



# ICGN

International Corporate Governance Network

## ICGN Survey on Board Diversity

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### Category of Respondent

- ☐ Gender: Male ☒ Female **X**
- ☐ Organisation type: **Pension Fund**
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1. Over the years ICGN has advocated for a number of changes in culture on Boards for improved corporate governance. Do you believe that increasing the representation of skilled and competent women on boards will accelerate this cultural change?

Yes ☒ No ☐ Uncertain ☐

2. Do you support binding quotas to improve gender diversity on boards?

Yes ☐ No ☒ Uncertain ☐

Please explain.....

- 2a. If the answer to Q2 is yes, what would be the appropriate quota?

- ☐ Between 10% - 20%  
☐ 25%  
☐ 30%  
☐ 35%  
☐ 40%  
☐ Others

If other, please specify.....

- 2b. If the answer to Q2 is yes, over what time should companies seek to achieve such a target?

- ☐ Between 1-2 years  
☐ Between 2-3 years  
☐ Between 3-4 years  
☐ Between 4-5 years  
☐ Between 5-10 years  
☐ Others, please specify.....

- 2c. If the answer to Q2 is yes, should the obligation be limited to:

- ☐ non-executive directors  
☐ both non-executive and executive directors

- 2d. If the answer to Q2 is no, why?

- ☐ Prefer a self-regulatory approach
- ☐ Prefer information required on gender diversity to be embedded in the corporate governance code and company adopt a “comply-or-explain” approach
- X Other reason. Please explain.....  
 We don't think quotas on gender are a guarantee for reinvigorated boards – more is needed. We support board diversity in the broadest sense: diversity of gender, ethnicity, age and more importantly depths of experience, skill-set and knowledge. In our CalPERS Global Principles of Accountable Corporate Governance we've included a principle on Board Talent Assessment and Diversity which states, “Board attributes should include a range of skills and experience which provide a diverse and dynamic team to oversee business strategy, risk mitigation and senior management performance. The board should establish and disclose a diverse mix of director attributes, experiences, perspectives and skill sets that are most appropriate for the company. At a minimum, director attributes should include expertise in accounting or finance, international markets, business or management, industry knowledge, governance, customer base experience or perspective, crisis response, risk assessment, leadership and strategic planning. Additionally, existing directors should receive continuing education surrounding a company's activities and operations to ensure they maintain the necessary skill sets and knowledge to meet their fiduciary responsibilities.

3. Please rank which of the following actions would be most effective in increasing the representation of women on boards? (Please rank between 1-7).

- 7 Creation of quotas
- 6 Comply or explain
- 5 Creation of databases
- 4 Creation of databases coupled with “support and mentoring network”
- 2 Commitment by male directors to identify, mentor and support women for board membership
- 1 Commitment by investors to encourage companies to include women in their recruitment activities
- 3 Other, please explain.....  
 Pipeline development at the company level. A large issue of today is that there aren't enough women breaking through to the senior management and executive levels. A 2012 Catalyst survey shows that women held only 15.7% of Fortune 500 corporate officer positions in 2008. There has also been little movement in the past three years on the executive officer front with women holding 14.1% of positions in 2011. Therefore, when boards conduct a director search, they're looking for c-suite experience and women are not there. To remedy this, companies can initiate a sponsorship program pairing senior leaders with high performing female employees to ensure these women move into the senior and executive level positions giving them more visibility and developing them to eventually be recognized as a qualified director candidate.  
<http://www.catalyst.org/publication/206/women-in-us-management>

4. How can these issues be overcome?

Having a diversity policy should be the starting point for each company. This will give the company a chance to grapple with how they define diversity based on their company and business model. Focusing inward on the company culture through mentoring and sponsorship programs contribute enormously to developing the company's human capital. CalPERS recently added "Balance" to our core values. CalPERS strives to create a work life balance by offering child care onsite, maternity and paternity leave, flex schedules and telecommuting. These measures support our diversity and inclusion goals.

