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Questions and answers regarding the Swedish Corporate Governance Board's efforts to improve gender balance on the boards of listed companies

Why is the Swedish Corporate Governance Board so engaged in the issue of gender balance on the boards of stock exchange listed companies?

Ever since the first version of the Swedish Corporate Governance Code was introduced nine years ago, listed companies have been urged to strive for an equal distribution of genders on their boards, so this is not a new goal for the Corporate Governance Board.

But we have seen that the development towards equal gender distribution has proceeded too slowly, and that a number of nomination committees have not taken the requirement to report on their work regarding diversity and gender balance seriously. Good corporate governance includes a commitment to sustainability, and company boards need to have access to all the competence available.

What is it in your revised rules that you claim will lead to more women being elected to company boards?

The Corporate Governance Board's initiative comprises three parts – clearer principles, tightened regulation and supporting activities.

The principle foundation of our initiative is that, in order to be run efficiently and effectively for their shareholders, listed companies need to earn the confidence of the general public by behaving in a responsible and sustainable manner, and this includes gender equality aspects. Additionally, we have noted that an increasing number of shareholders place greater emphasis on gender equality. Pursuing greater gender equality provides the broadest possible recruitment base. Companies need to secure a licence to operate and access to capital and competence.

We are also tightening the regulatory requirements for nomination committees, which are led by shareholders. They will now be required to:

- analyse the board evaluation in a gender balance perspective,
- explain and justify their proposed candidates to positions on the company board against the background of the Code's requirement to seek an equal gender distribution on the board in connection with the notice of the shareholders' meeting,
- report to the shareholders' meeting on how they have worked to try to achieve an equal gender distribution on the board, making it an agenda item at the shareholders' meeting.

We point companies in the right direction with the principles, bring the issues into the spotlight with the rules and will both support and monitor the work that is done. Responsible shareholders must now take action, and we believe that they will.

Improving the positions of women in companies is a much broader issue than electing directors to the board, however. Many listed companies run ambitious gender equality programmes and activities to broaden the recruitment base for executive and board positions, and we hope that others will follow suit.

Isn't this mostly an expression of a desire to be politically correct, with no guarantee that the gender imbalance on company boards will not continue to exist?

No, the Corporate Governance Board has increasingly seen poor gender balance and the reluctance to work methodically with the issue and report properly on how it is being addressed as a problem that needs to be solved. We firmly believe that these measures will provide results. But obviously we can not issue any guarantees about the future.

What is an “acceptable” gender ratio on the board of a listed company?

From the very start, the Swedish Corporate Governance Code has required nomination committees to strive for an equal gender distribution. The ratio of women employed in listed companies is below 40 per cent and the proportion of women at executive level is lower. Today, the average figure for women is around 30 per cent in large companies and over 25 per cent on the boards of all listed companies.

We believe that the pace of development towards an equal distribution of genders on the boards of listed companies as a whole should be increased, which means that neither gender should have a lower average ratio that approximately 40 per cent. Obviously this may vary between different individual companies.

Is the Corporate Governance Board's goal to achieve a minimum of 40 per cent women on every listed company's board by 2020?

We want to see the proportion of women on boards of listed companies as a whole reach around 40 per cent by 2020. This is the level of ambition that we believe that shareholders who appoint nomination committees should have.

The figure is for listed companies as a whole, an average figure rather than every single company. People must realise that there may be large differences between companies, depending on factors such as ownership structure, sector or field of technology.

The level ambition is set at approximately 40 per cent simply because the issue must never be trivialised by being reduced to an exact figure of 39.9 or 40.1 per cent. The main point is that all shareholders in listed companies should endeavour to find the best competence and live up to the Code's, an increasing number of shareholders' and society's demands for gender balance on company boards. Listed companies should therefore reach an overall level of around 40 per cent.

And while we aim to achieve this in 2020, we would be happy for it to occur in 2019 and we would not regard it as a failure if it is realised in 2021.

Large corporations led the way when the Code was introduced and should do so now too. As a sign that things are heading in the right direction, we would like to see large companies (Large Cap) reach an overall level of around 35 per cent in 2017 – and the average overall level approaching around 30 per cent.

These changes to the Code are aimed primarily at nomination committees, which propose candidates for election to the company board. But if a nomination committee doesn't succeed in creating a board that is at least 40 per cent women, what is it to do?

In my eyes, it should begin by trying again and again. But of course situations can arise in which gender balance cannot be achieved in the committee's proposal, and perhaps it should not, given the individual company's particular circumstances. The committee must then report to the shareholders' meeting on why its work resulted in this proposal.

I hope such reports will generate interest in the many positive examples of gender equality work that already exist within companies to broaden the recruitment base for board positions in the long term. Perhaps it will also influence who shareholders choose to represent them on nomination committees.

