

**COMMITTEE ON THE EUROPEAN UNION**  
**SUB-COMMITTEE B**  
**INTERNAL MARKET, INFRASTRUCTURE**  
**AND EMPLOYMENT**

**Women on Boards**

**Written evidence**

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## **Aberdeen Asset Management—Written evidence**

Please find attached Aberdeen Asset Management's submission to the Committee's consultation on Gender Balance in the Boardroom.

We are a pure global investment management group, managing funds across equities, fixed income, property and alternatives for both retail and institutional clients. Total assets under management were £185 billion at the end of 31 March 2012.

We would like to highlight some of the points in our submission as follows:

1. We remain of the view that appointments to the board should be made relative to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skill set, experience and expertise.
2. A well balanced and carefully selected board is the starting point to building an effective board and a board which contains a diversity of talent, skills and background will be better placed to promote the long term success of the company.
3. We believe that quotas would not be effective in delivering well balanced boards and should not be introduced.

Please do not hesitate to contact us if you have any questions or require any clarification in connection with our response.

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

Each company is unique and we believe that a 'one size fits all' approach should not be imposed. We believe that quotas will not be effective in delivering well-balanced boards and should not be introduced. Instead, the EU should focus on developing a voluntary framework to encourage boards to acknowledge and accept the importance of diversity, including gender, in successful businesses.

*2. Can a "voluntary approach", or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

Political views, consultations and the asset management industry have contributed to a heightened awareness of gender diversity in recent years and companies are increasingly acknowledging their responsibilities in taking the agenda forward. Change is happening as is evident in the increasing number of female directors being appointed in the UK, particularly

in the larger, listed companies. However, change takes time and companies need to be given the opportunity to develop a process and structure that suits their businesses.

3. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

Companies should be responsible for outlining their policies on board diversity, including gender as recommended by Lord Davies, and reporting to shareholders against this policy. Shareholders in turn have responsibility for monitoring progress and in the UK now have the ultimate sanction in FTSE 350 companies of voting for the re-election of directors on an annual basis. There is no need for monitoring or audit at an EU level.

4. *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

We are in favour of the EU promoting a voluntary code on the issue of gender imbalance on corporate boards in the EU which will be subject to a comply or explain regime. We are not in favour of regulation.

5. *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

As outlined in 2 above, the UK is at the early stages of a transition phase to building more diverse boards of directors. Progress has been made in the past 12 months with more to follow in the months ahead, but this will take time as boards cannot be re-built overnight. We do not believe that legislative intervention is necessary as progress will be 'policed' by shareholders. However, if the voluntary route has not produced demonstrable progress within a five year timeframe, the issue of whether a tougher regime is required will need to be reassessed.

6. *Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

Several member states, including France, Italy, Belgium and the Netherlands have recently enacted quota legislation for company boards but it is too early to judge the impact of these changes. The structure of economies, the size and complexity of listed companies and corporate governance systems are different in each member state. We believe that a single approach to gender diversity will hinder the promotion of good business practices as quotas will be seen as box-ticking exercise. National governments and regulators should retain the power to provide guidance for the most appropriate governance models for their markets.

7. *What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

A well-balanced and carefully selected board is the starting point to building an effective board and a board which contains a diversity of talent, skills and background will be better placed to promote the long term success of the company. Gender is one of the key aspects of a diverse board and an important component in creating a corporate culture that will bring benefits to all stakeholders.

8. *What are the positive and negative effects of legislative quotas?*

Countries vary in the depth of the pool of available senior female executives to perform board level roles, which could result in younger or insufficiently experienced appointments being made. On the other hand, there is a trade off between the possible negative effect of such directors with the benefit that broader diversity brings. Thus, if a voluntary route does not succeed in delivering better balanced boards, the overriding need might outweigh the disadvantages of mandatory quotas. It is important, though, that quotas at a non executive level are not introduced without considering the impact on executive functions as in isolation they could "hollow out" the executive pipeline. Care needs to be taken to avoid the perception of tokenism.

9. *Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

We would prefer that companies are required to outline their policies on gender balance and steps being taken to achieve greater diversity, if required, in the context of maximising the effectiveness of the board. The policy should not be restricted to non executive directors but include both the executive directors and executive management team.

10. *Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

Employers should adopt more flexible work practices for women and men, particularly around childcare and career breaks, in order to encourage women to reach the highest levels in organisations – government should also consider making child care costs a tax deductible expense to encourage women to continue their careers. It is only when there is a higher level of women filling senior executive positions that there will be a greater and more obvious pool of female talent to fill non-executive positions. However this process should be started at an earlier stage (at school age) to help guide aspirations and set "acceptable norms" for working female leaders in the minds of both boys and girls.

Any intervention should be at the national rather than EU level.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

A well-balanced and carefully selected board is the starting point to building an effective board and a board which contains a diversity of talent, skills and background will be better placed to promote the long term success of the company. Gender is one of the key aspects of a diverse board and an important component in creating a corporate culture that will bring benefits to all stakeholders.

*10 July 2012*

## **An Inspirational Journey (Heather Jackson)—Written evidence**

In summary, we oppose the suggested legislative quotas for the UK. We believe that An Inspirational Journey provides the UK with a business-led initiative to tackling this issue without the need for mandatory quotas.

An Inspirational Journey is a UK based organisation which strives to increase the number of women working at the top of corporate UK through four initiatives; The Pearls, The Two Percent Club, The 150 Programme and The Women's Business Forum. The organisation is already reaching out to over 4,000 women through its programmes and has over 25 globally recognised companies already on board including many FTSE 350 companies such as Royal Bank of Scotland, Morrisons, BT, Ernst & Young, Squire Sanders, Arriva, DLA Piper, Atkins, Deloitte and Asda. The feedback we have received from our current members has been phenomenal and we expect to have another 40 companies on board by 2013.

We strongly believe that quotas are not the answer. Addressing Britain's boardrooms by adding more women at this level alone is merely papering over a crack when the underlying problems resulting in the under representation of women on boards lie so much deeper within organisations than merely the board.

We appreciate that the government is recognising the positive effect gender balance in the boardroom has on effective business performance and we are pleased that the issue is being discussed on such a high profile agenda. We hope that upon answering the suggested questions, we will clearly demonstrate that:

1. there is an alternative to legislative quotas;
2. that the UK can lead on this agenda and;
3. that our business-led approach is a sustainable long-term solution which could be implemented across Europe and indeed the world.

The Pearls programme alone has been active for just over 10 months and has had an incredible response – who knows where we could be this time next year. I urge you to delay your decision for legislative quotas in the UK and not disrupt the successful voluntary practices we already have in place.

Heather Jackson; CEO & Founder of An Inspirational Journey: On behalf of An Inspirational Journey

*10 July 2012*

Questions:

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

Every country is different and this is not an issue which can be tackled from such a broad perspective.

All countries in the EU are at different stages economically and this needs to be taken into account – for example, gender balance hasn't been a priority for many countries that have been concentrating on staying afloat through recent economic challenges.

The UK has driven the agenda forward with high importance, positioning Lord Davies and his impactful Davies Report with all FTSE Companies. The results we have achieved in the representation of women on FTSE 100 boards within a year have been positive and significant.

As good as these figures are, they still do not truly reflect the work that has been going on behind the scenes of many of the UK's FTSE 350 companies to ensure that the "leaking pipeline of talented women" cited in the Davies report as one of the reasons for the issue of under representation of women at board level, is solved in a sustainable way.

Improving the representation of women on boards is a business issue which requires a business-led not government-led solution to the issue. Therefore, we propose that action should be led and taken by National Governments supported by the EU to actively inform organisations about the positive effects of better gender balanced boards and senior management. Action that informs, supports and guides – but does not legislate.

Action delivered not to just the FTSE 100 Companies, but also specifically targeted to the FTSE 250, FTSE 350 and the top 150 regional non quoted companies – as these are the backbone to the economy and are where our best UK talent will grow and develop from in the future.

Feedback from the many organisations An Inspirational Journey is working with is that companies are not struggling with recognition of the issue; but with finding and implementing an effective solution for it.

Government need to support and guide these companies to solutions. They should also provide access for these companies to organisations who have implemented successful activities and processes to try and solve the problem, who would be willing to discuss with them their approach.

Ambassadors and successful case studies from visionary organisations should be identified to act as role models to other organisations within their own countries; encouraging companies to collaborate and unite on this agenda. In the UK, for example, ambassadors and case studies could be chosen from the many organisations An Inspirational Journey and other organisations such as The Thirty Percent Club, are working with that are self-regulating with success and reaping the rewards of improved effective business performance.