5. Do you consider gender diversity as a material factor in investment decision-making?

Yes     ☒                      No     ☐

5a. If yes, how can this be integrated into the process?

We see this as one of the components of Sustainability: Environmental, Social, and Governance (ESG) to integrate into the investment decision making process. Three forms of capital combine to create wealth: financial, physical and human capital. Financial capital is why we care about governance – alignment of interest between investors and managers is vitally important. Physical capital refers to our environment and the use of natural resources and buildings, which is why CalPERS is focused on climate change. Lastly, human capital is the people we need to employ to put the financial and physical capital to good use, which is why investors have an interest in the social dimension.

CalPERS plans for ESG integration are set out in our Towards Sustainable Investment: Taking Responsibility report (<http://www.calpers.ca.gov/eip-docs/about/press/news/invest-corp/esg-report-2012.pdf>). These include developing an internal and external manager expectations document on ESG. This will cut across all asset classes with a core set of ESG questions to be included in manager appraisals and tailored as needed for each area of our investment strategy. Questions specific to diversity will cover whether there's a board approved statement of diversity policy, to whom the policy will extend, as well as reporting and monitoring and if and how such factors are integrated into the investment decision making process.

Separately, CalPERS engages companies and their boards on a variety of ESG issues through our Focus List program. Typically, these engagements are to address long-term financial underperformance and to consider how governance reforms could set the stage for recovery and improvement. We also raise items for discussion such as board diversity and sustainability reporting and disclosure.

CalPERS is a champion for board diversity because we want to promote high quality boards. We've seen research that companies with more diverse boards perform better. Then question then is supply. Where do companies find the new talent, with the skills, experience to add value to boards and bring diversity. Nearly three years ago, CalPERS partnered with CalSTRS to build a new resource to addresses the demand for a new pool of diverse talent that can bring fresh thinking to a boardroom and challenge the traditional way of doing things as a protection against the corrosive 'group think' that contributed to the financial crisis. In collaboration with other investors, companies, search firms, diversity networks and academics we developed the Diverse Director DataSource (3D) – a new resource for companies, search firms and shareowners seeking talent from a full spectrum of social backgrounds and a broad range of experience. To date, we have recruited more than 450 candidates with their profiles submitted, and fully searchable with several hundred more in the pipeline.

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6. Please rank which of the following activities by investors would be most effective in helping to ensure that diversity is properly embedded? (Please rank between 1-6).

- 5 Develop voting guidelines on the appointment and re-election of board members for investee companies
- 2 Use voting rights to effect improvements at the boards of investee companies
- 3 Seeking the development and implementation of diversity policies
- 6 Advocating high corporate governance standards, including those involving diversity
- 4 Regular dialogue on governance policies with the boards of investee companies
- 1 Other, please explain.....  
Propose board ready candidates to company nominating committees. Often times, shareowners withhold their votes from directors, but are unable to recommend a new director. With the new candidate pools available, such as the Diverse Director DataSource (3D), there is no shortage of qualified and skilled diverse talent. [www.GMI3D.com](http://www.GMI3D.com)

7. Do you believe that it is the Board's role in overseeing a human capital management strategy that sets out clearly how diversity (and inclusivity) are promoted within the company and embedded within the corporate culture?

Yes     ☒                      No     ☐

- 7a. If yes, how should this be done?

A diversity and inclusion strategy should be developed at the organizational level and supported and overseen by the Board and senior management. An example of this is shown through CalPERS own diversity and inclusion practices. CalPERS established the Diversity Outreach Program (CDOP) to assist in the development and implementation of all internal diversity education and outreach activities, promoting diversity with all of our external business and investment partners. We recognize that a diverse workforce enhances the way we do business and enables us to better serve our customer base. The Diversity Outreach Program has worked to foster an inclusive environment through employee resource groups like the Disability Advisory Council and Diversity Outreach Committee.

