30% Club

GROWTH THROUGH DIVERSITY

Chris Hodge
Corporate Governance
Financial Reporting Council
5th Floor, Aldwych House
71 – 91 Aldwych
London WC2B 4HN

25th July 2011

Dear Mr Hodge

I am writing in response to the Consultation Document: Gender Diversity on Boards (May 2011), on behalf of the 30% Club.

We welcome the recommendations of Lord Davies' report into women on boards. In particular we are encouraged by Lord Davies' principal recommendation that FTSE 100 companies should aim for a minimum of 25% female representation on their boards by 2015. We believe that this is an important step towards greater diversity in the boardroom that from our own experiences enhances company performance. We support aspiring to a somewhat higher figure of 30% female representation, based on evidence – both empirical and anecdotal – that a real change in the dynamics of a team is only reached when a threshold of 30% is achieved.

We also welcome your consultation document on amending the UK Corporate Governance Code as suggested by Lord Davies as one of his recommendations to generate momentum behind resolving this issue. We note that the FRC proposes to change the Code to require listed companies to establish a boardroom diversity policy. However we are not convinced that such generalised language will in fact generate the necessary progress. In our view there is merit in including the 30% figure in the proposed amendment to the Code. Specifically, we suggest that Provision B.2.4 should include the wording: 'If a target of less than 30% female representation at board level is envisaged within the next 5 years, an explanation should be provided.' We believe that incorporating that number into the Code will help focus efforts to address this important issue.

There are several other areas where the Code might be strengthened around this point and accordingly we suggest that the Code be amended according to the attached formal response to your consultation document. This has been prepared by the 30% Club following discussions with senior corporate governance representatives of leading investment groups and pension funds and having reviewed the 2010 amendments to the Australian Securities Exchange's Corporate Governance Principles and Recommendations. The amendments suggested are still crafted in aspirational terms as Lord Davies recommends and would be a significant but measured incremental step. Such changes would clarify the issue within the UK Corporate Governance Code and diminish the risk of unwelcome quotas in the future.

Yours sincerely

Helena Morrissey
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The 30% Club's Response to the FRC Consultation Document: Gender Diversity on Boards

Background

This submission is made on behalf of the 30% Club. The 30% Club is a group of Chairmen and organisations committed to bringing more women onto UK Corporate boards. Its members have declared their voluntary support for a goal of 30% of boards being female by 2015 and are taking actions to achieve it. The 30% Club complements the many other efforts underway in this area and as a neutral, non-commercial body tries to help to coordinate these and deliver *actions beyond words.* A list of the supporting Chairmen as at submission is attached as Annex I, and a list of the members of the Steering Committee of the Club is attached as Annex II to this paper.

The 30% Club welcomed the publication of Lord Davies's report **Women on Boards,** in February 2011, which made a number of practical recommendations including:

- FTSE 100 boards should aim for a minimum of a 25% female representation by 2015.

- Chairman of FTSE 350 companies should set out the percentage of women they aim to have on their boards in 2013 and 2015 and Chairman should announce their aspirational goals by September 2011.

- All Chief Executives should review the percentage of women they aim to have on their Executive Committees in 2013 and 2015.

- Quoted companies should be required to disclose the proportion of women they have on their board, the number of women in senior executive positions in the company and the number of female employees in the organisation as a whole.

Importantly, the report highlighted the critical role investors play in engaging with company boards and that they should pay close attention to the report's recommendations when considering company reporting and appointments to the board.

Given the slow progress made towards gender diversity, particularly below FTSE 100 level, we also supported the recommendation that the Financial Reporting Council (FRC) "amend the UK Corporate Governance Code to require listed companies to establish a policy concerning boardroom diversity, including measurable objectives for implementing the policy, and disclose annually a summary of the policy and progress made in achieving the objectives".

In this context, we welcome the opportunity to comment on the FRC's consultation document: **Gender Diversity on Boards.**

Are Further Changes to the Code Needed?

The 30% Club strongly believes that further changes to the Code are needed. Although the FRC revised the Code in 2010 to ask boards to consider the benefits of gender diversity, it is not clear that this has had any significant effect. Feedback from headhunters is that they only started to see increased demand for qualified women from the FTSE 100 after Lord Davies's Report came out and they have not yet seen any real change in demand for qualified women from companies below the FTSE 100.