We also propose a campaign by the Government to actively inform women why it is more important to the economy and business that women with skills and talent take themselves to the top of the corporate hierarchy. So far, there has been no message to women specifically – and without women getting the message alongside companies supporting and guiding them to achieve this, we will struggle to make real progress – quotas or no quotas.

We also propose a Government campaign aimed at men, women and organisations to promote an employers' ability to support both people within a relationship with children that want a career. The Government is in an excellent position to promote culture change internally and externally of organisations; this being the important role the Government has to play.

2. *Can a “voluntary approach”, or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

Yes, in our opinion a voluntary approach, once a company has acknowledged the benefits of better balance within the board and its management teams, would be much more effective. The organisations working with An Inspirational Journey have decided to take up tackling the issue with our help voluntarily because they are aware of the benefits and the business-led case towards achieving better gender balance. These organisations haven't been forced to through legislation – just been made aware of the facts and acted upon them. Not only are these organisations tackling the underrepresentation of women at board level but at senior and executive level too.

Organisations that are knowledgeable on the issue understand that the boardroom alone is not the answer to achieving a sustainable approach to fair representation of women on boards. The leaking pipeline of female talent currently experienced by most organisations in the world, has to be mended to ensure a sustainable solution is achieved – An Inspirational Journey provides this solution at all levels.

Voluntary measures can be sustained, if companies are encouraged to be more transparent with their middle management and leadership representation. Companies doing well should be highlighted and supported by the government – perhaps with an award system, a stamp of approval or recognition within an annual report.

3. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

Monitoring and auditing should be the responsibility of the individual organisation, with the government suggesting that these results are regularly reported in their annual report.

Companies are more comfortable with setting themselves their own targets on this agenda than being forced to set unrealistic ones.

We have to accept that in certain sectors and organisations these results will not happen overnight – but if the intention is clear and there is evidence of the company moving forward on this – they should be supported and encouraged, rather than penalised.

Companies need a business-led model to assist them in reaching their target. An Inspirational Journey is the perfect sustainable initiative for this and ensures companies remain focused, on target and continue to work consistently towards improving gender balance throughout all levels – as opposed to a flash in the pan response to legislation which will only temporarily increase the number of women on boards, leaving organisations facing the same problem year on year.

4. *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

Yes, I think there should be sanctions in place for those that have failed to attempt to address the issue after being presented with a business case and a business-led initiative to help them solve the problem.

However, I think that if a company has proved they are doing all they can to address the issue and have shown desire and effort to reaching it but are still falling under the proposed share within the timeframe, that they should be supported and encouraged not penalised.

As previously mentioned; an award system, a stamp of approval or recognition within an annual report may be worth considering. Those achieving excellent results or who are breaking conventions to find ways to resolve the issue should be celebrated and promoted. Companies out of the FTSE 100 need to be supported and celebrated just as much as those in the FTSE 100.

Naming and shaming those who have not moved forward on this agenda should also be a considered policy.

5. *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

30% of NED Boards by 2015 is an acceptable target for the majority of FTSE companies to achieve – but again would suggest that targets should also be set further down the talent pipeline too to ensure the model is sustainable.

If organisations are given a working, sustainable model which provides guidance and support, we see no reason why intervention would be necessary.

6. *Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

As previously mentioned, every country is different and this is not an issue which can be tackled from such a broad perspective. Where quotas have been introduced, although there has been a visible increase of women on boards there has still been nothing done to tackle the underlying issues.

7. *What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

Some of the UK's board-ready women have potential to be considered for European boards. In current circumstances, the biggest disadvantage is that if the UK does not continue to improve its figures in the pipeline and at executive and NED level, then we are not giving our UK women the ability to grow and take up these positions, which in turn will encourage more European women to apply for our NED positions, who may have more board experience than their UK counterparts in the selection process.

However, if we do succeed on a non-quota sustainable approach then the UK will have a significantly better developed talent pool to fish from in future years than its European counterparts that have only improved their current board situation and failed to address the underlying problems, i.e. building a pipeline of female talent.

8. *What are the positive and negative effects of legislative quotas?*

Negative – companies who have spent so much time this last year working on approaches with Lord Davies in support to ensure that we moved on this agenda without the need for quotas will be disappointed, as will many women in the pipeline – and a fear of tokenism rather than meritocratic approach to choosing leaders will be assigned – which will have a negative effect on both genders and may well send us backwards rather than forwards.

Positively it will get more women on boards – no doubt – but it will not guarantee a long term sustainable approach, with many companies just putting women on as NEDs to comply, and our talent pipeline will still continue to leak.

If we do not focus on mending the UK's pipeline – our boards will be filled by American and European women, with little representation from the UK; putting our women at a major disadvantage.

Our advice to Government: to provide as much support and guidance to companies as is required to ensure they are building UK talent for the future...not just now.

9. *Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

An Inspirational Journey provides the UK with a business-led initiative to tackling this issue without the need for mandatory quotas.

An Inspirational Journey is a UK based organisation which strives to increase the number of women working at the top of corporate UK through four initiatives; The Pearls, The Two Percent Club, The 150 Programme and The Women's Business Forum. The organisation is already reaching out to over 4,000 women through its programmes and has over 25 globally recognised companies already on board including many FTSE 350 companies such as Royal Bank of Scotland, Morrisons, BT, Ernst & Young, Squire Sanders, Arriva, DLA Piper, Atkins, Deloitte and Asda. The feedback we have received from our current members has been phenomenal and we expect to have another 40 companies on board by 2013.

We strongly believe that quotas are not the answer. Addressing Britain's boardrooms by adding more women at this level alone is merely papering over a crack when the underlying problems resulting in the under representation of women on boards lie so much deeper within organisations than merely the board.

We appreciate that the government is recognising the positive effect gender balance in the boardroom has on effective business performance and we are pleased that the issue is being discussed on such a high profile agenda. We hope that upon answering the suggested questions, we will clearly demonstrate that:

1. there is an alternative to legislative quotas;
2. that the UK can lead on this agenda and;
3. that our business-led approach is a sustainable long-term solution which could be implemented across Europe and indeed the world.

10. *Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

Support and guidance is most definitely required for women throughout their career, in particular the choices they make whilst in the middle pipeline of an organisation.

Research from ourselves has proven that women compared to their male counterparts have less confidence and self-belief; are less aware of their capabilities and are not as developed

with their contacts and networks – companies need to help and support them with these three attributes if we are to make a change to this. Europe need not be involved – but the government should be used to raise the awareness through campaigns towards business-led initiatives which are easy to implement in any organisation such as that from An Inspirational Journey.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

We strongly believe that gender balance isn't an equality issue for companies any more, but a pure business issue. It has been proven that companies with gender balanced boards achieve 42% higher return on sales, 66% higher return on invested capital and 53% higher return on equity. However, we cannot guarantee that gender balance at board level alone will achieve these results.

We believe that gender balance at executive level is key. These are the people that make the decisions that really affect the way a company is run and the executive level should be the focus for organisations wishing to improve performance. It is at this level where the behavioural benefits such as better management of sensitive issues, better management and control of risk and better corporate governance can be seen to really make a difference, are valued and add to organisation's effectiveness and performance.

Ultimately, success would be what An Inspirational Journey has been seeking to do for the last two years: ensure companies support, guide, retain, grow and develop the most balanced, skilled and talented teams of tomorrow to the top of the corporate hierarchy, Regardless of Gender.

*July 2012*

## **An Inspirational Journey—Written evidence in support of submission by Heather Jackson**

### **Helen Mead:**

I would like to raise my concerns around having quotas for the number of Women needed as representatives on boards. I am a successful businesswoman and feel very strongly that I have earned my place in business and would hate to feel that it had been given to me to satisfy a quota. We need to ensure women have the same support and opportunities as men and are encouraged to try for senior positions but I would like to raise my opposition to quotas.

### **Natalie Sadler, Head of Business Support and Performance Management:**

I completely support this and believe enforced quotas are wrong.

### **Jo Harris, Head of Service and Private Banking Direct, Telephone Banking and Intermediary Services, Royal Bank of Scotland:**

I fully support the response provided by Heather Jackson, Chief Executive of An Inspirational Journey on this topic to the House of Lords.

