.[18] Companies and organizations that implement gender-diverse boards stand to benefit in several ways.

BETTER DECISION-MAKING AND IMPROVED GOVERNANCE

Gender equal participation on boards contributes to a diversity of opinion in company-wide decision-making. It eliminates homogeneous ways of thinking and decision-making, often referred to as *groupthink*, and promotes diverse perspectives and better decision-making.[19] Research into gender diversity on boards finds that having at least three women on corporate boards enhances innovation.[20] Gender diverse boards tend to be more active in overseeing the strategic direction of the company and in reinforcing accountability through audits and risk management.[21] Diversity has also positive spin-offs on employee satisfaction, company productivity and customer satisfaction.

Gender-balanced leadership is also associated with stronger corporate governance.[22] According to a study of 6,000 U.S. companies, those with gender-diverse boards outperformed those whose boards had no women, or only one, and reported fewer financial reporting restatements, and a lower incidence of fraud.[23]

ABILITY TO ATTRACT AND RETAIN TOP TALENT

Companies with women on their boards are better placed to attract and retain top talent since they send a strong signal that they are progressive, recognize merit and provide equal opportunities for women's career advancement.[24]

BRAND BUILDING AND ENHANCED CONSUMER INSIGHT

Boards that reflect the diversity of today's society, and of consumers, are better placed to understand consumer needs and preferences,[25] and can subsequently strengthen their branding to include a wider consumer base. Women control around $28 trillion of the world's annual consumer spending, and account for approximately 70 per cent of global consumption demand.[26]

STRONG CORPORATE PERFORMANCE AND INCREASED PROFITABILITY

Organizations with gender-diverse boards and senior leadership teams exhibit higher returns on equity, sales, and capital and, ultimately, stronger financial performance.[27] Evidence indicates that Fortune 500 companies with three or more women on their boards outperformed similar companies with lower female representation by an 84 per cent greater return on sales, a 60 per cent greater return on invested capital, and a 46 per cent greater return on equity.[28] Further, ILO data surveying 13,000 enterprises in 70 countries found that 74 per cent of companies that monitor gender diversity in management reported profit increases of between 5 per cent and 20 per cent.[29] Research has also shown that companies with more gender-diverse boards of directors also report significantly lower volatility of return on capital.[30]

WHAT CAN COMPANIES DO?

STRUCTURAL GOVERNANCE CHANGES

Ensure executive leadership commitment

Commitments by the company's CEO and Chair are essential for ensuring that the representation and inclusion of women on boards is realized.[31] Board members are invited to use the Women's Empowerment Principles as a framework to tackle gender equality and women's economic empowerment in the workplace, marketplace, and community.

Implement a board diversity policy and appoint diversity and inclusion focal points

A key strategy to embed diversity in the governance of an organization is through the establishment of a board diversity policy.[32] This policy can outline company strategies for ensuring that hiring practices are inclusive and that barriers along the corporate talent pipeline are eliminated. To ensure effectiveness, this policy can be coupled with clear monitoring and reporting structures and progress can be reviewed regularly.

While it is the responsibility of all to abide by corporate policies and work to advance diversity and inclusion in the workplace, specific board roles can be established that are dedicated to monitoring and evaluating diversity and inclusion, with a focus on senior management positions and board membership. Companies can create a specialized committee to develop diversity criteria and engage recruitment search firms.

The creation of a committee, task force, or appointment of a diversity manager signals that an organization or corporation is committed to equality, and research shows that appointing diversity managers increases both company social accountability and the hiring rate of women and other minorities.[33]

Working with an external impartial council or monitoring body, diversity focal points and task forces can:

- Help set key gender representation targets.
- Ensure that the skills and talents of women from diverse backgrounds with different identities and abilities are represented and valued on company boards.
- Monitor diversity and inclusion goals in order to ensure company accountability.
- Conduct exit interviews with board members to capture their experience on the board to inform future efforts.

