Government Equalities Office

Putting equality at the heart of government

BIS Department for Business Innovation & Skills

WOMEN ON BOARDS

MAY 2012

UK RESPONSE TO THE EUROPEAN COMMISSION CONSULTATION ON GENDER IMBALANCE IN CORPORATE BOARDS IN THE EU

1. How effective is self-regulation by businesses to address the issue of gender imbalance in corporate boards in the EU?

The UK has made significant progress in improving the gender balance on the boards of UK listed companies. Over the last 12 months we have worked with business to implement a voluntary business-led strategy which promotes at its heart the principle of accountability to shareholders. It has served to build the interest of stakeholders and galvanise them to take action where necessary resulting in unprecedented progress being made on the number of women reaching the boardroom and showing that businesses can effect change without regulation and that EU level legislation is unnecessary and inappropriate.

When it took office in May 2010 the UK Government prioritised the representation of women in the boardroom and commissioned Lord Davies of Abersoch, former Chair of FTSE 100 company Standard Chartered Bank, to examine the barriers preventing more women from reaching the boardroom and to explore ways of overcoming them. After discussing this issue with a wide array of stakeholders including business leaders, women, head-hunters and academia, Lord Davies and his Steering Group set out a business-led strategy which consisted of measures to be taken forward by all key stakeholders, including businesses themselves, and firmly placed the onus on business to bring about change in this area.

Since Lord Davies' initial report in February 2011, we have seen an unprecedented increase in the number of women on the boards of our top companies demonstrating that a voluntary, business-led approach can and does work. In February 2011, women accounted for just 12.5% of FTSE 100 board positions, and 7.8% of those in the FTSE 250. In February 2012 these figures were 15.8% and 8.7% respectively.

Over the last year we have seen 100 new female appointments, with women accounting for 1 in 4 of all board appointments or 27% of all FTSE 100 and 25% of FTSE 250 board appointments. The number of all-male boards in the FTSE 100 has fallen from 21 to just 9 and for the first time all male boards are a minority amongst the FTSE 250.

Research by leading academics in this area (Cranfield School of Management) shows that, should this momentum and current pace of change be maintained we are on a trajectory to achieve 26.7% women on FTSE 100 boards by 2015 and 36.9% by 2020.

The business-led strategy developed by Lord Davies shows how the number of women reaching the boardroom can be increased without resorting to government intervention or burdensome regulation. We believe that firmly placing the onus on business to bring about the necessary change, together with increased scrutiny and a strengthened corporate governance code is making a positive difference.

2. What additional <u>action</u> (self-regulatory/regulatory) should be taken to address the issue of gender imbalance in corporate boards in the EU?

We do not believe that regulation is necessary to make progress in this area. We do not think it is right to consider introducing quotas while some member states are successfully pursuing voluntary approaches. We believe that self-regulation should be allowed to prove that it can radically increase the number of women on European boardrooms.

Businesses, and business structures, need to retain a flexibility which allows them to respond to changing circumstances and to the varying needs of the sector, size and type of business.

To bring about real change in this area that is sustainable and long-term, companies need to understand and believe that diverse boards are better boards. This will require a real culture change to take place at the heart of business. Voluntary measures, which businesses can truly buy-in to, such as the business led approach that the UK is taking, can help to bring about this change in a way that forceful measures never can, creating a business environment where women can take their seat on merit and without the spectre of tokenism.

The UK Government has focused on initiating that culture change by a series of actions that change the way that stakeholders, including customers and investors think about and react to this issue.

Political leadership and the overt emphasis placed on the economic importance of diverse boards has resulted in high media interest. Companies which continue to resist calls for change in this area are regularly highlighted in the press, effectively naming and shaming companies and focusing the attention of stakeholders.

The Financial Reporting Council (FRC) have revised the UK Corporate Governance Code of Conduct to require companies, from 1 October 2012, to report upon their diversity policies, including gender, and upon the progress that has been made in achieving their objectives. We are also encouraging companies to monitor and report upon the numbers of men and women within their organisations at each level to help them spot where the attrition black spots are within their companies.

Other initiatives such as the Voluntary Code of Conduct on diversity for head-hunters, which we launched in July 2011, are aimed at securing best practice within the recruitment process. This code brings Chairmen and executive search firms together and suggests board appointment long lists to be comprised of at least 30% women. 26 leading companies, including all of those dealing with FTSE 100 board appointments, have pledged to abide by the code and we have received feedback from companies telling us that they will only deal with search firms who have done so.

