



WOMEN ON BOARDS

Why women on company boards are good for business



BusinessNZ
The voice of business

 **INSTITUTE OF DIRECTORS**
IN NEW ZEALAND (INC)


MINISTRY OF WOMEN'S AFFAIRS
MINITATANGA MŌ NGĀ WĀHINE



SUPPORT FOR WOMEN ON BOARDS



Prime Minister's statement

Our success as a country relies on every single New Zealander making the most of themselves and contributing to the best of their abilities.

We like to think that's something we all have the opportunity to do.

But when you look at the small number of women in the boardrooms of New Zealand's top businesses – only about one in every 12 company directors is a woman – you have to wonder whether Kiwi businesswomen are getting the opportunity to succeed that they deserve. And you have to wonder whether our companies are making the best use of the talent on offer.

Especially when you consider the evidence in this publication, which suggests that companies are more profitable when they have more women on their boards.

That's an important idea that could lift the performance of many of our businesses.

This publication grew out of conversations between Business New Zealand, the Institute of Directors in New Zealand, the Ministry of Women's Affairs, and the Minister, Hon Pansy Wong. It's a good example of how business and government can work together to come up with solutions that benefit us all.

I'd like to thank Business New Zealand and the Institute of Directors for taking the initiative and publicising the business case for more women company directors. It's a message I hope every Kiwi business will take on board.

Hon John Key
Prime Minister

Numbers at a glance

In New Zealand, 45 women hold 54 directorships out of a total of 624 positions in the top 100 companies on the NZX.¹



"New Zealand is the first country where women gained the right to vote. We have never looked back and the world holds us in high regard for our forward thinking and fair go attitude."

"It is important that women and men stand shoulder to shoulder in our boardrooms. Combining the different strengths of men and women will provide a strong lever for business performance."

"Our women are competent and ready to serve on boards. The Ministry of Women's Affairs will work with Business New Zealand and the Institute of Directors in New Zealand to ensure that the business case for women on boards is understood and implemented to the benefit of our businesses, the economy, and our nation's well being."

Hon Pansy Wong
Minister of Women's Affairs



"People create value – it's a basic fact of business. Many companies and other organisations fail to realise maximum value because they miss out on women's abilities and insights at governance level. The key question is what to do about it. Business New Zealand believes the most useful way to address the deficit is by voluntary action – not targets or compulsion – and by planning. Organisations that plan now for broader capability on their board, and decisively act on their plans, will reap future rewards. Planning and action of this kind will be the hallmark of tomorrow's successful businesses."

Phil O'Reilly
Chief Executive, Business New Zealand



*"I think **Women on Boards** is about the contribution women can bring to the diversity of skills, experience and perspective that all boards need. Shareholders who appoint those directors should tap into the widest possible director candidate pool to create the best board possible. That pool increasingly includes some very capable women."*

Dr Nicki Crauford
Chief Executive, Institute of Directors in New Zealand



THE BUSINESS CASE FOR WOMEN ON BOARDS

Whether in difficult or prosperous economic times, every business in New Zealand looks for a competitive edge.

An outstanding competitive advantage is there for the taking – the talents and leadership abilities of women at board level.

This is the conclusion of the Ministry of Women’s Affairs, which has developed this report with the support of Business New Zealand and the Institute of Directors in New Zealand.

The evidence shows that women directors can help companies gain competitive advantage and increase profits, and that companies that have women on their boards outperform those that do not.²

Common responses by business leaders to the issue of women on boards include questions like:

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*Where are the skilled women candidates?
Isn't this just political correctness?
Are the competencies right?*

Often the answers include looking at positive differences.

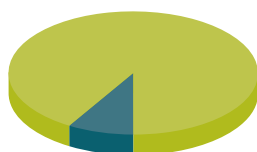
If the criteria for board selection focus solely on previous board or extensive commercial experience then women can often be excluded right at the outset.

However, looking at competencies with a broader perspective opens up many possibilities for outstanding board appointments.

Many businesses are already committed to the idea of greater diversity at board level and need only to plan to make it a reality.

This report presents evidence on the benefits and considers practical ways that companies can gain from a richer mix on the board.

