



The benefits of gender diversity for investors

Although most women in Canada received the right to vote 100 years ago, gender discrimination and inequality still exist, as women continue to be underrepresented in a number of areas. In particular, one area in which progress remains slow is with appointments to senior management positions and directorships of Canadian companies. This is perplexing given the growing body of evidence that indicates there are significant economic benefits for companies that are more diverse.

The positive impact of gender diversity

Having a more gender-diverse workforce is not only the right thing to do from a societal perspective; it is also good for business. Research illustrates that companies that effectively manage diversity and inclusion achieve superior financial results¹ and corporate performance. In 2016, for example, the International Monetary Fund (IMF) published a study² of more than two million companies in Europe. The study shows a strong link between gender diversity in senior corporate positions and financial performance. In particular, the study identifies two potential areas of greatest impact:

- Where women comprise a larger proportion of the labour force (such as the services sector);
- Where critical thinking skills are important (such as high-tech and knowledge-intensive sectors).

By the same token, board diversity also adds value. Larger representation of women can introduce new approaches, views and beliefs. This adds to the range of perspectives in decision-making processes.

A recent study shows that boards with membership of at least 30% women tend to foster an environment for innovative ideas at board meetings³. That in turn mitigates the risk of groupthink and improves the quality of strategic decisions. As a result, companies with diverse boards tend to have lower volatility, better operating performance and invest more in research and development (R&D)⁴.

The benefits of gender diversity in corporate boardrooms go beyond the company's financial bottom line. Gender diversity also positively impacts such issues as governance, sustainability and corporate social responsibility. For example, a research paper by MSCI found that companies with fewer women on their boards had a higher-than-average number of governance-related controversies. At the same time, more gender-diverse boards had fewer instances of fraud⁵.

Numerous studies⁸ link diversity to indicators of profitability and financial health, including:



Accounting returns



Earnings Per Share (EPS)



Earnings Before Interest and Taxes (EBIT) margins



Gross and net margins



Investment performance



Market performance



Market value



Return on Assets (ROA)



Return on Equity (ROE)



Return on Sales (ROS)



Revenue



Sales growth

Boards with at least

30% women

tend to foster an environment for innovative ideas at board meetingsⁱⁱⁱ.

Another recent study⁶ suggests firms with gender-diverse boards commit fewer financial reporting mistakes. Moreover, increased female representation on boards has a direct, measurable effect on corporate environmental sustainability practices⁷. For example, a more diverse board tends to increase the likelihood of voluntary climate change disclosure.

The push from investors

The push for increasing gender diversity on public company boards has gained traction in recent years. Advocacy groups, asset managers and owners, regulators and even public companies themselves have acknowledged the need for more diverse boards, and as a result public companies face growing pressure to do something about it.

Over the last decade, asset managers and owners as well as public companies launched various campaigns and initiatives to promote gender diversity on boards. Individually, some of the largest institutional investors have engaged with public

companies on this issue. In many cases, investors have withheld votes from directors at companies that failed to address such concerns⁹.

At the same time, investors are coordinating efforts to collectively pressure companies to take action. One high-profile and widely recognized global campaign is the 30% Club. The 30% Club advocates for greater representation of women on the boards of large companies through localized chapters across the globe. It was launched in 2010 in the United Kingdom and is now present in the U.S., Australia, Canada, and many other developed and developing countries. The 30% Club's vision is to achieve gender balance on boards to encourage better overall leadership and governance. The 30% Club does not advocate the use of mandatory quotas for companies. Rather, the group supports a voluntary approach, with voluntary targets, to achieve sustainable change.

RBC GAM's approach to advance diversity in the market

RBC Global Asset Management (RBC GAM) is a member of the 30% Club Canadian Investor Group, the Canadian chapter of the 30% Club, and a signatory to its Statement of Intent. Accordingly, RBC GAM has clear guidelines in place to support the goal to have all companies on the S&P/TSX Composite Index achieve the standard of at least 30% women representation on boards and in senior management roles by 2022.

