WOMEN ON BOARDS REPORT

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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SECP

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Corporate Boards across the world have traditionally been male-dominated. A growing body of international research shows that the presence of women on boards and in business leadership can have positive effects on the management and financial performance of companies. Resultantly, there is an increased global focus on creating boards that are more gender diverse and several countries have taken regulatory measures to ensure such diversity.

In 2017, Pakistan also introduced measures aimed at increasing such diversity. Through data available for 2019, that has now been collected collectively by the Securities and Exchange Commission of Pakistan (SECP) and the Pakistan Stock Exchange (PSX) , it is clear that the new regulation has had a positive impact towards creating more gender diverse boards in Pakistan. The increased gender diversity also seems to have brought with it positive effects on the financial performance of companies.

Nonetheless, Pakistan still lags behind, compared with the rest of the world. Given that there is potential in this area, Pakistan can take additional measures which will bring it at par with the world in terms of gender diversity on boards and also bring with it, real benefits to its companies in line with global trends.

The report has been compiled on the basis of research conducted jointly by a team of SECP and PSX, led by Ms Saima Ahrar and including Ms Maham Nawaz, Ms Shahana Bano, and Ms Mehreen Anwar from SECP and Mr Farhan Ali Mir from PSX under the guidance of Ms Sadia Khan, Commissioner, SECP to provide information for further research and analysis into the positive impact of enhanced gender diversity within the corporate sector in Pakistan.

INTRODUCTION

Gender diversity on boards is a global issue which has garnered a lot of attention, especially over the past decade. Pakistan lags behind severely in this respect.

The Companies Act 2017 sought to remedy this by inserting a new provision in this respect. Section 154 of the Act requires all public interest companies to have female representation on their boards as may be specified by the SECP.

The SECP has implemented this through the Listed Companies (Code of Corporate Governance) Regulations 2017, Regulation 7, which requires all listed companies to have at least one female director on their boards. Non-compliance attracts a penalty of up to five million rupees; and where the contravention is a continuing one, a further penalty up to one hundred thousand rupees per day may be imposed (Regulation 37).

There has been no detailed research into the impact, if any, that the introduction of this requirement has had on gender diversity on boards in Pakistan. A team of SECP and PSX officials was thus put together to measure this impact after two years of the regulation being in effect .

For this purpose, data detailing the total number of directors, number of women directors, number of women in C-suites positions as well as the return on asset, and return on equity was collected for all listed companies, for the years 2015, 2017 and 2019. The study analysed the increase, if any, in the proportion of women directors, chairpersons and c-suites over the years; and any corresponding link to financial performance of the companies that may be visible. It additionally compared these statistics across different sectors. A comparison with the latest international data and research into the business case for women directors was also made.

This Report details the results of the study and makes recommendations for further regulatory and other measures to be taken on the basis of its findings.

The Regulation came into effect in November 2017, to be implemented within a year from this date or when the board is next reconstituted.

A BUSINESS CASE FOR WOMEN ON BOARDS

It is now widely recognized that gender diversity on boards is more than just a cause for gender equity: it brings real and measurable advantages to firms. Companies with gender-diverse management teams have been proven to consistently perform better and be more profitable than those without. There is overwhelming evidence to support the value of having more women in senior leadership positions and hence a business case for having more women directors on boards.

Some of the prominent advantages that women directors bring include:

- More diligent oversight;
- Greater independence leading to better focus on stakeholder interests;
- Consistently better performance and profitability than companies with less gender-diverse boards;
- Higher ranking on corporate social responsibility and ethical orientation;
- Improved corporate branding;
- Better ability to attract and retain top talent; and
- Better ability to grow and maintain their competitive advantage.

Leadership skills are essential to good corporate governance. Research from top leadership experts shows more women than men being rated as “better overall leaders”, at every level of leadership, by peers, bosses, direct reports, and other associates alike. Moreover, women are rated higher than men in 12 of the 16 competencies that go into outstanding leadership.

Perhaps the most important finding which has been consistent across various studies, is that there is a correlation between having women on boards and in executive management, and strong financial performance. Research conducted by multiple prominent academics as well as institutes such as the MSCI, McKinsey and Co., Deloitte and Credit Suisse Research Institute have repeatedly reached this conclusion.

In a recent survey of 366 public companies across a range of industries in Canada, Latin America, the United Kingdom and the United States., the consulting firm McKinsey & Co. found that those with a balanced number of men and women in leadership were more profitable than companies without gender equity. Specifically, companies in the top quartile for gender diversity were 15% more likely to have financial returns above their national industry medians. McKinsey found that businesses with an equal number of male and female leaders are more skilled at recruiting and keeping top talent, which reduces the expense of losing high-level executives. This

