



GENDER DIVERSITY ON BOARDS

Introduction

On 27 July 2011, ICAEW, Deloitte and the Financial Reporting Council (FRC) convened a small group of business leaders, academics, regulators and wider policy experts to discuss the FRC consultation *Gender Diversity on Boards*.

The event was Chaired by **Margaret Ewing** (Managing Partner of Public Policy, Quality and Risk at Deloitte) and included introductory remarks from **Baroness Sarah Hogg** (Chair of the Financial Reporting Council), **Farmida Bi** (Partner, Norton Rose), **Rt Hon Baroness Virginia Bottomley** (Chair of Board Practice, Odgers and Berndston), **Sir Roger Carr** (Chairman, Centrica and President, CBI) and **Professor Susan Vinnicombe OBE** (Professor of Organisational Behaviour and Diversity Management at Cranfield).

The purpose of this briefing is to provide a verbatim report of the event as well as a synopsis of the key points that were made in order to help inform FRC thinking on this issue. It should be seen in parallel with the technical response to *Gender Diversity on Boards* that ICAEW has submitted to the FRC. The event was held under the Chatham House Rule and the comments below are not attributable.

While there was by no means consensus on all the issues that were discussed there was broad agreement that the Davies Report and FRC consultation had both brought welcome momentum to this debate.

A full list of attendees is included at the end of this briefing.

Background to the event

In June 2010, the FRC's revised UK Corporate Governance Code came into effect. It included for the first time a principle recognising the value of diversity. Later that year, Lord Davies of Abersoch was commissioned by the Government to undertake a review of gender diversity on the boards of listed companies and to identify barriers preventing more women from reaching the boardroom.

The Davies Report, which was published in February 2011, included a number of suggestions for increasing boardroom diversity including a recommendation that the FRC be tasked with consulting on how the UK Corporate Governance Code could be further revised to require the largest listed companies to establish diversity policies and measurable objectives for implementing them.

In May of this year, in response to this challenge, the FRC issued a consultation document on *Gender Diversity on Boards*. The consultation closed at the end of July.

Summary of discussion

- The focus of the debate should be about improving boardroom governance not social policy.
- Legislation is a slow means of tackling the issue. Voluntary action needs to be quicker.
- Quotas can lead to claims that appointments are tokenistic but research and anecdotal evidence shows support for them.
- As an alternate to fixed quotas targets can bring momentum provided boards are required to report why these have or have not been met.
- Corporates should develop diversity rather than gender policies. However, research and experience suggests that if you can tackle gender then diversity issues resolve themselves.
- There needs to be more open competition around recruitment.
- Boards need to be more transparent in their appointment processes and reasons for recruitment.
- Mentoring and sponsorship of potential board members are both important and should be formalised.
- The huge variance across the FTSE 100 suggests a need to mentor company Chairs.
- CEOs need to clear the path. Chairmen need to reach beyond the usual suspects.
- More needs to be done to unlock and recognise potential talent across professional service firms.
- Companies should be required to declare where they are not making diversity targets.
- Women also need supporting at entry level and critical career points.
- Senior women need to show leadership and act as role models for what can be achieved.
- The FRC needs to get on with implementing its recommendations as quickly as possible.

Detailed commentary (following flow of discussion)

The need for more women on boards is an important issue which is increasingly gaining momentum. How can we identify practical solutions to this challenge?

For example is sponsorship vital to get more women into the boardroom? Without sponsorship what alternates are open to aspiring women board members?

The Davies Report recommends that board Chairs should set targets.

The Report has a number of recommendations, some of which Government needs to push on, some of which the FRC can make progress on. It is important to recognise that the role of the FRC is not to improve social policy but the governance of boards.

A lack of diversity around the board table can lead to group think. Greater diversity encourages better use of talent. The current consultation seeks to address this and includes requirements for companies to make greater disclosures about what they are doing and how they measure success. Legislation can be a slow means of tackling these issues. Can voluntary action be swifter? For example, can these issues be tackled within the context of board effectiveness reviews?

It is a point of frustration that the investor community is largely disengaged from this debate.

Two consultation sessions on the Davies Report by a major law firm saw attendees come to the table agnostic about introducing quotas and conclude that on balance quotas are the way forward.

One of the strengths of the Report is that it has practical recommendations on targets and steps that can be taken to achieve these. Without this measured approach all you have is warm words.

Where a bank has made it a requirement to appoint specific numbers of women onto the board the knock on effect in terms of junior staff feeling more motivated was very positive. This is not an easy topic however. There is danger this kind of approach is perceived as tokenism with women appointed to fill quotas rather than on merit.

Changes to UK corporate governance requirements should be implemented as soon as possible, ideally in this financial year. It would make more sense to identify principles around diversity policy with a focus on gender, rather than gender being the focal point.

Evidence in the Davies Report on the numbers of board members that are still appointed without open selection but on a 'who you know' basis was surprising. A more open approach to competition is something that should be strongly advocated.

The momentum that the Davies Report has created around this issue is welcome. Whilst there is scepticism about quotas at least this has drawn attention to the issue. It is encouraging that senior Government officials are now talking about the need for greater diversity on boards.

The current governance code should not be a Christmas tree on which fashionable ideas get hung - revisions will need a longer shelf life. Boards need to be more explicit about their approach to recruitment.

The real issue is not about women on boards but women climbing the career ladder generally. The world is changing – we now have a woman as Chairman of the FRC. There are many more women MPs. The number of women Vice Chancellors is increasing. A leading head-hunter has undertaken a major survey of the top 100 women in financial services. Nurturing talent is important but women also have to learn to be more opportunistic – a mindset that cannot come from Government quotas. Childcare also needs improving. In India the CEOs of 7 of the major banks are women, which in part is a result of better family support.