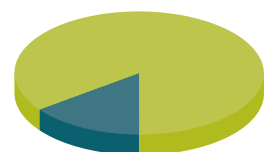
Numbers at a glance



8.6% of private sector company directors in New Zealand are women.



11.8% of FTSE company directors in the United Kingdom are women.



14.8% of Fortune 500 company directors in the United States are women.

BETTER COMPANY PERFORMANCE

International research shows a positive correlation between women in leadership and business performance.

The Catalyst report (*The Bottom Line: Corporate performance and women's representation on boards, 2007*) found that in all measures the companies with the most women board members outperformed those with the least.³

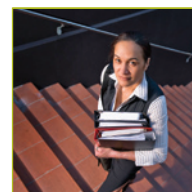
The Catalyst report is a leading international study on the impact of gender on company boards. It looks at the performance of Fortune 500 companies, ranking them by the number of women board members.

It compares the performance of the top quartile (the 25 percent of companies with the highest women's representation on the board) with the bottom quartile (those with the lowest women's representation).

In 2007, for companies in the top quartile, **return on equity was 53 percent higher; return on sales 42 percent higher; and return on invested capital 66 percent higher** than for the companies in the bottom quartile.

This translates into billions of dollars of added value in some of the world's most competitive businesses.

This finding is reinforced by other international studies. A McKinsey & Company report, *Women Matter*, found that "the companies where women are most strongly represented at board or top management level are also the companies that perform best, on both organisational and financial performance".⁴



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CRITICAL MASS

While women can add value to boards individually, critical mass is better.⁵

The McKinsey study looked at the performance of companies with various numbers of women on their boards and found the largest gap in performance existed between those companies with no women on the board (poorer performance) and those with three or more (better performance).

The benefits seem to be sustained: a Canadian study that tracked corporate performance found that those companies with two or more women on their boards in 1995 were more likely to be industry leaders in revenues and profits six years later in 2001.⁶

Does this mean that if more women are good for profits, an all-woman board is best?

The answer seems to be no. A recent study by the London Business School indicated that companies need a mix of men and women. It found that teams with a gender balance achieve the best results in most areas that drive innovation – they are more likely to experiment, share knowledge and complete tasks.⁷

WHY DO WOMEN IMPROVE BUSINESS PERFORMANCE?

Fresh perspectives

Boards with a balance of men and women tend to consider a wider range of issues and options, resulting in commercial decisions that are more in touch with customer needs.

The fact that women drive more than 80 percent of consumer decisions in households indicates the depth of customer understanding that women can bring to commercial boards.⁸

Effective leadership

The McKinsey report, *Women Matter 2*, found that women are more likely to apply five of the top nine leadership behaviours that correlate with organisational excellence.⁹ These five leadership behaviours are those particularly linked to innovation and staff management.¹⁰

The report notes that organisational performance relies on the use of a variety of leadership behaviours. Therefore, by including both men and women at board level, businesses are likely to benefit from diversity of leadership as well as experience.

Role models

Further research by Catalyst shows that having women on boards leads to more women in senior management.¹¹ Women in corporate leadership provide positive role models for other women entering the workforce, giving them a goal to aspire to.

A richer mix of people at board level sends a message both to the market and to staff that the company is focused on performance and talent, and is open to change and innovation.

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"The talents of half the workforce and half the customer base of business could be better utilised. Appointing more women with the necessary competencies to company boards will add great value to New Zealand companies."

Craig Ellison, Director Airways Corporation, NIWA, Absolute Foods Ltd, former director Aotearoa Fisheries



A competitive edge

Whether in times of growth or contraction, there will always be a need for the best talent possible in company leadership.

Recent economic turmoil has caused many to rethink traditional views on company membership. In late 2008, a group of 17 chief executives and heads of FTSE 100 companies in the United Kingdom wrote an open letter to the *Daily Telegraph*, calling for gender equity in the country's boardrooms – because “*extraordinary times call for innovative solutions*”.¹²

Investor confidence

Increasingly, shareholders and rating agencies are factoring into their assessments of company performance the number of women on boards.

Two major investment funds, Calpers in the United States and Amazone in Europe, include a gender-balance indicator among their investment criteria. And rating agencies Innovest and Vigeo, among others, are developing tools to measure gender balance.

The focus of those organisations is on performance and organisational excellence, and it is significant that they see gender issues as pivotal to investment decision-making.