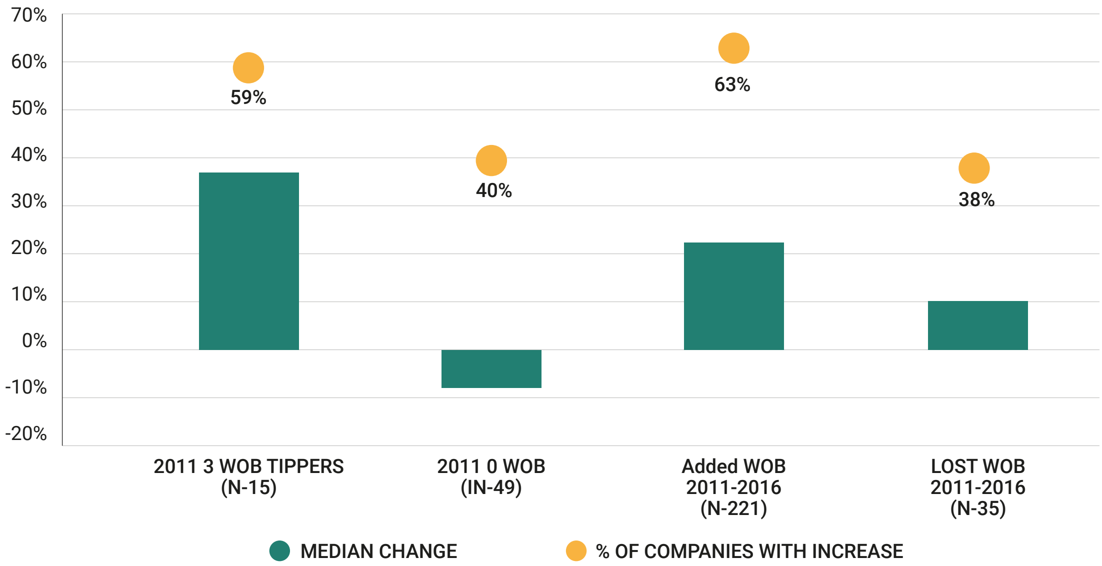
A detailed business case first appeared in the local context in “Corporate Governance Landscape of Pakistan” edited by Sadia Khan, published by Oxford University Press in January 2017.

lends additional credence to the earlier research conducted by Credit Suisse post the 2008 financial crisis that had found that companies with more gender diverse teams performed better.

Another example is the MSCI Women on Boards Progress Report 2016, titled ‘The Tipping Point: Women on Boards and Financial Performance which found that ‘companies that added women to the board consistently had correlations with stronger financial metrics over the sample period’. In particular, the Report noted that companies that attained at least three women on their board in 2011 saw a median change in Return on Equity (ROE) of 10 percentage points and in Earnings Per Share (EPS) of +37 percent by 2016, while companies with zero women on the board in 2011 saw median changes of -1 percentage point and -8% respectively over the same period. (Exhibits 1 and 2)

However, diversity is not a numbers game alone. Instead, it must be evaluated based on the opportunities women get and the challenges they must navigate, across all ranks and at every stage of their professional advancement. Improvements in financial performance are only significantly apparent where firms also foster an inclusionary climate to leverage the benefits of diversity towards better performance. Multiple studies have shown that there is more scope for board dynamics to shift positively when there are at least three female directors. This tipping points enables the women directors to be perceived as more than just representatives of their gender and play a more proactive role in board deliberations.

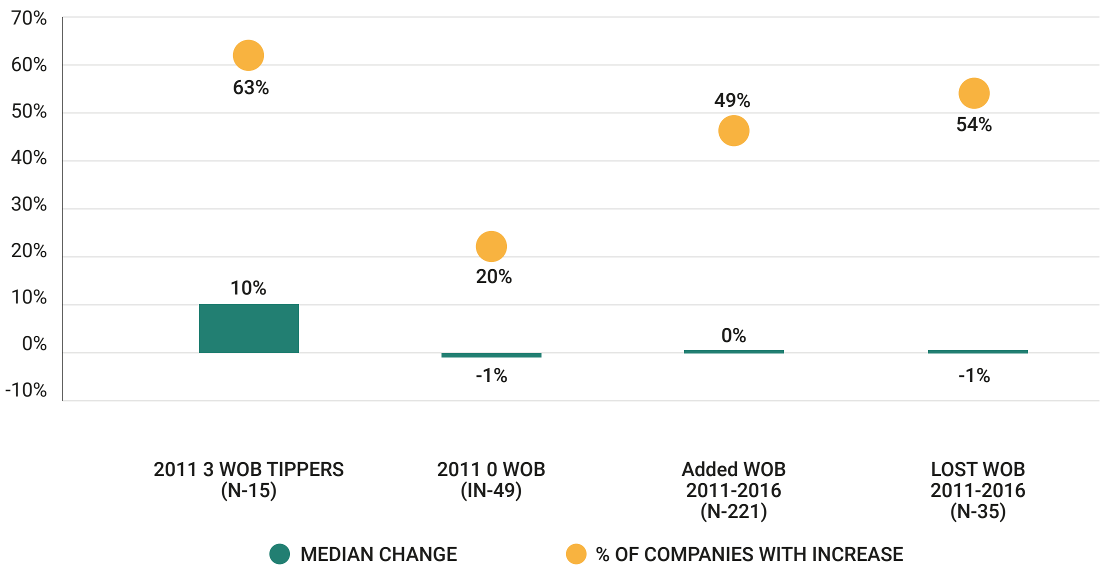
Exhibit 1: Five-Year Earnings Per Share (EPS) by Number of Women Directors



Source: MSCI ESG Research

The Chart Compares the five-year EPS performance of four groups of companies: 1) those that reached the "tipping point" of three women on the board (WOB) in 2011;2) those that had zero women on the board in 2011;3) those that added any number of women between 2011-2016; and 4) those that lost any number of women between 2011-2016.

