

Board diversity

Position paper

Norges Bank Investment Management position

1. The board should ensure that it can bring a broad range of perspectives and approaches to its decision-making process. The board should have a diversity of competences and backgrounds.
2. The board should have an appropriate gender balance. Boards where either gender has less than 30 percent representation should consider setting targets for gender diversity and report on progress.
3. The board should have a formal nomination process to identify potential candidates who can contribute to diversity on the board. The process should include a rigorous search extending to a broad range of people with different backgrounds.

Background

The board is responsible for guiding company strategy, monitoring management performance and providing accountability to shareholders. Ensuring that the board functions effectively is of fundamental importance to shareholders. This position paper considers the relevance of diversity for the effective functioning of the board and the importance of an effective nomination process to ensure such diversity.

The board should regularly assess whether it collectively has the right mix of competences and backgrounds. The objective is to avoid group thinking and bring a diversity of thought to board discussions. The G20/OECD Principles of Corporate Governance specifically refer to improving gender diversity on boards as a relevant measure.

The representation of women on boards has been increasing in recent decades, as the participation of women in the labour market has grown and more markets have introduced specific requirements for gender diversity. On average, 26 percent of board members are female in the G7 countries. In Europe, regulatory requirements vary between 30 and 40 percent.

Arguments for the position

Diversity may improve decision-making

A broader range of backgrounds and competences is likely to bring different experiences and perspectives to the board, resulting in more informed discussions. This is likely to improve the quality of the decision-making process.

Diversity may be a sign of an effective nomination process

The board should conduct a structured search to identify the best candidates to meet the requirements of the company. Lack of diversity may indicate that the board does not follow a rigorous nomination process, or that its search process only extends to a limited group of candidates.

Diverse boards enjoy broader legitimacy

Boards whose composition reflects that of society at large will enjoy greater legitimacy among a broader range of stakeholders. Gender balance on the board may also contribute to improving gender balance in the company. The persistent underrepresentation of women could undermine trust in companies and the broader legitimacy of markets.

Arguments against the position

Unclear whether diversity on the board improves performance

A link between diversity and company performance has not been established by rigorous academic research. Since there is no clear financial justification for introducing gender or other diversity requirements, it may not be in the interest of shareholders to promote this issue.

Diversity requirements may crowd out other board criteria

Nomination bodies already consider many different requirements, such as skills, expertise, independence and availability. Further requirements, such as age, gender and ethnicity, could introduce competing demands that complicate the recruitment of optimal boards.

Companies will embrace diversity without shareholder involvement

Board diversity has already improved and will steadily improve over time. More women in management positions and regulatory requirements for gender quotas will lead to more women on boards.

Norges Bank Investment Management considerations

Weighing the arguments, we consider board diversity as a contribution to the overall effectiveness of the board and an indication of an effective board nomination process.

Diversity will likely bring additional perspectives and approaches to the board's discussions and ultimately improve the quality of its decision-making process.

While there are many different dimensions to diversity, we are particularly concerned by persistent underrepresentation of women on boards. Such underrepresentation may indicate that a board is recruiting too narrowly and does not have a clear view of the full range of backgrounds and competences required to be effective. Based on our experience from markets with mandatory gender quotas for company boards, we do not believe that gender diversity will crowd out other qualifications.

As a long-term global investor, we are also concerned that companies with boards that are not diverse will not be able to maintain the trust of their customers, investors and society at large over time.

This position will serve as a basis for our discussions with company boards.