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Investor Education Centre

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Blake monopoly in board games

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Gender inequality is one of those issues that we are all aware of but don't really talk about. It is a difficult problem to resolve, and not everyone believes that it is that big a problem in the first place.

Gender diversity in the boardroom (or the lack of it) is a global problem that has become more prominent in the aftermath of the global financial crisis. Shareholders and stakeholders are asking companies to demonstrate the kind of leadership that will prevent a repeat of yesterday's mistakes.

Increasingly companies are being encouraged to increase the number of women on their boards in order to improve diversity of thinking. Women think differently, they relate to people differently and they approach problems differently than men. This different way of doing things has been proven to add value to boards.

So why are boards reluctant to appoint women directors?

Arguably, boards are moving in the right direction. Unfortunately the pace is glacial.

The Australian Institute of Company Directors issued a press release last week saying that it has been a year since it had called for more diversity. It was pleased to confirm that 10.3% of ASX200 companies now have female board members compared to just 8.3% at the beginning of the year. Gosh, at that rate, women will have equal representation on Australian boards in just ... 20 years!

The pace has been too slow elsewhere as well.

In the UK, the percentage of directors who are women is now 13.6%, up just 3% since 2008. In the US, women hold about 15% of Fortune 500 board seats; of the top 300 European companies, women make up about 12% of boards, and in Asia just 1.8% of board slots are taken by women.

Some countries (including UK and Australia) have attempted to hasten the process by introducing "comply or explain" policies which require companies to explain what they have or haven't done about promoting gender diversity. However given that progress has been slow, there is now talk of quotas that require companies to have women comprise 30%-40% of their boards.

The problem with quota systems is that appointments could be made just to make up the numbers, rather than because the candidates are best for the job.

The argument against quotas is that directors should be appointed on merit not gender. But the two are not mutually exclusive. There are meritorious women out there.

Interestingly, various studies of executive women show that they are not in favour of quotas either. Rather, they believe that more women would become directors if they were given the right training and mentoring support to put themselves forward for directorships.

Half the battle seems to be about bringing the parties together – women have got to equip themselves and put their hands up for board seats and boards have to cast their net wide enough to consider women candidates with the requisite skills.

Gender diversity is not about political correctness. Boards need to draw directors from the widest pool of talent possible, and ignoring 50% of that pool just doesn't cut it.

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