Exhibit 2: Five-Year Return on Equity (ROE) by Number of Women Directors



Source: MSCI ESG Research

The chart compares the median five-year ROE change)in percentage points) of four groups of companies; 1) those that reached the "tipping point" of three women on the board (WOB) in 2011; 2) those that had zero women on the board in 2011; 3) those that added any number of women between 2011-2016; and 4) those that lost any number of women between 2011-2016.

THE GLOBAL CONTEXT

In light of the business advantages of having woman directors as noted above as well as for reasons of attaining gender equity, several countries have initiated measures aimed at achieving greater female representation in decision making positions.

The regulatory responses are primarily of two types: either making the presence of women on boards mandatory; or setting voluntary ratios coupled with 'comply or explain' provisions. These are also often combined with soft targets of reaching a specified gender diversity target by a certain year.

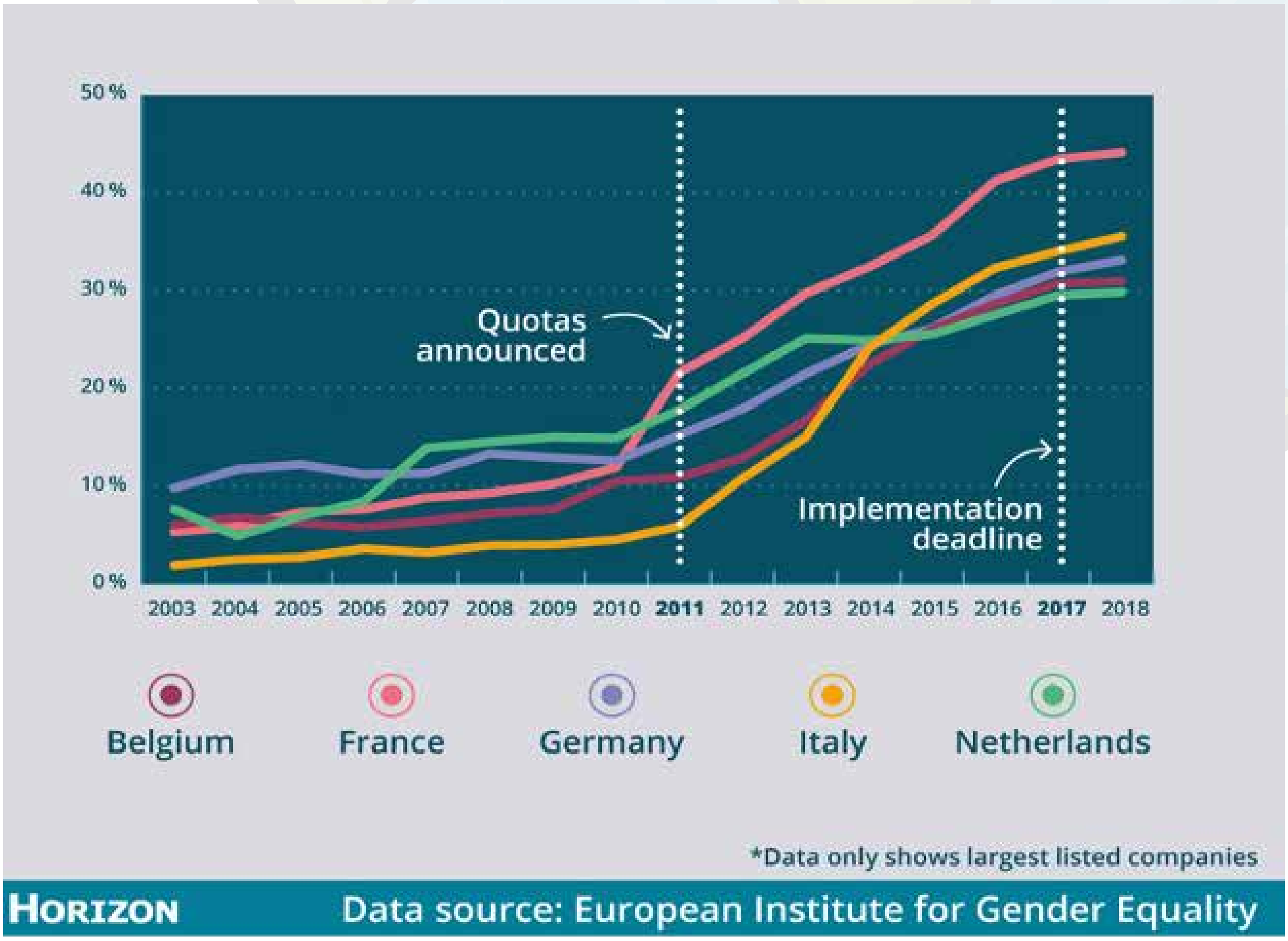
Israel was the first country to pass a law in April 1999 making mandatory the presence of at least one woman on the board of publicly traded companies. In Europe, Norway was the first country to enact a gender quota legislation providing for all boards to have 40 percent female representation by the year 2008; Firms risk dissolution if they do not comply. Several other nations followed suit, including France, Belgium, Spain and Italy. The minimum female representation required varies from 33 to 40 percent.