Evidence from analysis published by BoardWatch, The Professional Boards Forum, supports this anecdotal commentary, see http://www.boardsforum.co.uk/boardwatch.html, and suggests that Chairmen are not yet engaged in the diversity challenge as a serious issue. Our view is that merely asking boards to consider the benefits of gender diversity will have minimal impact.

In early July 2011, the 30% Club held a seminar "Actions Beyond Words" at London's Cass Business School. The event, where speakers included the Home Secretary – the Rt Hon. Theresa May, Centrica Chairman and CBI President Sir Roger Carr and Lloyds Banking Group Chairman Sir Win Bischoff, focused on the positive actions that need to be taken to achieve greater gender diversity on boards.

One of the more salient points made by Martin Gilbert, Chief Executive of Aberdeen Asset Management, was that increased interest and pressure on boards by shareholders, especially fund managers, was the key to making this happen swiftly.

What Should the Changes Be?

B1 Composition of the Board

The 30% Club believes that whilst the FRC's proposals are helpful, there are additional areas that merit having the current wording strengthened. We would suggest that the *Main Principle* paragraph in B1 be strengthened as follows (our additions in bold and italics):

"The Board and its committees should have the appropriate balance of skills, experience, ***diversity of background and gender***, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively."

B.2 Appointments to the Board

The 30% Club welcomes the FRC's suggestion that there should be specific wording in Code Provision B.2.4 requiring a description of the board's policy on gender diversity. However, we do not believe that the wording suggested goes far enough, particularly in light of the following supporting principle set out in the UK Corporate Governance Code.

"The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board."

We therefore further suggest that Code Provision B.2.2 be amended to support the above wording as follows (our additions in bold and italics). This suggested wording draws on the 2010 amendments to the Australian Securities Exchange's Corporate Governance Principles and Recommendations:

"The nomination committee should evaluate the balance of skills, experience***, diversity of***

background and gender, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. ***It should report as to whether the company:***

- ***has developed a board skills matrix and uses this matrix to identify any 'gaps' in the skills and experience of the directors on the board;***
- ***the process by which candidates are identified and selected, including whether professional intermediaries are used to identify and/or assess candidates;***
- ***the steps taken to ensure that a diverse range of candidates is considered; and***
- ***the factors taken into account in the selection process."***

Additionally, the 30% Club believes that the wording in Code Provision B.2.4 should require the board to set out not only its general policy, but also its numerical target for gender diversity in the boardroom and a deadline for when it expects to achieve this. Given the volume of research that shows that change in the dynamics of a team is only reached when a threshold of 30% is achieved, we believe that boards should be required to explain their rationale for setting a target of less than 30% and if their deadline for achieving this target is more than 5 years away.

One of the arguments that is often proffered, as to why it is so difficult to appoint suitably qualified women, is that there are not enough with board level experience. With the executive membership of boards shrinking and so few women being given the opportunity to take the role of an executive member of a board, we also believe that boards should be required to set a subsidiary target of gender diversity amongst the executive team and senior management, with target dates.

Our suggested wording is therefore as follows (our additions in bold and italics):

"A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. This section should include a description of the board's policy on gender diversity in the boardroom, including any measurable objectives that it has set for implementing the policy and progress on achieving these objectives. ***An explanation should be given if progress towards these objectives is not achieved, alongside proposals which demonstrate how they will be met in future.***

In order to promote orderly succession to senior management, the policy should include specific reference to the creation of a pipeline within the company to support the achievement of meaningful diversity within this group. If a target of a less than 30% female representation at board level is envisaged within the next 5 years, an explanation should be provided. An explanation should **also** be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman, ***board director or member of the senior management team***

Finally, we recommend that this section also be amended to enhance the role of the nomination committee to have oversight of the company's diversity policy and culture. It should be noted that the role of the remuneration committee is explicitly required to be "sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases" Clearly the visibility of women at the top of the company sends a significant message in the same way as remuneration that is out of line with the rest of the company does. The 30% Club therefore suggest that the nomination committee be required to have a similar requirement with regard to diversity and that this is set out in a new Code Provision:

B.2.5 The nomination committee should have overall oversight of the company's diversity policy and culture and performance against agreed targets, and publish that performance covering the number of women employees in the whole organisation, in senior management, on the board and promotion progression by comparison with the male employees at the same level. If a target of a less than 30% female representation at senior management level is envisaged within the next 5 years, an explanation should be provided. The definition of 'senior management' for this purpose should be determined by the board but should normally include the first layer of management below board level."