As a first step, RBC GAM has updated its proxy voting guidelines in 2018 to convey the expectation that companies lacking female representation on their board adopt diversity policies that:

- Commit to increasing board gender diversity;
- Set clear targets to do so over a reasonable period of time.

This updated guideline triggered several informative engagements throughout the year. These meetings provided further insights as to how many of RBC GAM's investee companies are considering gender diversity. RBC GAM and its Corporate Governance and Responsible Investment (CGRI) team will continue to further enhance the guidelines as well as contribute to the goals of the 30% Club and the 30% Club Canadian Investor Group.

For more information on RBC Global Asset Management's approach to responsible investment, visit www.rbcgam.com/cgri

¹ McKinsey & Company, "Delivering through Diversity"; Credit Suisse AG "The CS Gender 3000: The Reward for Change"

² IMF Working Paper, "Gender Diversity in Senior Positions and Firm Performance: Evidence from Europe"

³ Carolyn Wiley and Mireia Monllor-Tormos, "Board Gender Diversity in the STEM&F Sectors: The Critical Mass Required to Drive Firm Performance"

⁴ Gennaro Bernile et al., "Board Diversity, Firm Risk and Corporate Policies"

⁵ MSCI ESG Research, "Women on Boards: Global Trends in Gender Diversity on Corporate Boards"

⁶ Aida Sijamic Wahid, "The Effects and the Mechanisms of Board Gender Diversity: Evidence from Financial Manipulation"

⁷ Walid Ben Amar et al. "Board Gender Diversity and Corporate Response to Sustainability Initiatives: Evidence from the Carbon Disclosure Project"

⁸ Catalyst, "Why Diversity and Inclusion Matter: Financial Performance"

link: <https://www.catalyst.org/knowledge/why-diversity-and-inclusion-matter-financial-performance>

⁹ PwC Governance Insights Center – PwC's 2018 Annual Corporate Directors Survey, "The evolving boardroom: Signs of change"

This document is provided by RBC Global Asset Management (RBC GAM) for informational purposes only and may not be reproduced, distributed or published without the written consent of RBC GAM. This document does not constitute an offer or a solicitation to buy or to sell any security, product or service in any jurisdiction. This document is not available for distribution to people in jurisdictions where such distribution would be prohibited.

RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management Inc. (RBC GAM Inc.), RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (UK) Limited, RBC Investment Management (Asia) Limited, and BlueBay Asset Management LLP, which are separate, but affiliated subsidiaries of RBC.

In Canada, this document is provided by RBC GAM Inc. (including Phillips, Hager & North Investment Management) which is regulated by each provincial and territorial securities commission with which it is registered. In the United States, this document is provided by RBC Global Asset Management (U.S.) Inc., a federally registered investment adviser. In Europe, this document is provided by RBC Global Asset Management (UK) Limited, which is authorised and regulated by the UK Financial Conduct Authority. In Asia, this document is provided by RBC Investment Management (Asia) Limited to professional, institutional investors and wholesale clients only and not to the retail public. RBC Investment Management (Asia) Limited is registered with the Securities and Futures Commission (SFC) in Hong Kong. Any funds/ strategies referenced in this document are not registered in, nor may be sold, issued or offered in Hong Kong, China, Singapore, Korea or Taiwan and this document does not contemplate the marketing, offer, issue or sale of any funds/ strategies in these jurisdictions. This document has not been reviewed by, and is not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the above-listed entities in their respective jurisdictions. Additional information about RBC GAM may be found at www.rbcgam.com.

This document is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when printed. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information.

Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future results or events. Forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties. Do not place undue reliance on these statements because actual results or events may differ materially from those described in such forward-looking statements as a result of various factors. Before making any investment decisions, we encourage you to consider all relevant factors carefully.