### **Karen Husband MEng, Senior Process Engineer, Oil & Gas Europe Energy, Atkins:**

I write to note my support of Heather Jackson's response to the proposition for legislative gender quotas on boards. As a young woman 10 years into her career, I believe strongly that legislative quotas are NOT the way forward, and that representation at any level should be based on skill, talent, and the creation of a successful team. There is no doubt that a diverse team is successful, and I feel that it is this message that should be spread, promoted, and encouraged, rather than enforcing quotas on any gender.

### **Karen Haslam, CEO, Vernagroup:**

I am a member of the 2% Club (An Inspirational Journey) and CEO of Vernagroup International. I fully support the clubs view on opposing the proposal for legislative quotas for representation of women on boards and Heather Jacksons response to the House of Lords EU Committee questions on the matter.

### **Mags Easton, TS Head of Multi Channel Sales, Technology Services, RBS:**

I support the views expressed by Heather Jackson - I oppose legislative quotas to improve the representation of women on boards and agree that a grass roots approach to supporting women in developing their careers and reaching their full potential would be a more appropriate way to focus.

**Sophia Wetherell, M&C Saatchi (UK):**

I wish to add my support to Heather Jackson's response.

**Cate Pye, Director, Aerospace, Defence, Security & Resilience:**

I would like to add my voice to that of Heather Jackson as a woman who has worked in male dominated industries for all my career. Quota's are certainly not the answer and will only serve to exacerbate the problem and undermine the work done over decades to establish women as equals to men in business.

Addressing Britain's boardrooms by adding more women at this level alone is merely papering over a crack when the underlying problems resulting in the under representation of women on boards lie so much deeper within organisations than merely the board.

**Alison Brooks, Group Solicitor, Seddon Construction Ltd:**

I strongly oppose the introduction of legislation to provide for quotas for representation of women on corporate boards across the EU. I do not believe that this is the best way forward and think that any decision on this legislative position should be delayed.

I am proud to be a member of the Two Per Cent club which is raising awareness at the highest level of the business case for and demonstrating the benefits of having more gender equal boards and think that this awareness will continue and the momentum is growing and should continue to be the way forward.

I support the attached response from Heather Jackson on behalf of an Inspirational Journey.

**Jo Griffiths, Group Manager – Swindon & Cardiff Rail Solutions, Atkins:**

I support. I am particularly against quotas as given a quota your will try to match it regardless of whether the person in question is the right person for the job. I have had this debate recently when our company suggested quotas to encourage an increase in more female engineers.

Also, I want people to know I was chosen for my post on merit not because I represent a quota.

**Sara Ensor BSc MRICS, Director Real Estate Finance CIB, Royal Bank of Scotland:**

I have been passed a copy of Heather Jackson/ An Inspirational Journey's response to the various questions as to whether quotas should be applied for female representation at board level across the EU and I support her comments wholeheartedly.

I am constantly dismayed by the backwards approach to this worthwhile agenda, all talented people should be nurtured and provided development opportunities from the very bottom of an organisation upwards irrespective of gender.

This is positive discrimination at its very worst and is a long way shy of the answer to fair representation across the piece.

**Lorraine Warwick, Head of Loan Servicing Unit, Structured Finance Portfolio Management, Royal Bank of Scotland Group:**

I would like to voice my support for Heather Jackson's (Inspirational Journey) House of Lords Response against legislative quotas for women at this time.

Whilst I fully support the underlying cause and recognise the economic benefits evidenced in recent reports, as a woman I believe we need to go "back to the floor" as the problem is not just at Board level. Women are not fairly represented in the lower managerial grades and are therefore not coming up through the ranks in sufficient numbers to be able to fill board room positions.

The focus needs to be on how companies are focusing on developing balanced teams of both men and women throughout the corporate hierarchy.

**Jo Humphries, People and Change Director, Arriva UK Bus:**

I was forwarded your note regarding the proposals for quotas - and your opposition.

I fully endorse your view and believe they will be detrimental to progression.

**Rachel Parkman, Group Brands Director, B&Q Division/Kingfisher plc:**

I wish to support Heather Jackson's response on this position; mandatory quotas are not the answer but working with business to develop and support women at all levels. This is not about enforcing positive discrimination but ensuring women of talent are given equal consideration to build diverse corporations.

# **Association of British Insurers (ABI)—Written evidence**

## **Introduction**

### **The UK Insurance Industry**

The UK insurance industry is the third largest in the world and the largest in Europe. It is a vital part of the UK economy, managing investments amounting to 26% of the UK's total net worth and contributing £10.4 billion in taxes to the Government. Employing over 290,000 people in the UK alone, the insurance industry is also one of this country's major exporters, with 28% of its net premium income coming from overseas business.

Insurance helps individuals and businesses protect themselves against the everyday risks they face, enabling people to own homes, travel overseas, provide for a financially secure future and run businesses. Insurance underpins a healthy and prosperous society, enabling businesses and individuals to thrive, safe in the knowledge that problems can be handled and risks carefully managed. Every day, our members pay out £147 million in benefits to pensioners and long-term savers as well as £60 million in general insurance claims.

### **The ABI**

The ABI is the voice of insurance, representing the general insurance, protection, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK.

### **The ABI's role is to:**

- Be the voice of the UK insurance industry, leading debate and speaking up for insurers.
- Represent the UK insurance industry to government, regulators and policy makers in the UK, EU and internationally, driving effective public policy and regulation.
- Advocate high standards of customer service within the industry and provide useful information to the public about insurance.
- Promote the benefits of insurance to the government, regulators, policy makers and the public.

### **Executive Summary**

#### *Diversity of perspective*

There is broad agreement that a board made up of individuals with a variety of skills and experiences has a positive effect on corporate performance. Ensuring that board members

are drawn from different backgrounds introduces a wider range of perspectives. This is integral to effectively overseeing company strategy, risk mitigation and management performance.

As institutional investors, ABI members believe that as companies grow in size and complexity and increase their business activities in the global arena, the significance of board room diversity is increased. In order to achieve long-term success in a competitive international environment, companies need to draw upon a diverse range of perspectives and competencies that are relevant in a globalised business world. A diverse board therefore sends a robust and positive signal to investors that companies are confronting this challenge by ensuring that they have the guidance needed in the boardroom to steer them through every stage of their development.

It is within this context that the ABI supports the increased focus on gender diversity in recognition of the different perspectives that women bring to the board room.

Since the publication of the Davies Review, there has been an unprecedented increase in the number of women being appointed to boards. Over the last 18 months the percentage of new appointments going to women was approximately 26.7% in the FTSE 100 and 27% in the FTSE 250. This has happened as part of the natural process of board refreshment and is encouraging progress. However, it should be noted that these changes are occurring primarily at the non-executive director level.

It is our view that companies should be encouraged to recognise their role in developing the potential of women throughout the corporate pipeline. This will ensure that there is a ready supply of board ready candidates to take up the positions both as executive and non-executive directors as they become available.

### *Quotas*

The European Commission has stated that it is considering using targeted initiatives to get more women into top jobs in decision-making including quotas. Whilst we support the move for companies to boost gender diversity, we are strongly opposed to quotas.

We are concerned that quotas risk making board appointments a box ticking exercise that might prevent companies from securing the right balance of skills. They would result in tokenistic appointments that would lead to the fragmentation of the decision-making process in the boardroom with power resting in the hands of a few board members. Alternatively they may result in female employees being prematurely promoted to senior roles in order to fulfil regulatory requirements. This approach not only fails to respect the natural process of board refreshment, but could result in large and possibly ineffective boards; whilst failing to address the issue of how women progress through their organisation.

We are also concerned that quotas would result in women who are experienced in board membership being selected to serve on multiple boards. Therefore, while the percentage of

women on each board may increase, this will not necessarily reflect a proportional increase in the number of female leaders. In the long term this could encourage group-think in the boardroom without mechanisms for adequate challenge in place. This would be counter to the aim of gender diversity on boards.

Further, we note that quotas could set a regulatory precedent for dealing with other aspects of diversity to the detriment of the company and its shareholders.

### *Role of the EU*

Different corporate governance structures in the EU are the result of different cultures and different working practices. As the EU Commission's Reflection Group on the Future of EU Company Law's Report noted 'the different corporate governance systems of the Union should not be viewed as an obstacle to free enterprise within a single market, but as a treasure trove of different solutions to a wide variety of challenges that has been experienced and overcome.' This includes gender diversity. There can be no one size fits approach.