Head-hunters have an important role to play. CEOs tend to be hell bent on vertical careers. Women are often more horizontal in their interests. Recruiters need to be more aggressive in challenging their clients to look through a window not a mirror.

Boardroom diversity is a good thing for all sorts of reasons. It is an odd thing to have management structures that do not reflect customer or consumer bases. All male boards are often about locking antlers. Mixed boards are more collegiate and discursive which has to be preferable.

A target number, as an aspiration rather than a quota, can encourage interest in this debate and give substance to the issue. The FRC needs to reinforce the message that boards need to report on why they made the appointments they have made. This has the potential to be the catalyst that moves the agenda forward materially in the next 12 months.

Gender diversity provides added value and is not simply a 'nice to have'. While the Davies report is a good starting point the language of the debate needs to move from gender to the need for more balanced boards.

Organisations also need to develop cultures that are more female friendly below board level. Ensuring flexibility and the implementation of practical measures that clear the path are the responsibility of the CEO. Chairman must reach out beyond the stars of today and find the next generation of recruits.

A colligate approach is needed here – all board members need to agree to 'stray off the reservation'. It is also critical that induction and mentoring processes are formalised so that executives have the support they need to transition into non-executive roles.

While only 17% of the submissions to the Davies Report supported quotas many more of the women spoken to anonymously about this issue are supportive.

The current appointment process is flawed. It is not an open process. Advertising positions would send a strong message of intent about the need for change.

Most current research into diversity suggests that gender is the trump card. If you tackle gender, wider diversity issues take care of themselves.

Across the FTSE100 there is huge variance of female representation on boards from 0% to 40%. The polarity of this picture comes down to the extent to which individual Chairman and CEOs take an enlightened view. The challenge is not about mentoring women but Company Chairs!

The FRC governance proposals are quite prescriptive about diversity and the need to ensure a good mix of non-execs around the table. Gender is not a single issue but part of a broader question about the need for balanced boards.

As has been said targets and aspirations are a good use of language as they are not as hard as quotas but give focus and momentum to the debate. Mentoring is absolutely critical as is the need for business leaders to be meritocratic. If you have an all-male board at least one of them has to be prepared to break rank here. Where you do have women on boards they too need to encourage other women to step up. There is anecdotal evidence to suggest some women want to preserve their exclusivity in this space.

Head-hunters need to tackle Nominating Committees, who can be risk averse and create significant barriers, as well as Chairs – particularly those who have a tendency to pick their teams because of celebrity value rather than the need for balanced representation.

Professional service firms might be able to unlock this talent sooner but there is some evidence to suggest that these firms do not want their partners to sit as NEDs. If this can be tackled an important tap can be turned on.

If as a professional you have advised at board level then you are in a position to demonstrate you can operate at this level. An issue here is that CEOs have a tendency to say 'I can hire in professional help, why would I also want professionals on the board?'. This is a kind of prejudice – a perception of professionals as advisers rather than as NEDs which is a shame because they are a rich seam to mine.

A radical approach would be to ask companies to declare where they are not making diversity targets as well as how long it might ultimately take for them to do so – i.e. a negative declaration.

Recruiters need to look more closely at the point of attrition – the point at which women decide they are not prepared to sacrifice the work / family balance and be a greater source of encouragement about how this can be managed.

There is a generational issue at play. The first generation of women who went to work did not have 'careers'. The last generation did. We now have a new cohort of women who need to be encouraged to talk more openly about their careers and the tool kit of measures that are needed to cope with the work / life balance more effectively.

The experience of one participant was that to get onto the ladder she had to be better than most of her male peers but that once she had done so there was huge support with climbing the ladder. It is important that at the entry level more is done to support women. More support is also needed at critical career points such as maternity leave. Just acknowledging the challenges of work / life balance and being able to discuss these openly within organisations can make a huge difference.

Boardrooms are dangerous places to be particularly when you stick your neck out against the consensus view. Women need to recognise this dynamic.

Research has a key role to play in highlighting what steps actually make a difference in terms of fostering greater boardroom diversity. What steps, for example, can be taken to ensure a more sustainable number of women are coming through from the marzipan level of executives?

The FRC need to get on with implementing their recommendations as quickly as possible.

Women who have made it into the boardroom also need to show leadership and act as role models for what can be achieved.

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Chartered Accountants' Hall, London

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DELEGATE LIST

Name	Surname	Organisation
Carol	Arrowsmith	Deloitte
Gaenor	Bagley	PwC
Farmida	Bi	Norton Rose
Penny	Bickerstaff	Penny Bickerstaff Associates
Andrea	Blance	Legal & General Group Plc
Rt Hon Baroness Virginia	Bottomley	OdgersBerndtson
Anthony	Carey	Mazars
Sir Roger	Carr	Centrica plc
Margaret	Ewing	Deloitte
Annie	Finnis	Cabinet Office
Lynn	Fordham	SVG Capital
Katushka	Giltsoff	The Miles Partnership LLP
Mary	Hardy	London Organising Committee of the Olympic and Paralympic Games
Deborah	Harris	Moorfields Eye Hospital NHSFT
David	Hawley	Deloitte
Chris	Hodge	Financial Reporting Council
Baroness Sarah	Hogg	Financial Reporting Council
Vanessa	Jones	ICAEW
Harry	McAdoo	ICAEW
Margareta	Pagano	The Independent on Sunday
Julia	Pearce	Nomura International Plc
David	Richardson	Serco Plc
Andrew	Roscoe	EgonZehnder International
Nicholas	Smith	BBA
Professor Susan	Vinnicombe OBE	CranfieldUniversity
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