Boardroom Diversity Impacts Profitability; Is Diversity a factor in Energy Investments?

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Summary

While numerous studies have found a correlation between diverse boards and executive management teams and increased corporate profitability, there remains additional work for social scientists to do in establishing whether it is merely correlation or causation that results in increased profitability of companies with more diverse boards and executive management teams.

Meanwhile, women remain significantly underrepresented in executive management and board positions generally. This underrepresentation is more pronounced in the energy industry. .

Increasing diversity on boards and executive management needs to start with a commitment that begins at the hiring phase and continues through the retention and advancement of employees; thus providing a pathway to management (and directorship) for all talented employees. Changing the way succession planning is performed and diminishing barriers to achieving diversity by introducing training programs to overcome inertia and resistance from both unconscious and overt bias can facilitate the advancement of the best people, regardless of gender, into management and onto boards, propelling energy companies forward profitably and sustainably.

Investors can also use their investing and voting power to influence the diversity of companies, particularly those that are traded on the TSX and are now mandated to disclose their gender diversity policies and numbers.

Introduction

Companies listed on the TSX and certain other exchanges (but not the TSX Venture Exchange) are currently required under Canadian securities law to provide "comply or explain"-style disclosure regarding the representation of women among their directors and executive officers. . In the study Is Gender Diversity Profitable? Evidence from a Global Survey, which analyzed 21,980 publicly traded companies in 91 countries, the Peterson Institute for International Economics and EY demonstrate that having a management group comprising of at least 30% women could add up to 6% to the company's net profit margin.

Has this information influenced the number of women on boards and in leadership positions in the energy industry? If not; why not?

Method

Research seeking to determine whether gender diversity improves corporate performance has been mixed. Numerous studies have shown a positive correlation between companies having more diversity including women and other 'minorities' on boards of directors and executive management positions and profitability. Other studies have found no positive relationship between female board membership and corporate performance.

The social science behind diversity and corporate profitability is complex and research in the area is ongoing. However, diversity (in particular, gender diversity) is a subject of increasing importance to companies as a result of increased scrutiny being placed on diversity practices and female representation among executive management and board members by investors, proxy advisory firms and regulators.

GeoWomen organized a panel discussion on December 13 to discuss the link between boardroom diversity and profitability and whether diversity is a factor in energy investments. The panelists were

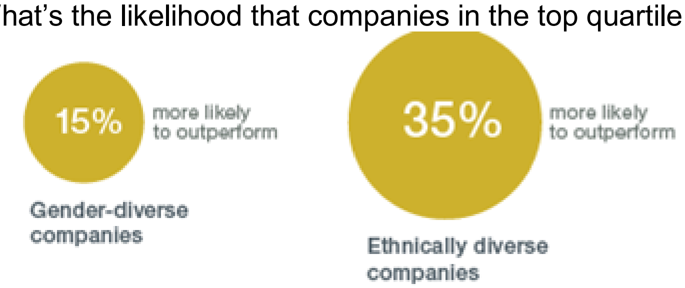
- Erin Poeta, Manager at Hugessen Consulting,
- Roger Serin, P. Eng. Managing Director and Senior Energy Advisor TD Securities Global Energy and Power Investment Banking Group, and
- Janel Young, Associate – Corporate Group Stikeman Elliott LLP
- Moderated by Wendy Shier, P. Geol., Strategy Advisor, WCP Strategy, Chair, Women's Leadership Network-Action Committee, Husky Energy.

Four questions were asked: 1) What are the facts, what do the studies say? 2) What are the issues around governance in the energy industry? 3) Engagement: How has the investment community responded to the changes in policy? Are there demographic trends in investing? How do you enable investors who want to support diversity? Evaluation: What do investors look for in energy industry board members? And 4) What does an effective board look like in ten years? How do we get there?

Examples

"The evidence on women in the C-suite is robust: no matter how we torture the data we get the same result: women in the C-suite are associated with higher profitability." Says Marcus Noland, director of studies at the Peterson Institute for International Economics.

What's the likelihood that companies in the top quartile for diversity financially outperform those in



the bottom quartile? The McKinsey study, Why diversity matters by Vivian Hunt, Dennis Layton, and Sara Prince indicates that these results show the likelihood of financial performance above the national industry median. Analysis is based on composite data for all countries in the dataset. Results vary by individual country.

Diversity (in particular, gender diversity) is increasingly being scrutinized by investors, proxy advisory firms and regulators. Investors can use their investing and voting power to influence the diversity of companies, with an increasing number of institutional investors placing pressure on companies to have more women on their boards and in executive management positions. While disclosure requirements arguably have not had as significant an impact on increasing the number of women in director and executive management positions as may have been hoped or anticipated, the data made available by these disclosure requirements is an important tool for diversity focused investors in deciding where to invest their capital and how to exercise their voting power.

Improving gender diversity will be a gradual process for most companies. Unbiased succession planning is key to managing the retention and advancement of the best employees and ensure there are qualified female and other 'minority' candidates for executive management and director roles. Training programs focused on unconcious bias can also be helpful to educate employees at all levels to unlearn biases and concentrated on developing positive relationships with each other.

Conclusions

While numerous studies have found a correlation between diverse boards and executive management teams and increased corporate profitability, investors and regulators also play an important role in incentivizing companies to become more diverse.

Increasing diversity on boards and executive management needs to start with a commitment that begins at the hiring phase and continues through the retention and advancement of employees; thus providing a pathway to management (and directorship) for all talented employees. Changing the way succession planning is performed in this way and diminishing barriers to achieving diversity by introducing training programs to overcome inertia and resistance from both unconscious and overt bias can facilitate the advancement of the best people, regardless of gender, into management and onto boards, propelling energy companies forward profitably and sustainably.

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