3. In your view, would an increased presence of women on company boards bring <u>economic benefits</u>, and which ones?

Yes, we believe that more women on company boards brings many benefits including economic ones.

Importantly, a growing body of empirical research is beginning to show that diverse boards are more effective. One such report conducted by Catalyst[1] suggests that companies with more women on their boards out-perform their rivals, with a 42% higher return in sales, 66% higher return on invested capital and 53% higher return on equity.

We also know that women make around 70% of consumer purchasing decisions. Connecting better with the female workforce and customer base offers more opportunity to understand what drives decision-making and better enables businesses to understand their customers.

Continually recruiting individuals who share the same backgrounds and experiences creates a ‘group-think’ mentality within the board, which runs the risk of making flawed decisions because there are no fresh or different perspectives. Ultimately of course such businesses will be unable to stay ahead of the game.

Finally, good role models of both genders provide a clear link to aspiration within the workforce and society in general.

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[1] “The Bottom Line: Corporate Performance and Women’s Representation on Boards”, Lois Joy, Nancy M Crter, Harvey M Wagener, Sriram Narayanan, Catyst, 2007.

We would add that the benefits outlined above are only realised when it is acknowledged that the women on boards are there on merit, not tokenism, and that as a result their voices are truly heard. Quotas in Norway have led to much speculation and adverse publicity over the "golden skirts" policy and the large number of boards that a few women sit on. Such attention is damaging and unhelpful.

4. Which <u>objectives</u> (e.g. 20%, 30%, 40%, 60%) should be defined for the share of the underrepresented sex on company boards and for which <u>timeframe</u>? Should these objectives be <u>binding</u> or a <u>recommendation</u>? Why?

We do not believe any objectives should be binding.

In the UK, Lord Davies encouraged businesses, particularly FTSE 100 companies, to set themselves a 25% target for the number of women on boards by 2015. He did not however support a binding objective or time frame. His 25% target was set as an aspirational goal, and worked to help focus businesses minds.

This 25% figure was arrived at after careful analysis of the number of board positions on average within the FTSE 350, board sizes and turnover rates. Lord Davies and his Steering Group calculated that 25% was a stretching, but achievable target.

This target has worked to encourage businesses to take action by giving them a figure to aim for and which to measure progress against. It was noted by Lord Davies that some FTSE 100 companies should aim for higher than 25%, and that, for FTSE 250 companies the target may need to be adjusted accordingly so as to take account that they are starting from a lower position and tend to have smaller boards.

We believe this flexibility is crucial in ensuring that businesses make progress on this agenda whilst also doing what is right for their business and making sure that they avoid appointing women for the wrong reasons.

An independent assessment by the Cranfield School of Management suggested the UK is on track to achieve our target of a minimum of 25% female representation by 2015.

5. **Which companies (e.g. publicly listed / from a certain size) should be covered by such an initiative?**

In the first instance we believe that any voluntary approach should be focused on those companies with the highest market capitalisation, for the UK this would be companies listed in the FTSE 350. The Corporate Governance Code gives us an effective reporting mechanism into these companies and together with investor leverage are crucial to affecting change in this area. The FTSE 350 are powerful role models to other UK companies and the dissemination of best practice will trickle down to companies who are keen to be the best that they can be.

We do however recognise that there are many different sizes of stock indices across member states and a voluntary approach would allow for flexibility in relation to the companies included.

6. **Which boards/board members (executive / non-executive) should be covered by such an initiative?**

Voluntary measure should cover both executive and non-executive Directors.

7. **Should there be any sanctions applied to companies which do not meet the objectives? Should there be any exception for not reaching the objectives?**

We do not believe that there should be proposals for regulatory sanctions while some member states are making progress with other approaches–which they currently are.

Our voluntary approach has been successful in part because businesses are now realising that in order to remain competitive they must better reflect their customer base. Companies who want to perform better know they need a more diverse board.

It is important to recognise that not all companies are starting from the same place. Businesses, and business structures, need to retain a flexibility which allows them to respond to changing circumstances. We believe that the risk of losing support from shareholders and customers possibly resulting in lower sales are key motivators which will encourage businesses to take action.

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