Countries that have set requirements in the form of comply or explain provisions include Luxembourg, Finland, Netherlands and Malaysia, among others. In the United Kingdom, a soft, voluntary ratio of at least 25 percent female representation on FTSE100 boards was recommended in 2011, later amended to 33 per cent in 2015; FTSE250 were also advised to achieve this by 2020.

As per the latest global statistics from a 2018 report compiled by Deliotte, women now hold 16.9 percent of the board seats worldwide; 5.3 percent of the board chair positions; 4.4 percent of the CEO roles; and 12.7 percent if CFO roles.

However, as evident from Exhibit 3 below, the introduction of regulation has been the single largest catalyst for increase in the presence of women on boards. Eight of the thirteen countries averaging three or more women have quotas or regulations in place requiring the hiring of women. Norway has the greatest level of gender equity on boards with women holding 41 percent of the board seats. France and Sweden follow closely with 37 and 33 percent respectively.

Exhibit 3: Share of Women on Corporate Boards 2003-18



RESEARCH RESULTS FROM PAKISTAN

Data from Pakistan show a definite positive impact of the 2017 Regulations on board gender diversity in the listed companies. This impact can be seen primarily across three variables: the number of women on boards, the number of independent women directors and as chairpersons.

Women directors have increased by 3 percent since the regulations were introduced: from 8.8 percent in 2017 to almost 12 percent in 2019 (Exhibit 4). Considering that the percentage remained almost constant between 2015 and 2017, the increase seems to have been driven by the introduction of the 2017 Regulations. The Regulations also seem to have caused a proportionate increase in the number of female independent directors. In 2015 and 2017, the number of such directors was almost constant, at 17 and 16 respectively; however, it has increased to 51 in 2019 (Exhibit 5). At the same time the number of Chairwomen increased from 24 to 33 (an increase of 37.5 percent). However, it is disconcerting to note the downward trend in the number of senior women occupying C-suite positions and this has direct implications for the lack of a healthy corporate pipeline of future business leaders.

The proportion of listed companies with women directors also shows an increase from 31 percent in 2017 to 58 percent in 2019 (Exhibit 6). Between 2015 and 2017, the increase was only of 3 percent. Listed companies with at least one woman director have increased from 84 in 2017 to 163 in 2019. However, companies with two women directors remained constant at about 40 from 2015 to 2019; and those with three or more at 27-30 (Exhibit 7). These figures show that while regulation has driven an increase in women on boards, most companies chose to only do the bare minimum and comply with the Regulations rather than appoint women over and above the number required by law. Further, it is notable that a sizeable 42 percent of the listed companies still remain without any woman director in 2019. This is primarily due to their election cycle not having completed three years since the introduction of the regulation. It is hoped that the next time this data is compiled, the number will be closer to 100 percent.

Across sectors, Financial, Textile, Manufacturing, Pharmaceutical and Chemical, Engineering and Automobile, and Energy seem to show the greatest increase in number of women directors. Textile and Manufacturing have the highest number of woman directors, 75 and 74 respectively. With respect to the proportion of female chairpersons, Textile once again shows the greatest increase: from 8 in 2017 to 13 in 2019 while the Energy Sector also doubled its number of women Chairs. Other sectors either remained constant or changed slightly; and the same can also be said of the number of female c-suites across all sectors. (Exhibit 8 and 9)

Perhaps the most important finding that can be made from the data collected from Pakistan is that there is a clear correlation between gender diversity on boards and financial performance of listed companies.

Listed companies were segregated into those with and without women on their boards and the average return on assets (ROA) and return on equity of both groups calculated. The results, as shown in Exhibit 10, show that the financial performance of companies with women is higher in both 2017 and 2019.

We then looked at these returns on a sector basis. The percentage by which these values are higher, varies from sector to sector, but the correlation is more than clear as seen in Exhibits 11 and 12.

Some of the sectors showing the greatest increase in the number of women on boards show a corresponding increase in ROA and ROE. These include the Financial, Textile, and Engineering and Automobile sectors. Once again, the increase is more pronounced in some sectors than others. It is also clear that the only two sectors where the number of woman directors remained constant, show the greatest decrease in financial performance from 2017 to 2019, i.e. Healthcare and Miscellaneous. The only sector not displaying the same trend is Manufacturing, which could be a result of other extraneous factors including the general slowdown in the economy during this period.