The Diversity Program coordinates with the Legal and Investment Offices to provide a quarterly update to the Board on all diversity activities. They also work across the enterprise to collect diversity updates from the other business units and presents on their behalf. These quarterly updates are combined to form our Annual Diversity Report.

These efforts start with leadership from the very top, which is why there is diversity and inclusion training for all senior managers. Diversity and inclusion metrics are also tied to compensation for senior managers and executives. In 2009, our CEO formed the Diversity Executive Steering Committee, and charged it with supporting development and implementation of enterprise initiatives and outreach efforts. CalPERS has also designated a Board member to serve as a special advisor to the Board President on diversity.

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8. Should the Board explain its approach to incorporating diversity (and inclusivity) within the company on a 'comply or explain' basis?

Yes ☒ No ☐

Please state your reason(s).

Each company is unique, therefore, instead of imposing a strict quota requirement the 'comply or explain' approach gives the company the opportunity to share whether or not they incorporate diversity inclusion (D&I) practices and if not, why. These responses can and should be judged on a case by case basis. By instituting the 'comply or explain' approach we could establish a benchmark for incorporating diversity and inclusion. Companies fairly new to or in the early stages of incorporating D&I could learn from their peers and other leading companies through this enhanced disclosure.

9. How can gender diversity be incorporated into the Board nomination process more effectively?

The SEC's enhanced disclosure requirement on diversity asks companies to include the background qualifications of directors and nominees, and to state whether or not the nominating committee or board has a diversity policy to refer to when identifying director nominees. The rule also requires the nominating committee or board to disclose how the policy is implemented and to assess the effectiveness of the policy. The results of the enhanced disclosure rules are mixed. Some companies continue to offer up very little about diversity in their nomination process, while other companies provide comprehensive disclosure around their diversity policy, nomination process and company skill-sets matrix. In the end, the effectiveness of the disclosure – similar to the 'comply or explain' approach – rests on the shareowners willingness to hold these companies accountable and push for action.

The board should conduct annual director talent evaluations as a way to focus on their ability to meet the global challenges of evolving global capital markets. A skills matrix should be used to assess the talent and skill-sets needed on the board to ensure they are meeting the needs of the company's business strategy. Any gaps in skill-sets or knowledge identified by the matrix can form the basis for a new director candidate profile. The skill sets matrix also keeps the focus on the candidate's qualifications rather than their identity.

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10. Do you advocate improving standards of selection by recruitment consultants as a key intermediary in the process?

Yes ☐ No ☒ Indifferent ☐

If no, how could standards of selection be improved?

Recruitment consultants/executive search firms are hired by the board and are therefore not independent. We've also seen that they tend to promote the same names. A recent Spencer Stuart survey found that, "a majority (75%) of corporate boards in the US are taking a broad range of actions to promote diversity in the boardroom from instituting diversity policies to asking executive recruiters to recommend diverse candidates." If companies are using a recruitment consultant, as the Spencer Stuart survey mentioned – companies should make diversity one of the goals for the search.

<http://www.spencerstuart.com/about/media/73/>

As we've mentioned above, use of a skill-sets matrix can help tremendously and keeps the process more objective. The board itself should have a thorough understanding of the business and of the company's strategic direction. The responsibility lies with the board to conduct an annual skills assessment to ensure they're keeping current with the needs of the company and have the right mix of individuals that can advance the company's business strategy and help investors achieve long-term, risk adjusted returns.

We've seen this approach used successfully by the UnitedHealth Group's (UNH) nominating committee. CalPERS partnered with UNH to appoint an independent director to their board. UNH developed a skills assessment matrix that mapped to company's strategic priorities and business strategy, which was used to create candidate profiles from the gaps they found. Together we agreed the candidate profiles and jointly interviewed the candidates and ultimately appointed a director to their board.

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Thank you for completing this survey. Please return your responses to Shazia Parviez by:  
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Please submit your responses by Friday 26<sup>th</sup> October 2012.