Expand board selection criteria and recruitment channels

Having narrow hiring criteria for board, executive and leadership positions results in a lack of diversity. Public issuers often seek board members with previous CEO experience, which reduces the pool of female candidates.[34] Rather than solely recruiting and hiring individuals with past executive and leadership experience or hiring individuals with skills that mirror those of the people they are replacing, companies can focus on competencies and transferrable skills and experiences. Other strategies to expand the choice of candidates include gender-neutral job descriptions, diverse interview panels, and blind résumés.

Traditional recruitment channels also need to be revisited and a more mixed approach used, such as:

- Traditional media and advertising.
- Hiring from within the company pipeline.
- Shareholder referrals.
- Obtaining suggestions from advocacy organizations.
- Using executive search firms with an expertise in gender-diverse candidates.

Assess leadership effectiveness and maintain transparency

Regular assessments of the board's effectiveness, the composition of the leadership team and gaps in team organization and communication style can help companies to identify gaps in diversity and implement strategies to solve them.

The publication of data about how many women sit on their boards, executive and leadership teams can ensure that companies remain accountable to their employees, stakeholders and consumer bases.

Institute age and term limits for board members

Age and term limits for board members ensure that there are regular opportunities for new, diverse, recruitments in board, leadership and executive positions. This also keeps companies competitive in the marketplace, and provides an opportunity for qualified women to advance their careers.[36]

Companies can enhance their boardroom succession planning by monitoring future board vacancies and proactively determining women who would be a good fit for the role,[37] as well as publicly disclosing these practices for transparency. Forecasting board vacancies means that companies are constantly looking for new talent to support diverse recruitment strategies.[38]

Expand the board table with additional seats

Even with age and term limits, board turnover can still be slow. The representation of women on boards can be improved by adding positions, and ensuring that they are filled by qualified women from diverse backgrounds with different identities and abilities. In fact, data from the Russell 3,000 Index, which represents about 98 per cent of all publicly traded U.S. companies, indicates that 60 per cent of women with board positions took the job when new seats were created by expanding boards, not by replacing male directors.[39]

MONITORING COMPANY PIPELINES

Conduct company-wide research to identify and eliminate barriers to female leadership

Companies can start addressing the barriers that limit women's advancement by collecting gender statistics and sex-disaggregated data with a focus on intersectionality. This data, accompanied by clear monitoring and reporting processes, can enhance the monitoring of women's progression along the corporate pipeline, women's participation in skill-building opportunities, women's access to key projects, and other points to inform policies and programmes to eliminate these barriers.

Reject gender stereotyping, engage men as allies and transform workplace culture

An inclusive workplace culture exists when all employees, including board members, can generate meaningful change through ideas, decision-making and performance.[40] Promoting a gender-inclusive corporate culture requires that companies eliminate internal gender bias.[41] According to a 2019 global study of 13,000 enterprises, approximately 77 per cent of respondents agreed that their corporate culture mirrors the traditions and social norms of their society.[42] This culture is typically male-dominated, resulting in fewer women on boards and in leadership positions.

To combat gender stereotypes and biases, companies can institute mandatory, company-wide training (including for board members) on unconscious bias and gender stereotyping. Such training engages men as allies and encourages them to recognize and address gender barriers that limit women from seeking and attaining board membership.[43] Training with an intersectional lens, including on anti-racism and anti-discrimination, also promotes allyship for women from diverse backgrounds with different identities and abilities. In companies that exhibit smaller gender disparities in representation, half of all employees had received unconscious bias training in the previous year.[44]

Provide training, skill development, mentorship, access to "hot projects", and sponsorship opportunities

Glass ceilings and walls exist in many workplaces, limiting the pool of eligible women for senior management and internal board director positions.[45] Training, networking and mentorship programmes are effective in developing women's skills and leadership abilities and ensure that companies play an active role in increasing the gender diversity of their boards.[46]