In order to delve further into this, we took two of the sectors with a meaningful presence of women directors and those that have posted the higher percentage increase between 2017 and 2019, i.e. the Textile and Financial sectors and compared the 2019 results of companies within these sectors; those with gender diverse boards and those without. The results presented in Exhibit 13 again show a correlation between the presence of women directors and better performance of these companies.

Overall the results indicate a strong correlation between better financial performance and greater female representation in decision making, compared across various sectors as well as compared across companies within the same sectors.

Exhibit 4: Number of Women Directors as a Percentage of the Total Number of Directors

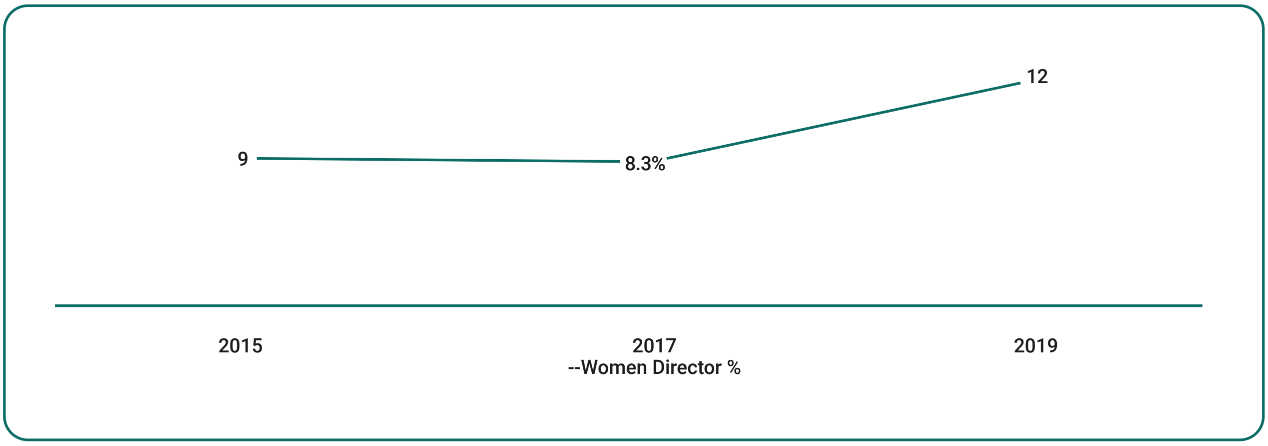


Exhibit 5: Snapshot of Women on Boards and in Business Leadership Roles in Listed Companies

Year	Total Directors	Total Female Directors (%age)	Independent Female Directors	Non independent Female directors	No.s of companies surveyed	Chairperson	C-Suite
2015	2,792	252 (9%)	17	235	364	22 (6.04%)	36 (10%)
2017	2,901	255 (8.8%)	16	239	372	24 (6.45%)	33 (8.87%)
2019	2,998	347 (11.57%)	51	296	381	33 (8.66%)	28 (7.34%)

Exhibit 6: Percentage of Listed Companies with and without Women Directors by Year

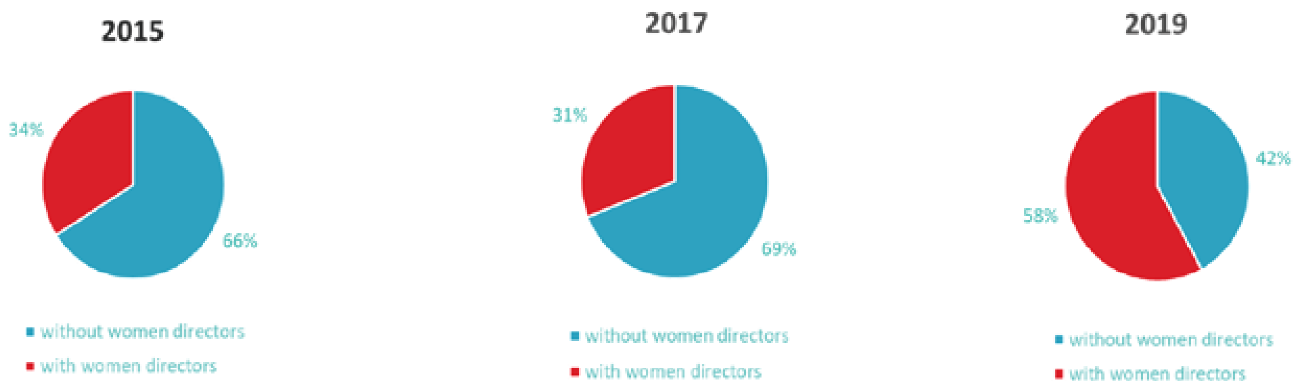


Exhibit 7: No. of Listed Companies with Women Directors by Year

Year	With one woman	With two women	With three and more women
2015	65	37	27
2017	84	40	21
2019	163	40	28

