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METI Study Group for Ideal Approaches to Diversity Management

**Kerrie Waring, Executive Director
ICGN**

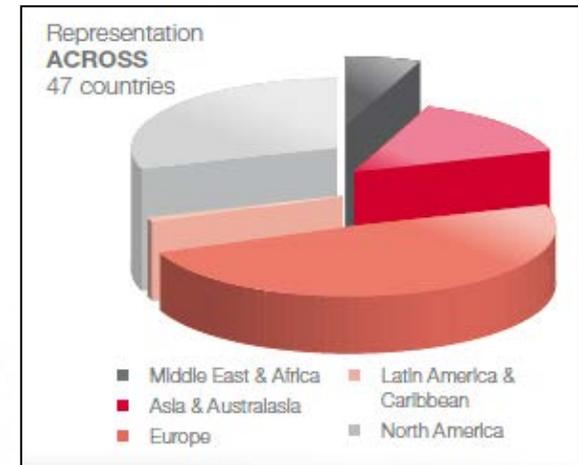
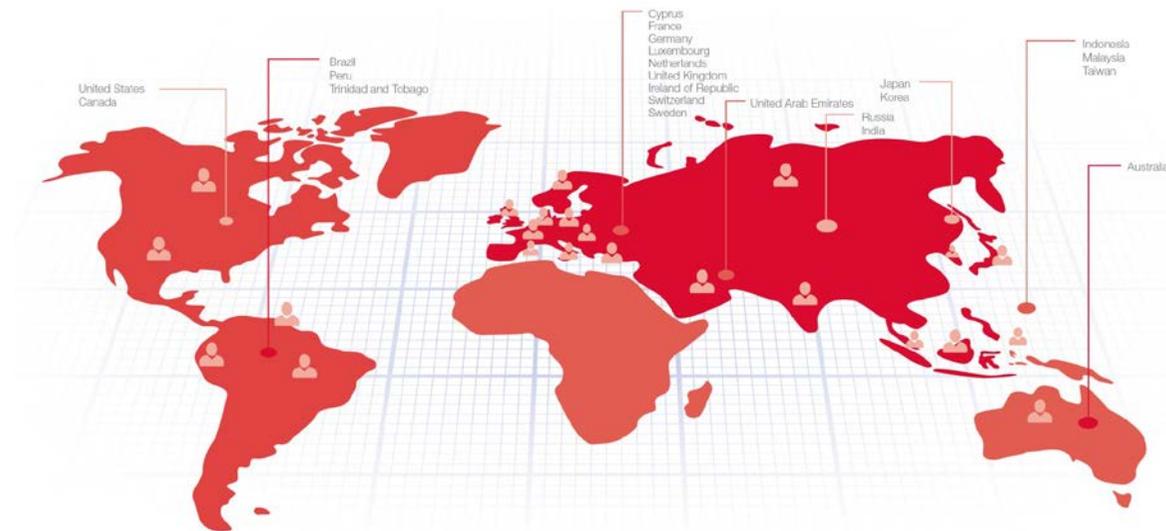


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Our Members

- Global investors responsible for AuM \$26 trillion
- Every continent – 47 countries
- 600+ members, inclusive of all stakeholders





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Established in 1995, ICGN's mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide.

Our objectives are to:

- **Influence** policy by providing a reliable source of investor opinion on governance and stewardship
- **Connect** peers at global events to enhance dialogue between companies and investors around long term value creation
- **Inform** debate through knowledge and education to enhance the professionalism of governance and stewardship practices



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European Update

<u>Country</u>	<u>Index</u>	<u>Board %</u>	<u>Increase Oct '15</u>
Belgium	Bel20	29.0%	+0.5%
Finland	OMX 25	32.1%	+2.7%
France	CAC40	36.4%	+3.9%
Denmark	OMX20	25.5%	+3.8%
Netherlands	AEX	25.6%	+1.9%
Norway	OBX25	38.1%	+3.0%
UK	FTSE 100	26.6%	+0.5%
Sweden	OMX30	35.3%	+2.7%

Source: BoardE: 1st October 2016



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Latest UK Initiative: Hampton-Alexander Review

Since Davies Review in 2011 the number of women on UK Boards doubled to 26.6% - ahead of the 25% by 2015 target. New target is 33% by 2020.

We have been successful in achieving Board level targets and this new review, commissioned by the UK Government, focuses on increasing the proportion of female leaders in the pipeline on Executive Committees and those who directly report to the Executive Committee in FTSE 100 and FTSE 350 companies.

Currently women hold less than 19% of Executive Committee positions in the FTSE 100. There are currently 12 all-male Executive Committees in FTSE 100. The aim is to improve the number of women in the executive 'pipeline' and increase this to 33% by 2020.