To facilitate women's career progression, companies can encourage workers and employees of all genders to lead projects that launch the company forward. Women are often less likely to be given a lead role on the "hot projects" or "hot jobs" that often lead to leadership roles.[47] According to a study of 1,660 M.B.A graduates in the US, the project budgets allocated to men were more than twice the budgets of those given to women, and more men than women reported getting C-Suite visibility while working on such projects.[48] Therefore, sponsorship[49] of women can be particularly effective when sponsors recommend protégés for key assignments and thereby contribute to the overall goal of breaking down gender barriers.[50]

Implement flexible work arrangements and re-integration strategies

To ensure that women with care responsibilities can easily re-integrate into the workforce and advance along the corporate pipeline companies can implement paid maternity, parental leave, and flexible work arrangements. Mothers who wish to remain engaged with the company during leave can be supported with clear guidelines about what will be discussed, plus the frequency and mode of communication.[51] Further, companies can offer mothers a staggered return, as well as a buddy system to assist them in re-adjusting.[52] Companies can also offer skill building and training to ensure that employees are up to date on new work developments, such as developments in the fast-paced tech industry, that may have arisen while on leave. Maintaining flexibility ensures that care responsibilities do not hinder women's ability to rise to executive positions.

Paid paternity leave policies can further encourage the equal distribution of care work between men and women. In fact, a study of 22,000 companies across 91 countries found a strong correlation between offering paternity leave and an increased share of board seats held by women.[53] Companies can provide paid paternity leave to encourage the equal uptake of care responsibilities between parents and allow women to return to work sooner if they wish.

DRIVING CHANGE BY TAKING A STAND

Progress in the recruitment of women into boards and executive leadership roles can, in some cases, be credited to the development of shareholder activism, where company shareholders use their equity stake to push for gender parity and diversity.[54]

Investors themselves can push for diversity on boards by holding back investments from companies who do not have gender diversity, while some have begun strategically funding those companies that strive for gender balance and parity on boards.[55]

Box. 3 Investing in women on boards - shareholder activism and gender lens investing

BNP Paribas Asset Management has established a proxy voting system to support enhanced board diversity across the firms in the company's portfolio.[56] This system opposes all male director candidates in an investee company if there are no women on its board worldwide.[57] Beginning in 2020 across Europe, North America, Australia and New Zealand, the company announced it expected a minimum of 30 per cent of women on the boards of companies it holds shares in.[58] BNP Paribas Asset Management has committed to analyze companies to check if they respect these conditions, and will systematically vote against male directors on boards where there are fewer than 20 per cent female directors.[59]

During the 2018 G7 Leaders meeting in Charlevoix, Canada, leaders joined forces to launch the 2X Challenge, aimed at increasing access to finance for women-owned, women-led and women-supporting enterprises in developing and emerging countries.[60] Through the challenge, $2.47 billion has already been committed to support projects that empower women as entrepreneurs, as business leaders, as employees and as consumers of products and services that enhance their economic participation.[61] One of its criteria is 20 to 30 per cent women in senior leadership or 30 per cent women on the Board or Investment Committee.[62]

The Pax Ellevate Global Women's Leadership Fund engages in gender lens investing, and counts representation of women company board of directors as a key factor influencing their investing strategy.[63]

GOVERNMENTS IMPLEMENTING LEGISLATION FOR CHANGE

A key target outlined in the Beijing Declaration and Platform for Action is to create a "critical mass" – at least 30 per cent women – of women in decision-making to be able to evoke real and sustainable change.[64] This global goal can be achieved through temporary special measures, such as targets, that mandate companies to set aside a certain number of chairs for women until parity has been reached. It is important to ensure that such efforts are mindful of intersectionality and are inclusive of women from diverse backgrounds with different identities and abilities.

Quotas can put an end to the norm of male dominance on boards and ensure that qualified women are no longer denied access to management positions because of their gender, yet these strategies are most effective when coupled with corporate cultures that respect and value women's perspectives to avoid tokenization.