Exhibit 8: Number of Women Directors by Year

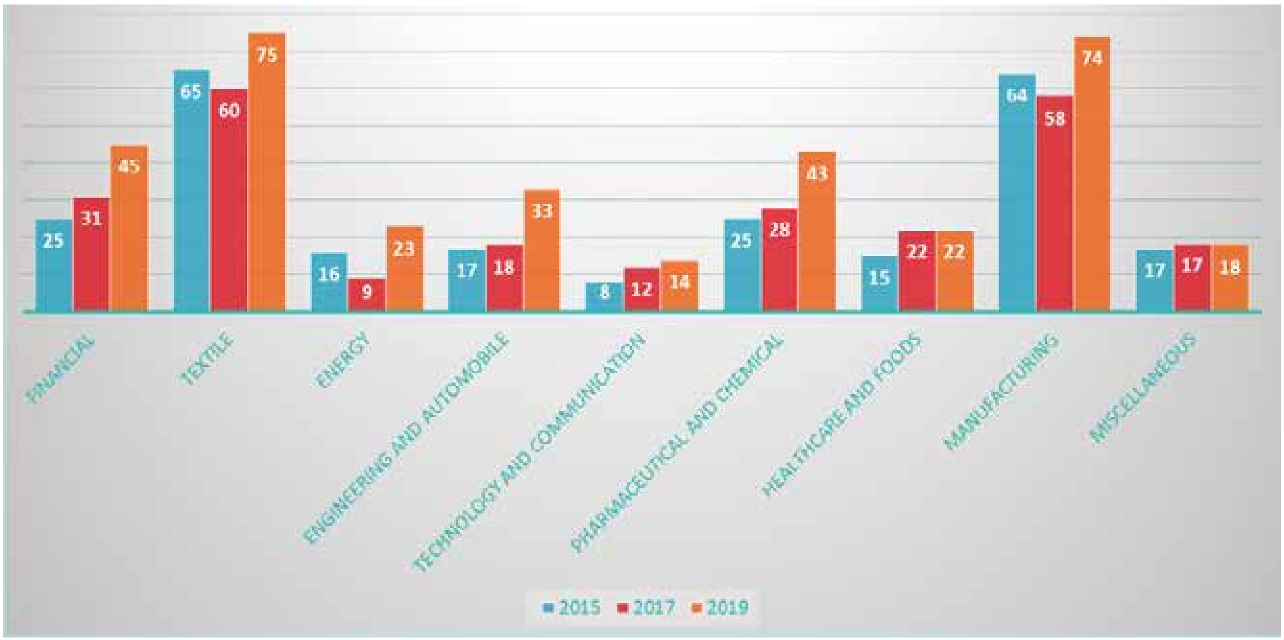


Exhibit 9: No. of Women Chairpersons and C-Suites by Sector

S.No	Sector Name	Chairperson			C-Suite		
		2015	2017	2019	2015	2017	2019
1.	Financial Sector	3	4	4	9	10	6
2.	Textile Sector	8	8	13	6	5	6
3.	Energy Sector	3	3	6	6	2	2
4.	Engineering/Automobile	1	1	2	4	3	4
5.	Technology & Communication	1	1	1	-	-	-
6.	Pharmaceutical/Chemical	2	2	2	3	3	3
7.	Health care & foods	1	1	1	2	3	3
8.	Manufacturing Sector	3	4	4	5	4	5
9.	Miscellaneous	-	-	-	1	-	-
	total	**22**	**24**	**33**	**36**	**33**	**28**

Exhibit 10: Average Financial Performance of Companies with and without Women Directors

	ROA of Companies without women (%)	ROA of Companies with women (%)	ROE of Companies without women (%)	ROE of Companies with women (%)
2017	2.40	3.10	13.54	18.78
2019	1.73	2.86	9.4	14.83

