

Submission by Paul Dare on 6 July 2011 to the FRC on the proposed changes to the UK Corporate Governance Code set out in the Consultation Document: Gender Diversity on Boards of May 2011

The comments below are made by me as an individual. My background before retirement was latterly as the head of corporate governance at a large fund manager in London. Prior to that I held senior positions in industry (including board directorships) in banking, oil & gas, computers and pharmaceuticals. I have been an investment analyst in a firm of stockbrokers. Prior to this I trained for and became a Chartered Accountant in a professional firm of accountants. I am a member of three professional bodies in the UK.

I note that the FRC believes that changes in the Code need to be considered on their own merits and that the focus of the Code is on improving the quality and functioning of corporate boards rather than on any wider social objectives. Accordingly, I would comment that the proposed changes should only be made where the FRC believes that they are of sufficient merit to justify the change, using the stated criterion of improving the quality and functioning of corporate boards as its measure.

As background to my comment on the Code, I mention that I was disappointed with Lord Davies' report 'Women on Boards' of February 2011 that has prompted these Code change proposals and am disappointed too that there seems no designated place to comment on it. I believe that there is much that could be done to improve the board performance of UK listed companies apart from just considering the issue of gender diversity. I see the Davies report as a missed opportunity for this.

As examples of other weaknesses in the Davis report, I mention:

Graph 3 of the report showed responses to the question 'What impact would gender diversity in senior positions have for business?' Unfortunately this question did not ask respondents to distinguish between positive and negative impacts, so much of the value in the responses is lost.

The report did not mention evidence that was unhelpful to its conclusions, such as the Ferreira and Adams study published in the Journal of Financial Economics in 2009, which was reported on at that time in the UK press. This research suggested that having more women on the boards of well governed companies could damage their financial performance.

The report helpfully reported on what some other countries were doing to increase the proportion of women on boards but did not caution against the dangers of group-think on this, perhaps creating the impression amongst some readers that we should follow suit simply because these others must be right.

The report stated that 'When women are so under-represented on corporate boards, companies are missing out, as they are *unable* to draw from the widest possible range of talent.' This is questionable. What is more likely to be true is that corporate boards are *unwilling* to draw from the widest possible range of talent and in fact only draw from a tiny fraction of it, maybe 1% of the range. Evidence of this is the fading away of The Non-Executive Directors Forum, which was a brave innovation by NatWest Bank and others in the 1990s to train and support suitable people, outside the traditional circle of FTSE 100 Chief Executives and the like, to become Non-Executive Directors and to help develop them in this role. This innovation was not given the necessary support by boards when drawing up their candidate lists.

Lord Davies particularly consulted women. Thus, nearly 90% of respondents were women. A significant proportion of respondents could thus have had social objectives in mind rather than board performance.

Finally I note that the McKinsey & Company report 'Women Matter', mentioned in the footnotes of the Davies report, states: '[These] statistically significant studies show that companies with a higher proportion of women on their management committees are also the companies that have the best performance. While these studies do not demonstrate a causal link....' I would add to this that not knowing about causality points to the need to know and understand more of the whats, whys and wherefores of what is happening if we wish to go forward in the best way.

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