



Diversity in the Boardroom

Article 2

External pressures



## Introduction

Diversity in the boardroom has been a hot topic in recent years. Does the traditional boardroom of a fairly homogenous group of individuals really produce the most effective decisions and strategy for a company? Does such a boardroom have exposure to a wide enough range of perspectives to facilitate robust discussions of issues that arise? Is there something missing?

*This article is part of a series that explores diversity in the boardroom. To view the other articles in this series, visit the Deloitte Africa Centre for Corporate Governance.*

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### Article 2

## Are there external pressures driving diversity into the boardroom?

In recent years, there has been an influx of regulatory reforms globally encouraging diversity in the boardroom – specifically, gender diversity. The European Commission (EC) has introduced a Directive on improving the balance of males and females among non-executive directors of companies listed on stock exchanges. The EC Directive's purpose is to significantly increase the presence of women on corporate boards throughout the European Union by setting a binding minimum target of 40% females among non-executive directors of companies, with a focus on public limited companies.<sup>1</sup> These measures aim to promote gender equality in economic decision-making, and to take full advantage of the talent pool of candidates for a more equal gender representation on company boards. Gender quotas have also been promoted via legislation in many European countries. In 2005, Norway became the first country to introduce board gender quotas when the Norwegian Public Limited Liability Companies Act was amended to require 40% representation of both genders on boards. Similar law reforms have also been adopted in Spain, France and Italy.

Although gender diversity on boards has increased in South Africa over the past 10 years, the change is happening very slowly. Currently, it is estimated that women occupy approximately 20% of directorships on boards in South Africa.<sup>2</sup> Furthermore, although there are a number of initiatives to improve the gender representation in the corporate sector, the government's proposal<sup>3</sup> to institute a 50% quota for women on boards lapsed in parliament. There are, however, other programs in place to encourage the appointment of more women to boards, which has contributed to a steady increase in the numbers.

One of the largest influencers of diversity in South Africa has been the Broad-Based Black Economic Empowerment Act. The Act embodies government's efforts to situate black economic empowerment within the context of a broader national empowerment strategy focused on historically disadvantaged people, and particularly black people, women,

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youth, disabled, and rural communities. One of the Act's many objectives, specifically focused on women, is to increase the extent to which black women own and manage new enterprises and facilitate their access to economic activities, infrastructure, and skills training.<sup>4</sup>

With regard to independence, mechanisms such as the Companies Act, King III and the JSE Listing Requirements include requirements to bring the objective view into South African boardrooms. For example, King III recommends that the board should comprise a balance of power, with a majority of non-executive directors, that majority of whom should be independent. Having a majority of independent directors on the board is a notion echoed by various internationally recognised governance codes including those in the US, Canadian, Australian and UK as well as the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance. King III also recommends that the chairperson of the board is an independent non-executive director. In situations where the chairperson is executive or otherwise conflicted, King III recommends that a lead independent director should be appointed to be a sounding board for the chairperson and provide an unbiased point of view. The aforementioned internationally recognised governance codes include similar principles to promote objective decision making in the boardroom. Furthermore, in South Africa, to allow for the proper functioning of the audit committee, both the Companies Act and the JSE Listing Requirements have strict eligibility criteria for members of the committee to ensure that these directors are independent of the company.

The International Corporate Governance Network (ICGN) encourages the adoption of a policy on diversity which should include measurable targets for achieving appropriate diversity within a company's senior management and board (both executive and non-executive) and report on progress made in achieving such targets.<sup>5</sup> Countries like Australia have encouraged disclosure of diversity policies and objectives by adopting an "apply or explain" approach. Australian listed companies are required to benchmark their corporate governance practices against the Recommendations developed by the Australian Corporate Governance Council, including the Diversity Recommendations which became effective in 2011. In South Africa, the JSE is currently considering the requirement for listed companies

to disclose their policy on the promotion of gender diversity at board level in the annual report.

Shareholder activism has increased significantly in recent years, with shareholders being more vocal about the changes they would like to see in a company's board composition. In light of the many benefits of having a diverse board, an opportunity arises for activists to put pressure on a company to achieve a more balanced and diverse board composition. According to Stephen Murray, the president and CEO of CCMP Capital, a major private equity firm: "The whole activist industry exists because public boards are often seen as inadequately equipped to meet shareholder interests."<sup>6</sup>

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<sup>1</sup> International Corporate Governance Network, ICGN Statement and Guidance on Gender Diversity on Boards, 2013

<sup>2</sup> Deloitte Global Center for Corporate Governance, Women in the Boardroom – A Global Perspective, Fourth Edition  
<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Risk/gx-ccg-women-in-the-boardroom-a-global-perspective4.pdf>

<sup>3</sup> Women Empowerment and Gender Equity Bill, B 50B—2013  
[http://www.gov.za/sites/www.gov.za/files/Bill50B\\_2013\\_0.pdf](http://www.gov.za/sites/www.gov.za/files/Bill50B_2013_0.pdf)

<sup>4</sup> Black Economic Empowerment, [www.southafrica.info](http://www.southafrica.info)

<sup>5</sup> International Corporate Governance Network, ICGN Statement and Guidance on Gender Diversity on Boards, 2013

<sup>6</sup> Harvard Business Review, Where Boards Fall Short, Dominic Barton and Mark Wiseman, February 2015  
<https://hbr.org/2015/01/where-boards-fall-short>

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