Exhibit 11: Number of Women Directors and Sector-wise Financial Performance

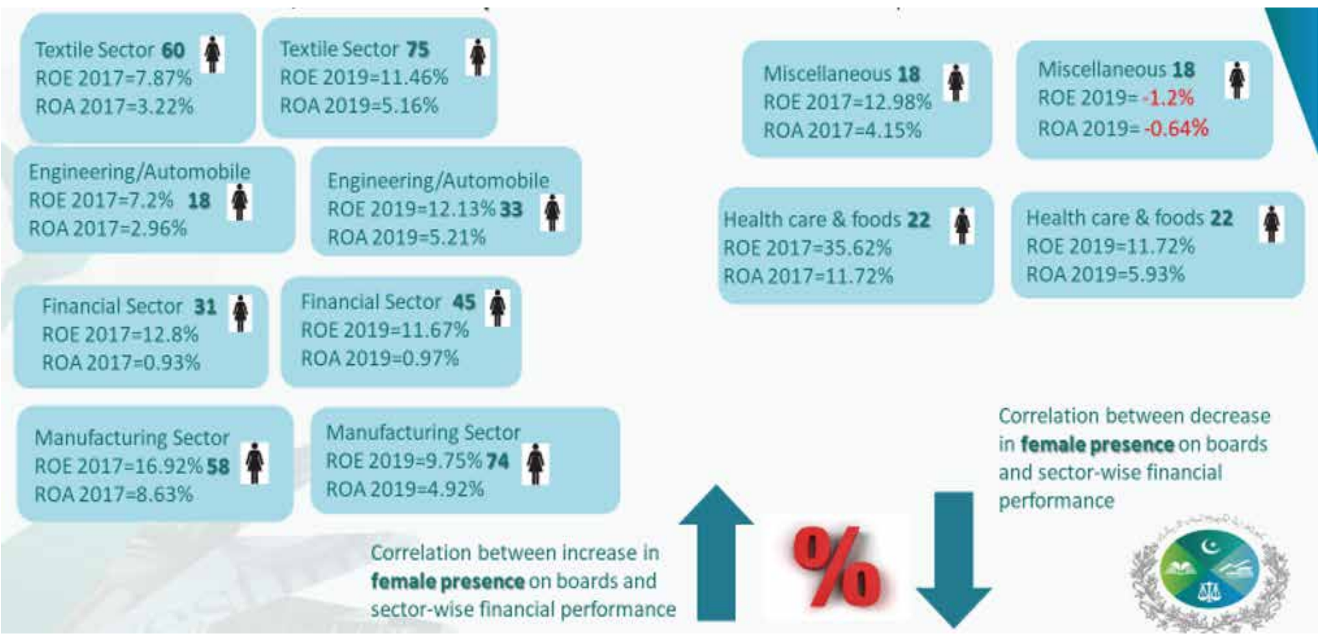


Exhibit 12: Sector-wise data from 2019

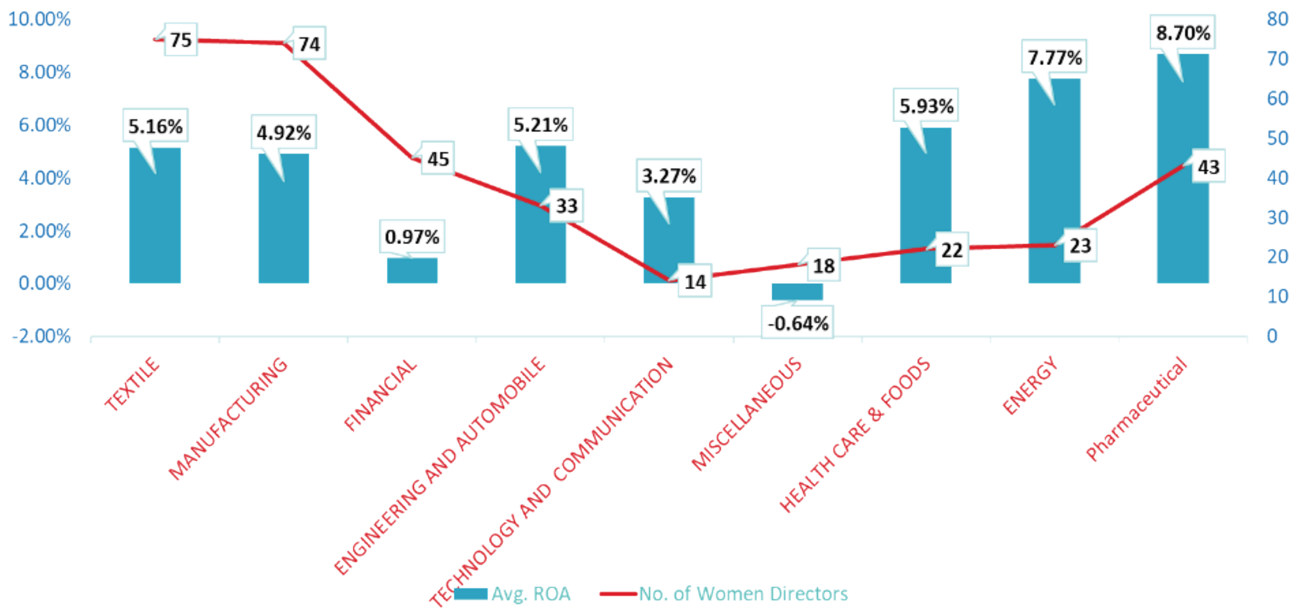


Exhibit 13: Comparison of Companies with and without Woman Directors in Selected Sectors

2019

Without Women	With Women
Textile Sector (38 Companies)	**Textile Sector (43 Companies)**
ROA = 4.69% **ROE = 9.52%**	**ROA = 6.41%** **ROE = 16.29%**
Financial Sector (57 Companies)	**Financial Sector (39 Companies)**
ROA = 0.85% **ROE = 11.51%**	**ROA = 1.01%** **ROE = 11.77%**

CONCLUSION & RECOMMENDATIONS

The results from Pakistan correspond with those from international studies confirming that the introduction of regulation can have great impact in promoting gender diversity on boards. However, the increase seen in Pakistan, while meaningful, is still far behind global averages (please see Exhibit 14). As mentioned above, it seems that most companies focus on complying with the letter of the law rather than the spirit. Correspondingly, the effects on financial performance brought about by the increased gender diversity while quite apparent, are also less profound than those seen internationally.

