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Corporate Governance Unit  
Financial Reporting Council  
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29 July 2011

Dear Chris,

## **FRC CONSULTATION ON GENDER DIVERSITY ON BOARDS**

ACCA (the Association of Chartered Certified Accountants) is pleased to respond to your consultation on gender diversity on boards.

ACCA, as a global professional accountancy body with 147,000 members and 424,000 students in 170 countries, is an active contributor to developments in corporate governance in Europe and around the world. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

### **GENERAL COMMENTS**

ACCA has been concerned for some time about the number of instances where non-executive directors appear not to have managed to restrain executives from making what turn out to be reckless or highly questionable decisions. We think that 'group think' may play a greater role than many realise. Accordingly, we believe that diversity in outlook and thinking should be seen as an integral element of good governance and effective board management. We support initiatives that are likely to stimulate this.

As regards the question of how the concept of diversity should be reflected in the Code, we would caution against too narrow a focus on gender and too strong a reliance on structural factors to bring about the desired effect on thinking and outlook. Clearly, diversity of board composition has the potential to contribute to diversity of thinking though it is no guarantee of it: it is simplistic, in our view, to assume that the addition of one or more women to a previously

all-male board will of itself result in the board acquiring fresh perspectives or ideas which will enhance its performance. We strongly support the emphasis that the Code currently places on the importance of boards having the appropriate balance of skills, experience, and knowledge which will enable them to discharge their duties effectively. We believe that the focus of any new measures at this time should be on integrating the virtues of diversity into this existing framework, rather than to suggest that gender diversity is an end in itself and that new procedures need to be introduced to enforce this.

It is not difficult to see why boards that are fulfilling their duties under the above provision should already be exploring the potential benefits of diversity. Companies exist in order to create value for their shareholders, and they do this by providing goods and services that people want. A board that takes into account all perspectives which are relevant to the production and marketing of its goods and services is likely to be more effective in creating value than a board which does not have vital experience or insights of the attractiveness of its products or the attitudes of its prospective consumers. A board which is diverse in composition – not solely in gender terms - can certainly contribute to the achievement of more effective performance, though as already suggested diversity should not be seen as an end in itself.

In fully accepting the rationale for an enlightened approach to the recruitment of directors, it is also crucial to remember that shareholders, and company chairmen, want the boards of the companies they invest in to be made up of the best collection of people available to ensure the company's long term success – regardless of race or gender. Companies should not be expected to appoint individuals who they would not have considered appointing in the absence of a campaign to increase representation from any particular constituency. We would also make the point that, as in any team environment, it is not sufficient to have the 'best' individuals on a board: the board is a collective entity and it must be put together with this in mind and it must work together effectively.

Lastly, the current specific emphasis on female representation on company boards is to an extent a wider policy issue and as a rule we should not expect boards, or shareholders, to solve complex and long standing societal issues. There are many reasons, besides lack of inclination by existing board members, why women might be under-represented on boards. Some of these will be to do with the work life balance and the long hours culture. There may be additional steps that could be taken within companies to encourage and facilitate career

progress by women. We would support the carrying out of further research on matters such as these, although this should not necessarily be done by the FRC.

## **COMMENTS OF THE PROPOSED POSSIBLE CHANGES TO THE CODE**

As we have suggested to you previously, governance practice can best be improved by companies providing better explanations of how they apply good practice governance principles, which shareholders then use as a basis for more informed engagement. This way shareholders can become more effective in holding boards to account and helping them steer their companies to success.

We consider it is more useful to report on how principles have been applied (eg there should be diversity of thinking on boards) than whether a structural or process requirement has been complied with or not (eg x% of the board are women). We acknowledge that it is easier to monitor the latter but the former is more important, unless the main objective is to have x% women on a board rather than to have an effective board. We should remember that the proportion of women on boards is just a proxy measure of diversity.

We suggest that the FRC proposal (for a provision to ask boards to describe their policy on gender diversity, including measurable objectives and progress on achieving them) lacks an obvious link to long term business performance. In line with our comments above, we suggest it would be better to require boards to have a policy on diversity in thinking and to give a description of how the board assures itself that there is sufficient diversity of thinking to ensure that decisions are properly considered and as far as practicable are free from cognitive bias. Such description could include, but not be limited to, proxy measures such as gender diversity.

We consider that the proposed new supporting principle is not helpful. It would be better to have a supporting principle which relates to the evaluation of the boards effectiveness in ensuring the long term success of the company (see the first main principle of the Code - 'Every company should be headed by an effective board which is collectively responsible for the long-term success of the company'). Naturally this could include consideration of the balance of skills, experience, independence, diversity, how the board works together and other factors relevant to its effectiveness.



We would be pleased to discuss any of the points above with you in more detail. Please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads 'Paul Moxey'.

Paul Moxey  
Head of Corporate Governance and Risk Management