State actors can take steps to urge equal representation on boards by legislating quotas and critical mass strategies for board membership, as well as mandatory disclosure policies on board diversity:

Australia: Since 2011, the Australian Securities Exchange (ASX) has required all publicly traded companies to follow an "if not, why not" model, similar to a "comply or explain" model to increase the number of women on boards.[66] ASX requires companies to make diversity policy information publicly available, including targets and objectives, or explain why they have not taken these steps.[67] Companies must annually disclose the proportion of women in the organization, including women in senior executive positions and women on the board.[68] As a result, women's representation on public company boards in Australia increased from 10.7 per cent in 2010 to 22.7 per cent in 2016.[69]

Canada: The Quebec Government legislation requires equal representation of women and men on corporate boards of Crown Corporations.[70] Board parity was achieved in 2011 in 22 of the Crown Corporations covered by the legislation shortly after it was passed.[71] As of 1 January 2020, Federal law requires Canadian corporations to disclose, at minimum, the number of women, Indigenous people, individuals with disabilities and individuals from minority groups on their boards, which is then shared with shareholders and Corporations Canada.[72]

European Union: In 2012, the European Commission presented a proposal for a directive aiming to ensure a 40 per cent presence of the "underrepresented sex among the non-executive directors of companies listed on stock exchanges and by requiring companies with a lower share of the under-represented sex among the nonexecutive directors to introduce pre-established, clear, neutrally formulated and unambiguous criteria in selection procedures for those positions in order to attain that objective".[73] In 2013, the European Parliament supported the objective for listed companies in the EU to aim for at least 40 per cent of non-executive directors of the under-represented sex by January 2020.[74] Additional measures were proposed including stronger penalties, such as exclusion from public tenders, for companies which failed to introduce transparent appointment procedures.[75]

France: The Government enacted gender quotas on corporate boards in 2011, calling successfully for companies to implement a minimum of 40 per cent visibility of either gender on boards.[76]

Germany: A gender quota of 30 per cent women on boards was adopted in 2016, resulting in almost two thirds of the country's companies having boards complying with this target.[77] However, although effective in increasing the numbers, the quota applies only to supervisory or administrative boards, not executive or management boards.[78]

Norway: Companies were given until 2008 to implement a gender quota of 40 per cent women on boards, and were met with penalties, including the possibility of being shut down, for non-compliance.[79] Since then, Norway has achieved a significant increase in women's board representation in the corporate world to date, with 35.5 per cent women directors at OBX index companies in 2014, compared to just 6.8 per cent for public limited company boards in 2002.[80]

United Kingdom: In 2012 the U.K. adopted a "comply or explain" model for gender disclosure, coupled with already existing "comply or explain" regulations on board term limits, specifically regarding the independence of directors who have served more than nine years.[81] As a result, women's representation on FTSE 100 boards more than doubled from 2011 to 2015.[82]

United States: California recently implemented legislation requiring publicly held domestic California corporations and foreign corporations headquartered in California to have a minimum of one female board member by the end of 2019, and a representative number of female board members by the end of 2021.[83]

To implement change, a multi-pronged and multi-stakeholder approach is key along with public-private partnerships that places value on boardroom diversity and prioritizes a transformational agenda for gender equality and women's empowerment.

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WOMEN'S EMPOWERMENT PRINCIPLES

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Principle 1 — Establish high-level corporate leadership for gender equality.

Principle 2 — Treat all women and men fairly at work– respect and support human rights and nondiscrimination.

Principle 3 — Ensure the health, safety and well-being of all women and men workers.

Principle 4 — Promote education, training and professional development for women.

Principle 5 — Implement enterprise development, supply chain and marketing practices that empower women.

Principle 6 — Promote equality through community initiatives and advocacy.

Principle 7 — Measure and publicly report on progress to achieve gender equality.

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