We are cognizant of the fact that the conclusions that we have drawn from the figures collected, may still be quite premature and may have also been affected by other variables at play. However, this is a start and the purpose of sharing this report is to encourage other research institutions to conduct similar studies on an ongoing basis.

There is also a school of thought that has justifiable concerns with presenting a business case for gender diversity rather than focusing on the equally important discussion on greater financial empowerment of women and their inclusion in economic decision making. The primary contention is that we are creating unrealistic expectations from women on boards by continuously measuring their financial impact. We expect this cohort of miracle workers to overturn centuries of male dominated decision making by their mere induction on these boards.

On the other hand, it may be argued that this type of study helps to address the current business leaders and decision makers, who are primarily men, by couching the discussion in a language that they understand and appreciate the best, i.e. the impact on the bottom line.
Irrespective of the different point of views on this subject, it is clear from the preliminary analysis, that there is scope for creating a stronger business case for women directors in Pakistan. A few recommendations in this respect can therefore be made.

First, future measures must target the social and cultural attitudes which challenge the meaningful presence of women in boardrooms despite the presence of mandatory quotas. However, changing mindsets is not an easy task. It requires constant advocacy and persistent change. We see the most meaningful change in international jurisdictions where women also enjoy greater economic inclusion and empowerment.

Leaders looking to maximize the potential of women directors, also need to focus on their corporate pipelines and ensure a work environment conducive to their induction and growth. The tone for inculcating an inclusive work culture has to start from the top and as such having a well-articulated diversity policy, approved at the Board level and implemented under its constant watch would go a long way in sending the right signal to all their stakeholders. Data collection is at the heart of these diversity policies to keep track of the key metrics showing recruitment, retention and promotion along with gender pay gap analysis within the organization. The diversity objectives stated in the policy at the board level must be made a part of the Key Performance Indicators (KPIs) of senior company personnel to ensure that they are applied throughout the company. Besides challenging the prevailing attitudes, this measure will serve to ensure the increased presence of women in the corporate pipeline. Clearly, the absence of qualified women in the pipeline is a hinderance to the appointment of more women in leadership positions. It also leads to tokenism, i.e. women appointed merely to fulfill the letter of the law.

Measures included in the Diversity policies that are conducive to retention of female talent include provision of day care centers, better maternity leaves, robust anti-harassment and speak-up policies with diverse committees overseeing the complaints, which go a long way in addressing concerns about harassment at the workplace and provide comfort to families that their female family members are working in a safe and healthy environment. There is enough anecdotal evidence to suggest that the presence of women on boards also focusses the boards attention more on these issues.

This anecdotal evidence needs to be converted to disseminated research by the companies themselves in collaboration with academic institutes. Case studies need to be developed with strong female protagonists to document the change and institutionalize the measures already taken. A recognition of the contributions made by women will help to reinforce the message, as well as provide role models and mentoring opportunities for the younger generation.

Some of these initiatives, it is hoped, will also ensure that boards begin to show real interest in appointing more woman directors, rather than just seeking to fulfill the bare minimum. This research and ensuing report is only a start towards focusing on statistics which convince companies that gender diversity can add real value to their business. Research of this kind needs to be promoted and continued. Yearly assessment of the presence of women on boards and in business leadership should be conducted, and the results of the studies made public. Future research also needs to focus on the impact of the recent covid-19 pandemic on the financial performance of firms and whether this was in any way alleviated by the presence of women on boards.

It is important to encourage boards to look beyond the obvious candidate pool present within their close networks. Then only will they achieve true cognitive diversity within their boardrooms. This along with better onboarding and training procedures as well as building the all-important corporate pipeline will ensure that there is a robust pool of resources readily available to fill the demand-supply gap.

In addition, adequate networking opportunities need to be given to senior women by nominating them on various industry forums. The current representation on the majority of such forums is male dominated, denying women an equal opportunity to network and be recognized outside the limited company domain. It is encouraging that a number of corporate awards now focus on diversity within companies. There is a need to increase the weightage given to these diversity initiatives within the overall ratings for such awards.

Once the above measures have been in place for a few years, regulation should look towards increasing the mandatory quota of women on boards, for as noted above, greater gender parity in the boardrooms is needed to truly leverage the benefits of gender diversity.

Exhibit 14: Comparison of Pakistan with the World

PAKISTAN	THE WORLD
Women hold 12 percent of board seats	Women hold 16.9 percent of board seats
Women hold 8 percent of board chair positions	Women hold 5.3 percent of board chair positions
Women hold 1.3 percent of CEO roles	Women hold 4.4 percent of CEO roles
Women hold 1.8 percent of CFO roles	Women hold 12.7 percent of CFO roles

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