Women will also be increasingly important investors in the future. They are likely to prefer to invest in companies that have women in leadership positions, including women directors.

“Strong boards are those where there is a complementary range of skills and diversity of experience. In addition to specific skills, women directors bring invaluable perspectives and views which enhance governance, customer insights and stakeholder relationships.”

Wayne Boyd, Chairman Telecom



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WHAT CAN BUSINESS LEADERS DO?

Some in business say it is difficult to find suitably experienced women through conventional channels. Finding the right candidates may require a conscious effort to change the manner in which candidates are selected.

Experience is a big part of competence, but women's experiences may not be the same as men's.

Benefiting from the different perspectives and life experiences that women bring to the boardroom could require looking beyond the profile of the usual board candidate.

Where are the potential women directors? They are in New Zealand companies and industries right now, although they may not be part of traditional networks.

Also, women are unlikely to be present at the higher levels of management in the same numbers as men. Looking outside the usual circles is sometimes needed.

Women make up nearly half of the New Zealand workforce and are represented in fields that are highly sought at board level, such as the legal and accounting professions.

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Planning is fundamental to success

Getting more women into the boardroom means making it a priority, like any other driver of performance. As the Conference Board of Canada states, "*the simplest way to find women to serve on the board is to go looking for them*".¹³

Planning for change and setting performance indicators are the most important first steps.

Casting a wide net

Looking outside immediate circles can reap rewards: brainstorming many options before shoulder-tapping can greatly increase the possible candidates for board appointments. A conscious effort to generate many possible options for female board members could significantly aid the current board's deliberations.

Getting help

There are networks and professional recruitment services that can assist.

The Institute of Directors' Director Recruitment Service offers an inexpensive professional appointment service (www.iod.org.nz) and the Ministry of Women's Affairs runs a nominations service for public sector boards (www.mwa.govt.nz).

DEVELOPING A POOL OF FEMALE BOARD CANDIDATES

Although there are board-ready women available, New Zealand will need many more in future. Thinking medium- to long-term is the key. The best kind of succession plan will optimise internal potential, encouraging talented women to progress through senior management and on to boards.

More substantial career paths

Getting more women into top management means providing more substantial career paths for women, with more opportunities to broaden their commercial experience and contribute as leaders.

Mentoring

There is strong evidence that the way people are supported and sponsored has a big impact on their success. Recognising women's talent early and mentoring potential candidates will ensure many more women make it to board level.

"The ability to be an effective company director has nothing inherently to do with gender. What really matters is intelligence, education, experience, insight, maturity, wisdom, balance and commitment."

Brian Corban, CNZM, QSO, Chairman Genesis Energy, Deputy Chairman Kiwi Rail



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Leadership training

Talented women should be actively encouraged to undertake formal training in leadership, governance and management. The Institute of Directors and other organisations run governance-related courses that can be studied at any time, including prior to taking up a board appointment.

Flexibility helps

To make it to board level, many women have to balance a number of roles. HR policies that enable staff to achieve better flexibility and fulfil family commitments will help companies retain top performers – both men and women.

Not making assumptions

Research on the career decision-making of senior managers has shown that both men and women rate work environment (89 percent) and changes to personal aspirations (79 percent) as important. Family considerations are rated at 49 percent by men and 42 percent by women, indicating that some assumptions about women prioritising family concerns over work might be unfounded.¹⁴

WHAT CAN WOMEN DO TO GET ON TO BOARDS?

Aspiring directors should seek out governance experience on not-for-profit organisations, for example professional bodies, charities, local and national sports organisations and school trustee boards. All these provide experience and will add to a CV. Taking on roles of responsibility will demonstrate a commitment to governance.

Talented and experienced women need to put themselves forward for selection. Contact recruitment agencies and organisations like the Institute of Directors and the Ministry of Women's Affairs Nominations Service. It is essential to submit a comprehensive, professional CV highlighting key achievements, strengths, experiences, competencies and interests.