There have been calls from politicians for legislation to establish gender quotas on the boards of listed companies. Are these revisions to the corporate governance rules simply a way to try to avoid legislation?

As we have previously announced, we are in the middle of a process to revise the Swedish Corporate Governance Code and have received many ideas and suggestions from round table conferences, consultation documents and a large conference. As this issue is of greater interest in public debate than many of the other questions of a more technical nature within corporate governance, it has been prioritised.

Obviously I assume that these revisions, the commitment of many shareholders and the active work of the Corporate Governance Board will mean that legislation will not be considered. It would be a serious restriction of proprietary rights if legislators began to decide on the composition of the boards of individual companies.

Why is the Corporate Governance Board against quotas? They work fine in Norway.

This is not a question of goals, but the means to achieve them. Like most people, the Corporate Governance Board agrees with the ambition to achieve gender balance on the boards of listed companies.

Given a choice, we would not like to see any legislation that restricts proprietary rights. It must be the shareholders, i.e. the owners, of each individual company to decide who is to represent them on the board and manage their property. This human right and accepted principle that has served Swedish growth and development so well should not be jeopardised.

Nor do we want to introduce quotas into the Code ourselves. Such a rule would be a blunt instrument with no respect for the legitimate differences between individual companies. It

would be inappropriate to impose quotas for every company through the Code, as their individual circumstances can vary greatly.

But if voters want a law on quotas, won't politicians ensure quotas are introduced?

The debate on legislation regarding quotas as a means to an end is not primarily about gender balance on the boards of listed companies, which is something we all want. There are other values at stake: Swedish prosperity and proprietary rights.

Our country's prosperity is dependent on our having successful companies. Crucial to this are taxation and legislation. The Swedish model contains a significant degree of responsible self regulation. This is a model that has served Sweden well for decades. Legislation on the composition of company boards would be a dangerous departure from the Swedish model.

Proprietary rights are a fundamental human right, recognised in the UN Declaration on Human Rights. They mean that the owners of a listed company or a family business have the right to decide who on the company board has the right to manage their property. This is no stranger than the concept of the freedom of association. In political, trade union and non-profit organisations, as well as in cooperatives and economic associations, the members and their representatives have the power to decide who is elected to the board. It is not the role of the state to dictate quotas, whether they be for cooperatives or trade associations or sports clubs or trade unions or family businesses or listed companies. The right of ownership is a cornerstone of a market economy, and the market economy has served Sweden well by providing a platform to enable the positive development of our welfare state.

How great is the risk that these modified rules will not lead to any changes at all in practice?

I believe that risk to be very low. The Corporate Governance Board will be working actively to ensure that these rules have the desired effect and will be monitoring developments closely. A failure to achieve results would be a major blow to self regulation in the corporate sector.

Why are these changes being made now?

They are being introduced now because we have concluded our deliberations now. But of course the public debate and interest surrounding this issue pushed it up the agenda so that it was prioritised in our work to update the Code.

Is this the Corporate Governance Board's response to Swedish Minister of Finance Anders Borg's ultimatum to introduce quotas or face the prospect of legislation?

Yes and no. No because the Corporate Governance Board has been working with this issue for quite some time, and because this is the Board's decision and no one else's. Yes because the Minister of Finance asked for a response and has now received one.

Will the Minister of Finance consider this sufficient?

We hope so. But you need to ask him that question.

Do you really believe that the Social Democratic Party will now abandon its promise to introduce legislation on quotas for the boards of listed companies?

As we understand it, the Social Democrats want to see tangible change, starting now. They should see that with these initiatives. We hope that they agree that improve self regulation is preferable to legislation. But that is a question for them to answer.

Has the Corporate Governance Board actually done a deal with the Government and the Social Democratic opposition to bring about this solution?

We have listened actively to those we represent in the corporate sector, but also to leading politicians. But we have not negotiated. We believe this is the way forward, and it is our sincere hope that decision makers in the business community and in the political sphere share our belief.

Why haven't you taken this matter seriously before?

This is a matter that the Corporate Governance Board has always taken seriously. From its very beginning, the Corporate Governance Code has stipulated that companies are to strive to achieve gender balance. Four years ago, this was underlined by the addition of a requirement for nomination committees to explain their proposals in the light of this stipulation. But we believe we need to increase pressure on nomination committees so that listed companies meet the demands for sustainability and responsibility and do not miss out on the competence they need.

Who in your group had the original idea to tighten up the Code in a final effort to avoid mandatory gender quotas?

We are a board for corporate governance and we work collegially, with collective responsibility. Many members of the Corporate Governance Board have contributed actively, and we are unanimous in our support for these modifications to the Code.