Our members agree that the Commission has a role in improving the representation of women on boards. This should be done by adopting non-binding recommendations that reflect and encourage best practice. These recommendations should omit reference to targets as they risk being interpreted as quotas and therefore could hinder best practice development. The EU should monitor how the different approaches have worked over a period of time with a view to sharing best practice. The Commission should encourage companies to report on what steps they are taking to achieve gender diversity as part of their efforts to improve board effectiveness

### **Consultation Questions**

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

### **Role of the EU**

1.1. It is the Commission's stated intention to consider using targeted initiatives to get more women into top jobs in decision-making, including quotas. However, whilst we support the move for companies to boost gender diversity, we are strongly opposed to quotas.

1.2. It is important to recognise that promoting gender diversity is not just a numbers game or an exercise in political correctness. Gender diversity is not an end in itself. It is about improving corporate governance by ensuring that the board has diversity of perspective and improving company performance by accessing the widest pool of talent

available to the company at all levels. This in turn ensures that the company has an effective board capable of overseeing its long term success.

I.3. We agree that the Commission has a role in improving the representation of women on boards as part of the greater aim of improving board effectiveness. This should be done by adopting non-binding recommendations that reflect and encourage best practice. These recommendations should omit reference to targets as they risk being interpreted as quotas and therefore could hinder best practice development.

I.4. The EU should monitor how the different approaches have worked over a period of time with a view to sharing best practice. The Commission should encourage companies to report on what steps they are taking to achieve gender diversity as part of their efforts to improve board effectiveness.

### **National Level vs. EU Level**

I.5. It is our view that the EU should respect the principle of subsidiarity and allow member states to continue to develop their own individual approaches to gender diversity. We are concerned that an EU legislative approach to improving gender diversity in boardrooms may undermine those member states that have and continue to develop high standards. Further, as strong proponents of the 'comply-or-explain' system of governance, we do not believe that a one size fits all approach captures the requirements of each individual board.

I.6. It is important to note that the comply-or-explain regime is not self-regulation. This Code based governance is underpinned by clear regulatory requirements for companies to provide disclosures on how the firm is governed and to provide explanations for derogations from the Code. This approach provides companies with the necessary flexibility to address issues of gender diversity on their boards whilst ensuring that the boards remain effective.

### **Board Structures**

I.7. Different corporate governance structures in the EU are the result of different cultures and different working practices. As the EU Commission's Reflection Group on the Future of EU Company Law's Report<sup>4</sup> noted 'the different corporate governance systems of the Union should not be viewed as an obstacle to free enterprise within a single market, but as a treasure trove of different solutions to a wide variety of challenges that has been experienced and overcome.' These different governance systems will provide member state specific approaches to gender diversity that will be suited to their own unique situations.

I.8. In the UK we believe that this is best achieved through voluntary targets towards which a company should aspire to, based on its needs, board composition and board structure. A common EU approach to board diversity would not take this into account.

2. *Can a “voluntary approach”, or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

### **Voluntary Approach**

2.1. Since the publication of the Davies Review there has been an unprecedented increase in the number of women being appointed to boards. In the last 18 months, the percentage of new appointments going to women during the same period was approximately 26.7% in the FTSE 100 and 27% in the FTSE 250.

2.2. In September 2011, we published the Report on Board Effectiveness, highlighting best practice: encouraging progress.’ The report draws together recommendations for maximising the performance of company boards. It uses practical business examples to illustrate the ways in which a variety of leading companies currently implement diversity, succession planning strategies and board evaluation.

2.3. As part of this report we conducted a thorough analysis of FTSE 350 Annual Reports to highlight what companies are doing to address the question of diversity, including gender in their boardrooms and across the whole organisation. We found that 19.1% of FTSE 100 and 6.6% of FTSE 250 companies provided a material statement. A sample analysis of the annual reports that have been published since the publication of the Report finds that that 78% of FTSE 100 and 48% of FTSE 250 companies provide material statements on the steps they are taking to address the issue of gender diversity on their boards.

2.4. Further, UK executive search firms have drawn up a Voluntary Code of Conduct that includes, amongst others, the commitment for search firms to ensure at least 30% of the candidates on their long lists are women.

2.5. In the EU, the European Round Table of Industrialists (ERT) which is made of Europe’s biggest companies and leading executive search firms, committed to creating a European cross-industry database of female candidates for non-executive and supervisory board positions to stimulate increased participation of women on boards.

2.6. However, it should be noted that these changes are occurring at the non-executive director level. We believe that companies should be encouraged to recognise their role in developing the potential of women throughout the corporate pipeline. This will ensure that there is a supply of board-ready candidates to take up the positions both as executive and non-executive directors. It is within this context that we welcome the ERT initiative to publicise their company-specific targets for the advancement of women in their careers. This is encouraging progress that we believe can be sustained on a voluntary basis.

### **Maintaining progress**

2.7. It is our view that the rate of change can be sustained through various initiatives such as the ERT highlighted above. This can be done by the Commission highlighting such best

practice and setting forward non-binding recommendations from the progress that is being made both at EU and Member State level.

2.8. In the UK we believe we will continue to see progress as the changes to the UK Corporate Governance Codes are allowed to bed down. It is important to note that the increase in women being appointed to boards has occurred as part of the natural process of board refreshment. We expect to see continued momentum as this process continues.

2.9. Our members as institutional investors continue to engage with companies on gender diversity as part of a broader discussion on board effectiveness. Board diversity has now been included as a metric on the Institutional Voting Information Service to allow our members and subscribers to keep track of company progress.

2.10. In addition we note that reports, such as the ABI's Board Effectiveness Report, will continue to encourage progress by highlighting best practice on how companies are reporting on the challenges they face as part of addressing the gender balance both on the board and within their organisation. We will be updating this report later in the year.

3. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

3.1. It is our view that any initiative adopted at EU level should be in the form of non-binding recommendations that are aimed at encouraging best practice. The EU should monitor progress as part of its role in disseminating best practice and promoting the benefits of gender diversity. They should also encourage companies to report on what steps they are taking to promote the diversity necessary to maximise the effectiveness of their board and as part of that, what consideration they have given to gender diversity.

4. Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?

4.1. *We are highly opposed to sanctions that in any case would be an inappropriate tool for any initiative of recommendations at EU level.*

4.2. Board diversity is about seeking improved growth and success in an organisation, therefore board appointments must be driven by needs of the company and the skills and ability of the individual. Sanctions would lead to tokenistic appointments that would negatively impact the working of the board, the running of the company and ultimately would be to the detriment of shareholders.

5. *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

5.1. The Davies Review recommended FTSE 100 boards should aim for a minimum of 25% female representation and FTSE 250 companies should aim to apply the 2/3 men, 1/3 women rule to all new appointments. Given the current rate of progress, FTSE 100 companies will be able to achieve 25% by 2015. While FTSE 250 companies may not, 27% their board appointments made by March 2012 have been women.

5.2. FTSE 250 companies face a greater challenge because their boards are smaller, and there is less attrition, consequently, the natural opportunities to refresh the board will be lower. Therefore, they will need more time. Further, we are concerned that legislative intervention, or the threat of it, will mean that smaller companies would need to enlarge their boards in order to address diversity. Large boards do not necessarily translate into more effective boards.

5.3. We are also concerned legislative intervention would result in an increase in the number of non-executive directors on boards without addressing how women progress through the corporate pipeline. Alternatively it may result in female employees being prematurely promoted to senior roles in order to fulfil regulatory requirements.

5.4. ABI members believe that, so as to ensure the success of a company, appointments - both at board level and below - should be made on the basis of business needs, skills and ability. This will ensure that the company has the right mix of individuals capable of ensuring its long-term success. Any form of legislative intervention at national or EU level would put this at risk.

5.5. It is our view that the current UK Corporate Governance Code offers the right balance on a comply-or-explain basis.

6. *Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

### **Other Member States**

6.1. It is too early to judge what the impact of quotas in member states such as France, Italy and Belgium will be. However in Norway, though quotas have increased the number of women in the boardroom, women still only make up 2% of CEOs and 10% of executive committee members. This is not addressing the issue of how women progress through their organisations, which is the real underlying issue that we need to address if we are to properly improve gender representation at all levels.

6.2. In addition, whilst gender quotas are intended to give more women an opportunity to serve as leaders, in Norway this has resulted in women who are experienced in board membership being selected to serve on multiple boards. Therefore, while the percentage of women on each board may increase, this will not necessarily reflect a proportional increase in the number of female leaders.