Source: Hampton-Alexander Review, November 2016



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5 Recommendations: Hampton-Alexander Review

1. Voluntary targets for FTSE 350

- Aim for a minimum of 33% women on boards by 2020.
- Increase number of female chairmen, SID and ED
- All FTSE companies to take action

2. Increase significantly female leaders

- CEOs to set a clear plan of action to retain, attract and promote
- Nom Com should oversee progress and review action plans annually
- Disclose data in cg section of annual report

3. Government reporting requirements

- FRC should amend UK CG Code
- Government review of 'senior manager' terminology

Source: Hampton-Alexander Review, November 2016



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5 Recommendations: Hampton-Alexander Review

4. Investors

- Investors should assess progress as part of stewardship duties
- Clear process for evaluation in place
- Voting policy in place and publish actual voting records
- Engage with companies

5. Executive search firms

- Increase efforts and skills
- Amend Code of Conduct

Source: Hampton-Alexander Review, November 2016



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ICGN Principle on Diversity on Boards

“The board should disclose the company’s policy on diversity which should include measurable targets for achieving appropriate diversity within its senior management and board (both executive and non-executive) and report on progress made in achieving such targets.”

Source: ICGN Global Governance Principles 2012, Principle 3.1



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ICGN Guidance: Board responsibilities

- Emphasising the important role of the Board chair in facilitating constructive discussion among all board members and to achieve a collegial and productive board environment.
- The important role of Nomination Committees regarding diversity criteria, engagement of search firms and the consideration of candidates on the basis of their experience and skills (ie not to tick a quota box).
- Board evaluation can help demonstrate that the board is conscious of the need to bring in fresh perspectives and sets a tone of a high performance culture at the very top of the company. This can reassure investors that the board is adapting in a thoughtful way to the future needs of the company and management.
- Holding management to account– skills development, mentoring, flexible working. Review managerial progress against targets and CEO’s long term performance incentives aligned with improving gender diversity throughout the organisation.



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ICGN Guidance: Shareholder responsibilities

- Investors are increasingly engaging with board on this subject to build mutual understanding and, where necessary, to encourage change. They want to know about the Board's diversity policy and assess progress made over time. In terms of board effectiveness they might also discuss board evaluations, director relevance and term limits.
- Publish their own voting guidelines which incorporate the consideration of how they take diversity into account when re-electing directors. This should be disclosed to companies.
- Use voting rights to bring about improvements in companies where gender diversity is lacking by choosing not to re-elect directors, possibly form the nomination committee.
- Participate in policy debate to emphasise the fact that diversity is not purely a social issue but a matter of investment, business and financial performance. Get involved in market led initiatives such as the 30% Club or raise the profile of databases of board-ready women.



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Example of investor engagement

The UK 30% Club has published an investor toolkit for engaging boards on diversity. For companies with no women on the Board they suggest the following:

- What factors have contributed to the male only structure of your board?
- Do you plan on changing your nomination processes?
- Do you believe the current gender make up of your board reflects customer, staff, shareholder and other stakeholders?

If the response has been unsatisfactory, then a discussion about voting against the re-election of the board chair, as well as the chair of the nomination committee could take place.

Source: Investor Toolkit for Engaging Boards on Diversity, 30% Club



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Disclosure: what investors look for?

- Diversity policies should aim to encourage a gradual and sustainable gender-rebalance at senior management levels. If a company has chosen not have such a policy, it should explain why it reached that conclusion and identify any risks or benefits associated with the decision not to have such a policy.
- A report from the nomination committee explaining how they considered the representation of women in director selection and board evaluation. Report could include a skills matrix which the board should use to identify what they need when looking for new directors and also in assessing the current board. The committee itself should include female directors to lead by example!
- Measurable targets over a 3-5 year time horizon and report on progress in meeting the targets by identifying the specific proportions of women in the company both at a board and senior management level. Disclosure around any obstacles that companies face in achieving targets is also useful.



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Influencing policy

ICGN Global Governance Principles

The ICGN Global Governance Principles, first published in 2004, is the ICGN's primary standard for well governed companies and investors alike. This flagship document was significantly revised in 2013 when we included standards – not only for companies – but also for investors. In doing so, the ICGN recognises the importance of aligning a shared responsibility between companies and investors in protecting and generating long-term value.



ICGN Global Stewardship Principles

The ICGN Global Stewardship Principles provide a framework to help investors, particularly those with globally diversified portfolios, integrate stewardship responsibilities as part of their overall investment approach. Seven core principles address the key stewardship activities of company monitoring, engagement and voting supported by robust stewardship policies and processes.





Contact Us

 @ICGNCorpGov
W: www.icgn.org

T: +44 (0) 20 7612 7011
E: secretariat@icgn.org