B.6 Evaluation
With respect to the amendment of Principle B.6 on board evaluation, the 30% Club strongly supports the addition of a new supporting principle on board evaluation as set out in the consultation document.

Currently, Code Provision B.6.1 sets out that "The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted."

The 30% Club believes that companies should include within their annual reports how the insights gathered from the board review have resulted in a clear action plan for the year ahead and accordingly that this should be reflected in Code Provision B.6.1. We also believe that the board review should include a review of how nomination committees have approached their responsibilities when the recruitment of a new director is needed in the light of the requirements of the Code. This might include what efforts the nomination committee has made to broaden the pool of candidates for board positions.

Timing of Changes?
The 30% Club believes that the change to the Code should apply as quickly as possible. It therefore believes that the revised Code should apply to accounting periods beginning on or after 29th June, 2011. As is observed in the consultation document, companies would not be reporting against these provisions until 2012 and this leaves plenty of time to agree targets, a policy and an implementation plan. The consultation document sets out very clearly the disadvantages for companies in waiting for regulations from Government and delaying application for a year until 2012, merely provides an excuse for companies to put off considering this important issue.

Additional comments
Investors are often cited by Chairmen as a reason why they are cautious about changing tried and tested methods of making appointments to the board. Feedback the 30% Club has received from a number of leading investors is that they are not as fixated about prior board experience for a new non-executive director as Chairmen think they are. Presently investors are not routinely involved in the selection of directors and are rarely consulted by the nomination committee - unlike remuneration issues where, since investors were given an advisory vote on the remuneration report of UK listed companies, they have been regularly consulted. A number of investors would like to be able to be more pro-active in the selection of non-executives.

Annex I: 30% Club Chairmen

Sir Win Bischoff, Lloyds Banking Group
Sir Roger Carr, Centrica
David Childs, Clifford Chance
Allan Cook, Atkins
David Cruickshank, Deloitte
Ian Durant, CapCo Properties
Neville Eisenberg, Berwin Leighton Paisner
Douglas Ferrans, Invista
Douglas Flint, HSBC Holdings
Anita Frew, Victrex
Sir Christopher Gent, GlaxoSmithKline
Stephen Green, Former Chairman, HSBC
John Griffith-Jones, KPMG
Sir Philip Hampton, Royal Bank of Scotland
John Heaps, Eversheds
Charlie Mayfield, John Lewis
Mike McTighe, JJB/ Pace/Volex
Glen Moreno, Pearson
David Morley, Allen & Overy
Alan Parker, Brunswick
Sir John Parker, Anglo American/National Grid
Lord Sharman of Redlynch, Aviva
Robert Swannell, Marks & Spencer
David Tyler, Sainsbury's
Steve Varley, Ernst & Young

Annex II: 30% Club Steering Committee

Laura Batty, MHP Communications
Tamara Box, Berwin Leighton Paisner
Sally Boyle, Goldman Sachs
Diana Brightmore-Armour, Lloyds Banking Group
Lisa Bryant, Lloyds Banking Group
Caroline Carr, Goldman Sachs
Gay Collins, MHP Communications
Tina Gill, Ernst&Young
Mary Goudie, Labour peer
Vimi Grewal-Carr, Deloitte
Emma Howard Boyd, Jupiter
Jodie King, KPMG□
Claudia Kohler, Newton Investment Management
Jane Lowe, IMA
Sally Martin, Shell
Heather McGregor, Taylor Bennett
Helena Morrissey, Newton Investment Management
Melanie Richards, KPMG
Henrietta Royle, Fanshawe Haldin
Joanne Santinon, Ernst&Young
Jane Scott, Professional Boards Forum
Pamela Smith, Deutsche Bank
Aimee Stebbing, Davenport Lyons
Peninah Thomson, Praesta
Sian Westerman, Rothschild