## Consistency across the EU

6.3. Board diversity, and therefore gender diversity, is about good corporate governance. Good corporate governance has a role to play in promoting growth for the benefit of all the participants in the single market.

6.4. As we have noted above, different corporate governance systems of the Union should not be viewed as an obstacle to free enterprise within a single market. Rather, this divergence presents different solutions that are suitable for different situations.

6.5. It is our view that the EU should respect the principle of subsidiarity and allow member states to continue to develop their own individual approaches to gender diversity. We are concerned that an EU legislative approach to improving gender diversity in boardrooms may undermine those member states that have and continue to develop high standards. Further, as strong proponents of the 'comply-or-explain' system of governance, we do not believe that a one size fits all approach captures the requirements of each individual board.

7. *What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

7.1. A board made up of individuals with a variety of skills and experiences has a positive effect on corporate performance. Ensuring that board members are drawn from different backgrounds introduces a wider range of perspectives. This is integral to effectively overseeing company strategy, risk mitigation and management performance.

7.2. Companies with diverse boards stand to gain substantial benefits to their reputations. This is because a healthy mix of backgrounds and perspectives among non-executive directors can enhance a company's sensitivity to a wider range of possible risks to its reputation. Diverse boards have also been found to help companies manage key constituencies including shareholders and employees.

7.3. In addition, as companies grow in size and complexity and increase their business activities in the global arena; the significance of boardroom diversity is increased. In order for companies in the EU including the UK to gain long-term success in a competitive international environment, companies need to draw upon a diverse range of perspectives and competencies that are relevant in a globalised business world. This can be achieved by ensuring that boards have a higher representation of women who will introduce a diversity of perspective into the boardroom.

7.4. A diverse board, therefore, sends a robust and positive signal to investors that companies are confronting this challenge by ensuring they have the guidance needed in the boardroom to steer them through every stage of their development.

8. *What are the positive and negative effects of legislative quotas?*

8.1. We are concerned that, whilst gender quotas are intended to give more women an opportunity to serve as leaders, this can result in women who are experienced in board membership being selected to serve on multiple boards. Therefore, while the percentage of women on each board may increase, this will not necessarily reflect a proportional increase in the number of female leaders. In the long term, it could encourage group-think in the boardroom without mechanisms for adequate challenge in place. This would be counter to the aim of increasing gender diversity in the boardroom.

8.2. Our members are concerned that quotas do not respect the natural process of board refreshment. A quota would mean that companies would have to appoint more board members, resulting in larger and possibly ineffective boards. We note that a quota would not necessarily deliver the individuals with the best skill set. Rather this approach could result in tokenistic appointments that would lead to the fragmentation of the decision making process with power resting in the hands of a few board members; whilst failing to address the issue of how women progress through corporations.

8.3. We are also concerned that this approach to gender diversity may set a regulatory precedent for dealing with other aspects of diversity. This would be detrimental for the company and its shareholders, as the appointments to the board would move towards a box ticking exercise that might prevent companies from securing the right balance of skills.

8.4. Promoting greater diversity in any form is not just a numbers game or an exercise in political correctness. It is about seeking improved growth and success in an organisation. It is about improving corporate governance and company performance by accessing the widest pool of talent available to the company at all levels.

8.5. We believe that ensuring the board is composed of members from different backgrounds, with a wide range of skills and experiences, introduces a diversity of perspective that will help to promote the company's long-term success. Quotas put this aim at risk.

9. *Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

9.1. It is our view that the Commission should adopt non-binding recommendations that reflect and encourage best practice. The EU should monitor how the different approaches have worked over a period of time with a view to sharing best practice.

9.2. The Commission should look at how it can encourage all member states to improve their standards. This would be best achieved by the Commission promoting an understanding of the importance of gender diversity in the boardroom and promoting best practice.

9.3. The Commission should encourage companies to report on what steps they are taking to achieve the diversity necessary to maximise the effectiveness of their board, and, as part of that, what consideration they have given to gender balance.

*10. Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

10.1. Companies should be encouraged to recognise their role in developing the potential of women throughout the corporate pipeline. They should wherever possible set out and report on measurable objectives and other steps being taken to promote gender and other forms of diversity in their organisation, from the bottom up.

10.2. This can be done by reporting on, how they develop diversity throughout the business; setting targets for female representation in their organisations; setting up mentoring schemes, and encouraging wider female representations in traditionally male-dominated industries.

10.3. We believe that over time these plans should help increase the number of women rising through the executive ranks and therefore increase the pool available for non-executive recruitment.

10.4. As it stands the lack of female executives has a subsequent impact on the number of individuals who become non-executive directors as the vast majority come from executive roles in the corporate sector. It is therefore important for companies to consider other talent pools for non-executive roles – not all directors need to be drawn from executive roles in publicly listed companies. Companies should also be encouraged to look at the several sources of talent in the broader non-commercial sectors that traditional non-executive recruitment processes may overlook.

10.5. However, it is important not to overstate the number of women at the top of the political, public and voluntary sectors. A closer analysis of the numbers finds that the low percentage of women at the top is not specific to the corporate sector. For example only 13.2% of local authority council leaders, 14.3% of university vice chancellors, and 12.9% of the senior judiciary currently serving are women

10.6. This relatively low level of female representation in listed companies, and in other sectors, suggests that the reasons for women not making it to the very top are not specific to the business world. We would, therefore, suggest that the most effective solutions to promote significantly greater female representations at the top levels will primarily be societal rather than enforced through legislation and quotas.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

11.1. From a shareholder perspective success is having a board that is composed of members from different backgrounds, with a wide range of skills and experiences, which introduces a diversity of perspective that will help to promote the company's long-term success.

11.2. Board members with diverse perspectives are more likely to challenge previously held assumptions and break down the tendency towards 'group-think' that can arise where a board is composed solely of like-minded individuals. This is integral to effectively overseeing company strategy, risk mitigation and management performance; and will be to the benefit of the company's long term shareholders and wider stakeholders.

*July 2012*

## **Austrian Federal Chancellery—Written evidence**

The Austrian Federal Chancellery – Division for Women and Gender Equality would like to provide its comments on the considerations of the European Commission to propose legislative quotas to improve the representation of women on boards across the EU.

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

Studies and European-wide research reports show that gender imbalance on corporate boards is a fact and a challenge in all EU member states. But they also demonstrated a correlation between companies' improved commercial and financial performance and the presence of women in their decision-making bodies stressing that meaningful representation of women on management level actually serves to enhance performance and commercial competitiveness. The currently fragmented legislation and approaches within Europe result in unsteadiness and cutbacks in economic competitiveness across EU member states.

Various initiatives were already set on EU-level to remove the barriers to women joining the labour market and to offer women equal opportunities in obtaining senior management posts. These initiatives foster that all existing resources are efficiently utilised, that women's skills and strengths are channelled to best effect, and that the best possible use is made of the human potential in the EU. The Europe 2020 Strategy, the EC Strategy for Equality between Women and Men (2010-2015) and the recent initiative of Vice-President Reding, the "Women on the Board Pledge for Europe" were designed with a view to ensuring that the EU's core values are defended, given that equality is a fundamental principle.

*2. Can a "voluntary approach", or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

Regarding the private sector, the voluntary approach turned out to have less impact:

- In March 2012 only 5.1% (2011: 4.4%) members of executive boards and 11.2% (2010: 10.3%) of supervisory boards were women, despite the recommendation of the Austrian Code of Corporate Governance.
- Listed companies in Austria are obliged since 2010 to report on measures taken regarding the advancement of women. Since there are no sanctions, only 41% of relevant companies complied.
- Since 2012 companies have to consider gender balance in electing their boards.

To conclude, proactive initiatives and measures taken by the private sector to increase female representation have proved useful and should be encouraged. Nevertheless they are not yet sufficient to alter the status quo within companies, and women remain under-represented at management level.

The Governmental Decision in 2011 to apply quota regulation in public and semi-public companies proved after one year to be a successful mean to quickly increase women's participation in decision-making positions (see also below).

3. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

Progress should be monitored on one hand on national level according to national law implementing and considering legislation on EU level. On the other hand, monitoring and reporting about the progress should be provided by EU institutions including the European Commission.

4. *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

Studies and experiences from other EU member states show that sanctions are essential in implementing binding gender targets. Possible ways of enforcement should be connected to general rules of company legislation and could reach from serious fines to court orders. In Austria, for example, the court appoints on application board members when the supervisory board lacks the stipulated number of board members for more than three month (§ 89 Companies Act and § 30d Limited-Liability-Companies-Act). A similar provision could be applied for boards which do not fulfil the gender target. Also the denial of quorum and all its consequences like the loss of income of managers, suspension of quotation of the company, etc. have shown to be effective means to punish non-observance of gender quota regulations.

