The benefits of gender diversity for investors

Although women received the right to vote many years ago, gender discrimination and inequality still exist, as women continue to be underrepresented in a number of areas. In particular, one area in which progress remains slow is with appointments to senior management positions and directorships of companies. This is perplexing given the growing body of evidence that indicates there are significant economic benefits for companies that are more diverse.

The positive impact of gender diversity

Having a more gender-diverse workforce is not only the right thing to do from a societal perspective; it is also good for business. Research illustrates that companies that effectively manage diversity and inclusion achieve superior financial results\(^1\) and corporate performance. In 2016, for example, the International Monetary Fund (IMF) published a study\(^2\) of more than two million companies in Europe. The study shows a strong link between gender diversity in senior corporate positions and financial performance. In particular, the study identifies two potential areas of greatest impact:

- Where women comprise a larger proportion of the labour force (such as the services sector);
- Where critical thinking skills are important (such as high-tech and knowledge-intensive sectors).

By the same token, board diversity also adds value. Larger representation of women can introduce new approaches, views and beliefs. This adds to the range of perspectives in decision-making processes.

A recent study shows that boards with membership of at least 30% women tend to foster an environment for innovative ideas at board meetings\(^3\). That in turn mitigates the risk of groupthink and improves the quality of strategic decisions. As a result, companies with diverse boards tend to have lower volatility, better operating performance and invest more in research and development (R&D)\(^4\).

The benefits of gender diversity in corporate boardrooms go beyond the company’s financial bottom line. Gender diversity also positively impacts such issues as governance, sustainability and corporate social responsibility. For example, a research paper by MSCI found that companies with fewer women on their boards had a higher-than-average number of governance-related controversies. At the same time, more gender-diverse boards had fewer instances of fraud\(^5\).
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Another recent study suggests firms with gender-diverse boards commit fewer financial reporting mistakes. Moreover, increased female representation on boards has a direct, measurable effect on corporate environmental sustainability practices. For example, a more diverse board tends to increase the likelihood of voluntary climate change disclosure.

The push from investors

The push for increasing gender diversity on public company boards has gained traction in recent years. Advocacy groups, asset managers and owners, regulators and even public companies themselves have acknowledged the need for more diverse boards, and as a result public companies face growing pressure to do something about it.

Over the last decade, asset managers and owners as well as public companies launched various campaigns and initiatives to promote gender diversity on boards. Individually, some of the largest institutional investors have engaged with public companies on this issue. In many cases, investors have withheld votes from directors at companies that failed to address such concerns.

At the same time, investors are coordinating efforts to collectively pressure companies to take action. One high-profile and widely recognized global campaign is the 30% Club. The 30% Club advocates for greater representation of women on the boards of large companies through localized chapters across the globe. It was launched in 2010 in the United Kingdom and is now present in the U.S., Australia, Canada, and many other developed and developing countries. The 30% Club’s vision is to achieve gender balance on boards to encourage better overall leadership and governance. The 30% Club does not advocate the use of mandatory quotas for companies. Rather, the group supports a voluntary approach, with voluntary targets, to achieve sustainable change.

### Numerous studies link diversity to indicators of profitability and financial health, including:

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<td>Earnings Per Share (EPS)</td>
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<td>Earnings Before Interest and Taxes (EBIT) margins</td>
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<td>Gross and net margins</td>
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<td>Revenue</td>
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Boards with at least 30% women tend to foster an environment for innovative ideas at board meetings.
**RBC GAM’s approach to advance diversity in the market**

As a first step, RBC Global Asset Management (RBC GAM) has updated its proxy voting guidelines in 2018 to convey the expectation that companies lacking female representation on their board adopt diversity policies that:

- Commit to increasing board gender diversity;
- Set clear targets to do so over a reasonable period of time.

This updated guideline triggered several informative engagements throughout the year. These meetings provided further insights as to how many of RBC GAM’s investee companies are considering gender diversity.

In Canada, RBC GAM is a member of the 30% Club Canadian Investor Group, the Canadian chapter of the 30% Club, and a signatory to its Statement of Intent. Accordingly, RBC GAM has clear guidelines in place to support the goal to have all companies on the S&P/TSX Composite Index achieve the standard of at least 30% women representation on boards and in senior management roles by 2022.

RBC GAM and its Corporate Governance and Responsible Investment (CGRI) team will continue to further enhance the guidelines as well as contribute to the goals of the 30% Club and the 30% Club Canadian Investor Group.

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3 Carolyn Wiley and Mireia Monllor-Tormos, “Board Gender Diversity in the STEM& Sectors: The Critical Mass Required to Drive Firm Performance”
4 Gennaro Bernile et al., “Board Diversity, Firm Risk and Corporate Policies”
5 MSCI ESG Research, “Women on Boards: Global Trends in Gender Diversity on Corporate Boards”
7 Walid Ben Amar et al. “Board Gender Diversity and Corporate Response to Sustainability Initiatives: Evidence from the Carbon Disclosure Project”
9 PwC Governance Insights Center – PwC’s 2018 Annual Corporate Directors Survey, “The evolving boardroom: Signs of change”

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