HOW BUSINESS CAN BENEFIT

- Research shows that women on the board can be good for the bottom line. Companies with women board members outperform those with no women.
- Teams with a mix of men and women generally work better.
- Groups with more diverse skills, knowledge and experience are likely to consider a greater range of perspectives and make higher-quality decisions.
- Women may help businesses avert and solve problems more effectively. For example, having women on boards can assist companies to manage key constituencies including shareholders and employees.
- Women in corporate leadership provide good role models for other women entering the workforce. They provide a goal for others to aspire to.
- Research shows that the presence of women at board level strengthens the company's customer base and connections to markets.

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Numbers at a glance

Women make up 46% of the New Zealand workforce.



CHALLENGING MYTHS

“There aren’t enough women candidates.”

The pool of women candidates is not as small as people seem to think, particularly when a wider range of skills and experience is considered. Companies will also benefit from developing their own talent, identifying women early and encouraging them to succeed.

“Women lack the experience required. Appointing them is a commercial risk.”

Appointing on merit is never a risk. All board candidates need to have skills and experience, but a broader approach to experience can bring a more diverse mix to the boardroom. International studies show that a better gender mix at board level can facilitate astute decision-making. For example, in Fortune 500 companies it has been shown to boost the return on invested capital by 66 percent.¹⁵

“Women disrupt board unity, halting quick decision-making.”

Studies show that boards that encourage frank discussion are more likely to consider more options and make better decisions.¹⁶ Freedom to contribute to discussion is a feature of true board unity, and helps avoid ‘group think’.

“Only companies doing well already can afford to risk having women on their boards.”

There is evidence that women improve company performance. This is not a case of women being employed only when a business is already successful. Research has confirmed the correlation between company performance and gender balance on boards.¹⁷

“It’s the same everywhere.”

Overseas competitors are taking many opportunities presented by women’s leadership talent. Australia, the UK, the US and a number of European countries have more women on boards than New Zealand.

“This is very PC. What does it have to do with business?”

This is an opportunity for business to achieve a competitive edge. The evidence indicates that companies that have more women on their boards, and in top management generally, outperform those that do not.¹⁸

“Focusing on bringing women up through the Shell organisation to board level has provided us with a great, positive challenge, as well as providing role models for the women aspiring to leadership roles.”

Rob Jager, Chairman Shell New Zealand



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ENDNOTES

- 1 Human Rights Commission, *New Zealand Census of Women's Participation 2008*, Human Rights Commission, New Zealand, 2008, p.14.
- 2 Catalyst, *The Bottom Line: Corporate performance and women's representation on boards*, Catalyst, New York, 2007; McKinsey & Company, *Women Matter: Gender diversity, a corporate performance drive*, McKinsey & Company, France, 2007.
- 3 Catalyst, op. cit.
- 4 McKinsey & Company, 2007, op. cit.
- 5 McKinsey & Company, *Women Matter 2: Female leadership, a competitive edge for the future*, McKinsey & Company, France, 2008; Catalyst, op. cit.
- 6 The Conference Board of Canada, *Canadian Directorship Practices 2001*, The Conference Board of Canada, Canada, 2001.
- 7 The Lehman Brothers Centre for Women in Business, *Innovative Potential: Men and women in teams*, London Business School, London, 2007.
- 8 Alice Hudson, 'Women flunk finance' in *New Zealand Herald*, 18 November, 2007.
- 9 McKinsey & Company, 2008, op. cit.
- 10 These five leadership behaviours are "people development, expectations and rewards, role modelling, inspiration, and participative decision making". Of the four remaining behaviours, women use two the same amount as men ("Intellectual stimulation, and efficient communication") and men use two more than women ("individualistic decision making, and control and corrective action").
- 11 Catalyst, op. cit.
- 12 'Melting the marzipan layer provides entrée to boardroom', in *Independent Financial Review*, 27 November, 2008.
- 13 D A H Brown, D L Brown and V Anastasopoulos, *Women on Boards: Not just the right thing... but the bright thing*, The Conference Board of Canada, Canada, 2002.
- 14 McKinsey & Company, 2007, op. cit. p. 15.
- 15 Catalyst, op. cit.
- 16 The Conference Board of Canada, 2001, op. cit.
- 17 Smith, N., Smith, V., & Verner, M., *Do Women in Top Management Affect Firm Performance? A panel study of 2500 Danish firms*, Discussion Paper No. 1708, Institute for the Study of Labour, Denmark, 2005.
- 18 Catalyst, op. cit.; McKinsey & Company, 2007, op. cit.