5. *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

Experiences from all EU member states over the last years have demonstrated that self-regulation and voluntarily set targets tend to work too slowly. Evaluations confirm that – at current pace – it would take more than 30 years to reach a critical mass of women on boards to have a sustainable impact on European economy and decision-making. Obviously, self-regulation is no appropriate means to raise the representation of women on boards. The Austrian Minister for Women and Public Services therefore welcomes the intentions of EU-Commissioner Reding to propose legislative measures. The target set forth last year of reaching a 30%-participation of women by 2015 and 40% by 2020 should be a first step.

6. *Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

European-wide legislation on women on boards could enhance economic growth and sustainability by using the full potential of the female 51% of Europe's population and their human and social capital. As some countries started to introduce their own legislation individually, a European regulation could add more certainty and consistency in the single market.

7. *What are the positive and negative effects of legislative quotas? and*

8. *Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

Quotas would be the easiest and quickest way to increase the number of women on boards. Additionally, a shift of attitudes and role models has to be initiated throughout Europe in order to facilitate women's access to top management positions. Accompanying measures such as Europe-wide networks, mentoring programmes, Governance Excellence Programmes and databases for women on boards should make the high potential of women more visible. Initiatives addressing a fairer sharing of family care responsibilities not only within the family, but also between the family and society and the reduction of the gender employment and pay gap could maximise women's equal opportunities and access to senior positions.

9. *Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

In Austria, several measures have been taken to encourage women to aim for senior positions and board membership:

- Networks have been built, programmes for female managers have been established and a database for women on boards was made available to the public. The database includes women with strategic and operative competences, especially entrepreneurs and executive managers, in order to provide a pool of recommendable or potential female board members ([www.aufsichtsratinnen.at](http://www.aufsichtsratinnen.at)). An overview of all measures is available on

<http://www.frauen.bka.gv.at/site/6870/default.aspx>

- Special action days such as the "Girls Day" ([www.girlsday-austria.at](http://www.girlsday-austria.at)) want to enhance interest of girls to take up professions not typical for women, while the "Boys Day" ([www.boysday.at](http://www.boysday.at)) encourages boys/men to take up e.g. educational and nursing professions.

- Finally, the Austrian National Action Plan „Gender Equality in the Labour Market“ from 2010 stipulates to provide equal access of women in in-house trainings to qualify for higher posts and advancement opportunities, to facilitate care-giving responsibilities, to foster equal access for women to management positions and ensure a proper gender balance in assignments and postings.

*10. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

For now, quotas of 35-40% seem to be a feasible and reasonable target. In the longer run, there is no reason why both sexes should not be represented equally on company boards.

*28 June 2012*

## **Aviva—Written evidence**

### I. Overview

I.1 We are delighted with the opportunity to respond to the House of Lords EU Sub-Committee B inquiry into the EU Women on Boards proposals.

I.2 Aviva also submitted a response to the European Commission's call for evidence.

I.3 Aviva provides 43 million customers with insurance, savings and investment products. We are the UK's largest insurer and one of Europe's leading providers of life and general insurance. We combine strong life insurance, general insurance and asset management businesses under one powerful brand. We are committed to serving our customers well in order to build a stronger, sustainable business, which makes a positive contribution to society, and for which our people are proud to work.

I.4 We welcomed the Lord Davies Independent Review into Women on Boards and the progress that has been made to date. In this submission we reflect on this progress and suggest a number of ways in which the number of women on corporate boards can be increased in a sustainable way.

I.5 Aviva is committed to helping increase the proportion of women in senior leadership positions in the business world.

I.6 We do not believe that mandatory quotas are the best way to achieve a better gender balance on company boards. Instead, we believe that market instigated and based initiatives, including targets, underpinned by the principle of 'comply or explain', is the best way to achieve long term sustainable change.

I.7 A self-regulatory approach is proving effective, but needs time to succeed. We think that companies should be and can be doing more, taking a proactive approach to increase the number of women on their corporate boards.

I.8 We suggest that companies should set targets and report on these targets to their shareholders. In turn, institutional investors have a role to play by putting pressure on the companies they invest in to achieve progress.

I.9 In addition we believe companies should be investing in talent pipelines and mentoring programmes as well as working with their external recruitment partners to achieve progress.

I.10 We would be delighted to answer any questions that you may have on our submission.

2. *To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European Level or is it a matter for national governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

2.1 We believe that self regulation is the key to addressing the issue of balanced leadership. However, both the EU and Member State governments have important roles in encouraging change in this area.

2.2 There are currently wider debates at an EU level on issues such as the composition, objectives and limits on the number of board directorships individuals can hold (particularly in the financial services sectors), which are typically framed as a 'comply or explain' requirement. These wider corporate governance debates must have as their primary objective restoring investor and public confidence in European companies.

2.3 We believe that the EU must have a consistent approach to corporate governance and this must be based on the "comply or explain" principle.

2.4 The issue of gender balance on boards could also be treated effectively in this way. This would result in a consistent EU approach to governance issues.

3. *Can a voluntary approach or self-regulation achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

3.1 Aviva welcomed the Lord Davies 'Independent Review into Women on Boards' and is fully supportive of the recommendations that were made in the report to help increase the representation of women on company boards. Amanda Mackenzie, Aviva's Chief Marketing and Communications Officer, was a member of the steering group for the Lord Davies review.

3.2 We do not believe that mandatory quotas are the best way to achieve a greater gender balance on company boards. Instead, we believe that market instigated and based initiatives, including targets, underpinned by the principle of 'comply or explain' is the best way to achieve long term sustainable change.

3.3 We believe that a lack of effective and official leadership in companies up until now on the issue, rather than a failure of self-regulation, has accounted for the slow progress.

3.4 We believe that self regulation is the key to addressing the issue of balanced leadership. Many of the self regulation mechanisms and proposals, such as the Davies Report, are still very new. They must be allowed to become embedded and for companies to be given the opportunity to adapt and embrace them. In addition, companies need the time to nurture potential female executives within their firms and to develop them into effective leaders.

3.5 However, whilst progress appears slow, we are already seeing significant improvements. The Cranfield School of Management released a report on the first anniversary of the Lord Davies Review, which revealed a significant move in a positive direction. The number of female-held directorships has risen in one year from 12% to 15.6%, the highest ever rise. They argue that if this pace of change continues almost 30% of directors could be women by 2015 and almost 40% by 2020.

3.6 Further, figures released by the Professional Boards Forum BoardWatch on 26 June 2012 appears to show that that progress is accelerating, with 44% of new FTSE 100 appointments going to women in recent months. As a result, a quarter of FTSE 100 firms have now reached the Davies target. We must allow the opportunity for this change to further continue in the first instance.

3.7 Market driven initiatives, on a comply or explain basis, coupled with the reform of the Corporate Governance Codes and the encouragement of responsible stewardship will in our view be the best way of achieving balanced and effective boards.

### **Internal company talent pipelines**

3.8 Companies should be investing in talent pipelines. At Aviva, 21% of senior executives are female. We actively encourage senior female employees to take on non-executive director roles and are considering the development opportunities that could be realised by appointing senior female employees to the boards of Aviva subsidiary companies.

3.9 We have deployed senior leaders and female non-executive directors as role models that support balanced leadership. One example is a mentoring scheme through which members of Aviva's executive team are being mentored by potential future female leaders.

3.10 Such planning and training will help develop a sufficient number of women to be effective on boards and will contribute to proper succession planning within companies.

3.11 All companies should be encouraged to engage in similar activities such as mentoring, sponsorship and making appointments to subsidiary boards and to actively report on these and other diversity issues to their shareholders.

### **Diversity charters/commitments with external recruitment partners**

3.12 Aviva has piloted diversity charters and has had some encouraging initial successes. We have also asked our recruitment partners to sign up to a "code of conduct".

3.13 In addition, in response to a recommendation of the Davies Review, executive search firms have drawn up a Voluntary Code of Conduct. This code includes the commitment for search firms to ensure at least 30% of the candidates on their long lists are women. Where they do not meet this target, they must justify the reason to their clients by demonstrating the scope and rigour of their search.

4. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

4.1 As outlined above we believe that one of the ways in which we can see a continued increase in the number of women on corporate boards is through target setting and reporting.

4.2 We agree with the Davies Review recommendation that companies should voluntarily set and disclose their approach to diversity. Diversity reports should then be put to an advisory vote at AGMs.

4.3 This approach of target setting and reporting could be replicated at an EU level.

4.4 Through this fuller and more open disclosure, the shareholders of companies and potential investors can apply more pressure on companies if needed to act in a responsible and balanced way.

4.5 At Aviva we take investor engagement seriously. The Aviva Investors' Corporate Governance and Corporate Responsibility Voting Policy on Diversity can be found here: [http://www.avivainvestors.co.uk/internet/groups/internet/documents/salessupportmaterial/pdf\\_027657.pdf](http://www.avivainvestors.co.uk/internet/groups/internet/documents/salessupportmaterial/pdf_027657.pdf)

4.6 Eurostat polling could be another important way of collecting information at an EU level on an annual basis.

5. *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved.*

5.1 We believe that any initiative should be market led and based on the 'comply or explain' principle. This will mean that the market will sanction companies that do not meet their stated objectives.

5.2 However, if in the future there is no further progress, then the need for legislative or non legislative measures should be reviewed again. The implicit threat of future legislative action in encouraging movement in this area should not be under-estimated.

5.3 Companies who are committed to increasing balanced leadership should also apply pressure on suppliers and partners to take action. In particular, we acknowledge the importance of institutional investors and the asset management sector taking a leading role. Encouraging investors to see this issue as a business imperative would be very helpful in achieving the goal of more balanced leadership.

5.4 In addition, the EU institutions and Member State governments should consider diversity issues as a core factor when awarding public contracts.

5.5 Finally the threat of quotas should not be underestimated as an incentive for change.

6. *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

6.1 Aviva believes that self-regulation is proving effective but needs time to succeed. Increases to objectives of number of women on boards must be incremental and non-binding for reasons set out above. We have publicly committed to the recommendation of the Lord Davies Report to maintain a minimum of 25% female representation on the board by 2013.

6.2 We are also members of the 30% Club, which is a group of Chairmen and organisations who are 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.

6.3 We believe that this must be increased over time, but that the key thing is change in corporate culture and development of an ongoing pipeline to populate boards. Thus we support voluntary reporting on a 'comply or explain' basis.

6.4 However, if in the future there is no further progress, then the need for legislative or non-legislative measures should be reviewed again. The implicit threat of future legislative action in encouraging movement in this area should not be under-estimated.

7. *What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages/disadvantages?*

7.1 We believe that a more balanced leadership will bring economic benefits.

7.2 There is a growing body of evidence to support this. In addition to the findings in the European Commission's report, reports from McKinsey , The Economist and Ernst & Young point to a positive correlation between women in management positions (and throughout the workforce) and a rise in the economic performance of those companies analysed.

7.3 Ultimately it makes better business sense for companies to invest in diverse talent.

8. *What are the positive and negative effects of legislative quotas?*

8.1 We do not believe that mandatory quotas are the best way to achieve a greater gender balance on company boards. Instead, we believe that market instigated and based initiatives, including targets, underpinned by the principle of 'comply or explain', is the best way to achieve long term sustainable change.

8.2 Another of the significant reasons we are opposed to the introduction of quotas is because there is simply no evidence that the majority of women want them.

### **Quotas are not appropriate and may even be damaging**

8.3 Mandatory quotas are blunt, unsophisticated instruments that do not address the root causes of the issue. We believe in a more sustainable solution whereby chairmen are engaged in setting and achieving voluntary targets rather than engaging in a tick box exercise to satisfy a legal requirement.

8.4 The European Commission rightly points out that the key issue for sustainable balanced leadership is "empowering women to take leadership positions". We believe that the introduction of set quotas could, in fact, diminish their influence on boards.

8.5 Quotas will always be seen as tokenistic, with the risk that boards are populated by less qualified women simply to make up the numbers. In this case truly effective women may struggle to be respected and will struggle to be influential as a result.

8.6 There is also evidence from Norway that the introduction of a quota can undermine shareholder value. Research by Ahern and Dittmar, from the University of Michigan, shows the introduction of mandatory quotas in Norway in 2003 damaged shareholder value.

8.7 From 2004 Norwegian companies were required to have 40% women directors (at the time women made up 9% of board populations in Norway). The authors found: "Significant decreases in operating performance and higher costs as a result of the imposition of the quota. These results are consistent with boards of directors that lack sufficient experience to act as capable advisors." It also led to a large number of companies de-listing from the Norwegian stock exchange.

9. *Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

9.1 Aviva is committed to increasing the proportion of women in senior leadership positions in the business world. We do not believe that mandatory quotas are the best way to achieve a greater gender balance on company boards. Instead, we believe that market instigated and based initiatives, including targets, underpinned by the principle of 'comply or explain' is the best way to achieve long term sustainable change.

9.2 European Level: target setting and reporting

9.3 We agree with the Davies Review recommendation that companies voluntarily set and disclose their approach to diversity. Diversity reports should then be put to an advisory vote at AGMs.

9.4 This approach of target setting and reporting could be replicated at an EU level.

9.5 Through this fuller and more open disclosure, the shareholders of companies and potential investors can apply more pressure on companies if needed to act in a responsible and balanced way.

9.6 National Level: Tax changes

9.7 An area where there could be useful legislative change is taxation. In many Member States, the high cost of child care means that some women cannot afford to re enter the work force after starting a family. A simple change which would make child care costs tax deductible could see a marked increase in the ability of women to continue in full time employment, thus further enhancing the talent stream.

*10. Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

10.1 See response to question number three.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

11.1 Aviva has publicly committed to the recommendation of the Lord Davies report to maintain a minimum of 25% female representation on the board by 2013.

11.2 We are also members of the 30% Club, which 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.

11.3 We believe that this must be increased over time, but that the key thing is change in corporate culture and development of an ongoing pipeline to populate boards. Thus we support voluntary reporting on a 'comply or explain' basis, as set out above.

*July 2012*

## **Ben Black, Managing Director, My Family Care—Written evidence**

I run a business called My Family Care. We employ 300 people and work with a number of the UK's leading employers helping ensure family commitments and careers are not mutually exclusive. Clients include businesses such as IBM, Barclays, Centrica, P&G, Shell and GSK. As such I'm very interested in female leadership issues generally.

With regard to your call for evidence I am qualified to answer in relation to Question 10.

*Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

My input is as follows:

The biggest barrier to gender equality is “family”. The majority of family responsibility (typically childcare issues but increasingly eldercare) falls on the mother. From a policy perspective there is little Government can or should do to change this other than giving a few useful pushes in the right direction – changes to paternity leave being a good example. For women to occupy 25% of genuine executive positions on FTSE boards childcare needs to be massively more flexible and affordable. Here the Government has an opportunity to make an enormous difference.

To have real impact there are 3 easy (or at least easy to articulate) steps to follow:

1. Relax the rules for how employers can tax-effectively support their working parents and carers. The infrastructure is already in place via childcare vouchers but the rules exclude nannies, eldercare, informal care, maternity coaching for female leaders etc.
2. Make it incumbent on employer payroll departments to ensure that the rules are being followed.
3. Increase the amount available to working parents and carers.

Our clients are typical. They are increasingly keen to support their working parents and carers and a Government push would turn the current stream of employers actively support mothers and carers into a torrent. In addition it would:

- Address many of the problems of the childcare industry; and
- Start addressing some of the pressures faced by our 3 million working carers.

*18 June 2012*

## **Brook Graham—Written evidence**

### **I. Introduction**

I.1 Brook Graham Ltd ('BG') is a UK based global consultancy firm specialising in Diversity and Inclusion ('D I'). Our client base comprises many of the world's largest multinational companies, the majority listed in the FTSE100, and representing a wide cross-section of business sectors. BG was set up in 2004 by its two female founders, both of whom had long corporate careers and operated at senior executive level within major firms (Shell International and Lloyds TSB) before launching BG.

I.2 Whilst our work at BG covers the entire spectrum of DI topics and activities, the subject of gender diversity (by which, for the purposes of this brief note, we mean the attraction, development and inclusion of female talent) continues to be a key strategic challenge for our clients and therefore represents upwards of 60% of our work. As yet, we have not encountered a client who is fully satisfied that they are able to identify, develop and progress their female talent to the extent that they wish to do so. In other words, we would argue, based on our direct experience, that there is wide consensus that there is still considerable under-utilised female talent in corporate talent pools, and therefore in 'UK PLC' as a whole. (This is not to suggest, of course, that all men in the workforce are fully developed or utilised, in contrast to women. But women are, unarguably, disproportionately affected and disadvantaged in this regard.) We mention this because we believe it provides a helpful context to the issues under consideration by the sub-committee.

I.3 The input we can make to the sub-committee's work is therefore rooted in our experience in this field, and in particular we offer some views on what we believe is important to growing the 'female talent pipeline', within individual firms and to provide a pool of candidates for Board positions, both Executive Director ('ED') and Non- Executive Director ('NED') . With smaller board sizes nowadays, EDs of companies do not automatically sit on main boards; developing the pipeline of female talent for ED positions is nevertheless, as research shows, a pre-cursor to expanding the pool of available women for NED positions; hence the activity on which we focus is an essential part, we believe, of bringing about sustainable change.

### **2. The Female Talent Pool**

2.1 Our work on the challenges faced by our clients in growing their female talent pool typically includes:

- Firstly, identifying and analysing the issues and barriers which are preventing women from progressing more quickly, in line with their talents and potential.

- Secondly, putting in place the measures which can help overcome these and create the systemic change necessary to drive progress. This involves many different strands of activity, focusing on everything from the company's talent management 'architecture' (its policies, processes and systems) to its organisational culture and the role and behaviour of its leaders with regard to fostering talent.

2.2 In order to build a robust talent management approach which will accelerate the progress of talented women, it is clear to us that change needs to take place on multiple fronts in a carefully managed and monitored way, over a sustained period of time. In other words, we do not believe that this is an issue which will 'fix itself', given enough time, without clear, decisive intervention.

2.3 We see considerable evidence that suitably designed, focused efforts to build the female talent pipeline inside companies produces results. It requires a number of things to be successful, including, crucially, committed leadership from the top. That in turn requires the senior leaders themselves to understand the issues involved in ways that go beyond superficial analysis. Fortunately, we see more and more examples of senior leaders who are prepared to do this and who are therefore able to sponsor and drive the necessary changes, including in behaviours at the top. This is not to say that there is yet universal good practice, even amongst major companies; but there is a marked trend towards addressing this issue and some notable pockets of excellence. This trend has been driven both by growing internal recognition of the strategic importance of having the best possible mix of talent at all levels and, at least in some cases, by the external 'pull' provided by the 'women on boards' debate in the UK and more widely.

2.4 We see a precise parallel with the issue of under-representation of women on boards; in order to be addressed, it needs clear and concerted action to be taken, on multiple fronts. The progress that has been made in the UK in recent years, undoubtedly accelerated by the Lord Davies review, has also shown that leadership from the top, by some Chairmen and CEO's, can and does make a crucial difference.

2.5 We see no evidence that, without such clear, concerted effort, the issue of under-representation of women on boards would simply resolve itself, given enough time. It is also worth stating here that we are strongly of the view that there is not a supply-side problem i.e. we believe there is a rich supply of talented women within the UK to move into NED and ED positions.

2.6 The challenge as we see it is one, fundamentally, of re-engineering the thinking and practical steps by which board candidates are identified and recruited to those roles, and thereby significantly widening the pool of potential candidates to include women who are currently overlooked. And, in parallel, one of providing sufficient development for the women concerned in their executive careers to have the necessary exposure and experience to feel confident about taking them on. Women with Executive Committee experience comprise the key candidate pool for future board appointments.

2.7 In summary, it is a matter of 'changing the game' in terms of organisational culture and practice, and, whilst the game is changing, enabling women to 'play the game' effectively and progress up the corporate ladder.

### 3. Targets and Quotas

3.1 In terms of the questions under review about the potential impact of having quotas set by the EU, it may be helpful to share our experiences of discussing both quotas and targets with many different stakeholder groups in client companies, over many years. Firstly, we still find that, surprisingly often, people use the terms interchangeably or say one but mean the other.

3.2 For the sake of clarity, the 'working definition' we use is as follows:

Targets are 'a realistic appraisal of what is possible by a given future date' providing that resourcing and talent systems are operated in a way that is free of unintended bias and historical artificial barriers to the progress of under-represented groups are dismantled.

Quotas involve 'reserving a certain number of jobs for members of a given group which has been, historically, under-represented.'

3.3 The organisational and cultural challenge implied by the above definition of targets is significant, because it involves organisations undertaking the hard work to understand the barriers and unintended biases that are present, and tackle them in a concerted way. In this sense, targets can be an important strand of a 'positive action' strategy. Quotas, as defined above, fall into the category of 'positive discrimination', which is a key distinction in our view.

3.4 We find that the question of setting targets (or quotas where they are legal) is one which tends to provoke much debate and little consensus, even within individual companies. There are, in our experience, strongly polarised views as to the merits or otherwise of setting targets (and more so quotas), and a great deal of concern about the implications of doing so.

3.5 Members of the potential 'target group' (e.g. women in this case) frequently express serious concerns i.e. they say that the very last thing they wish to see is promotion driven by measures associated with positive discrimination, which can therefore bring the merit of their appointment into question.

3.6 Our view, as practitioners, is that when properly positioned and communicated, and when part of an overall process of managing talent, demographic targets which organisations set for themselves can play a hugely important role. Businesses have targets for a wide range of things which are critical to their performance and sustainability (profitability, market share, product development cycles, health and safety and for other aspects of HR management). Targets drive the machinery of performance when properly set, communicated, measured and accounted for. So we see no reason why the strategically

important matter of talent should not also be covered by suitable targets. Indeed, the lack of such targets can, inadvertently, convey the message that the enterprise is not fully committed to seeing its demography or culture change, despite whatever words it publishes on having a diverse talent pipeline and/or an inclusive culture.

3.7 It is our experience that where companies set targets for improvement at each level of the female talent pipeline, change is focused on building a sustainable feeder pool of female talent for top positions. In a comparatively short space of time, this makes a real difference to actions taken in managing female talent and therefore to the overall demographic pattern. We have seen a steady increase in client companies instituting targets to underpin their talent management approaches (although such targets are not always published externally.)

3.9 When it comes to quotas, (as defined above and as opposed to targets) our view has always been that they are to be resisted because they risk creating more problems than they solve.

#### 4. EU Quotas for Women on Boards

4.1 We have revisited our views for the purposes of this enquiry, in the specific context of the current debate about Women on Boards within Europe. We have taken into account progress in the UK post the Lord Davies report (as monitored and reported by the team led by Professor Sue Vinnicombe at the Cranfield School of Management) and key developments in other countries which have taken various different approaches to setting quotas for women on boards.

Our views are:

4.2 There is no doubt in our minds that the much-publicised threat of the possible future imposition of EU-wide quotas has helped drive progress via the voluntary route set out by Lord Davies.

4.3 Although there has been an acceleration of progress following the Davies report, in the last twelve months, we are still concerned that the pace of change is too slow, particularly as regards ED's.

4.4 However given the context of the UK history on this issue and the momentum which has been built, not least in the wake of Davies, our concern is that the imposition of EU-wide quotas would risk diverting energy and attention away from the substantive issue of making progress. We welcome further opportunities at a country level to strengthen the current voluntary arrangements and create greater urgency. In particular, it seems to us that changes to the Corporate Governance Code which come into effect on 1st October 2012 will be a very positive step forward.

In general, the trend towards transparency of reporting and the principle of 'comply or explain' seems to us to be extremely helpful and likely to help accelerate progress.

## 5. Creating Conditions for Success: Developing Women Candidates

5.1 The Enquiry is keen to learn whether more support or preparation is needed to develop female candidates for board level positions. In our experience we would say 'yes', but building on the answer to the previous section, it needs to be focused at women in early and middle stages of career development not just at the 'top end' of the pipeline. There is also some learning and development which should be targeted at senior male executives and leaders who make appointments and operate talent processes internally.

5.2 Whether we are looking at board level appointments, or the talent pipeline to business executive committee roles (as a prelude to main board appointments), as mentioned previously, progress hinges fundamentally on the mind-set and behaviours of those making the appointments. And it can also be dependent on the mind-set and behaviours of women themselves.

5.3 The widely reported reasons for the lack of women at the top are the burdens of childcare and eldercare and the inflexibility of working models to accommodate both. Much is made of the lack of female role models at the top, the lack of mentoring and sponsorship available to women and the inaccessibility of networks. All of these factors, in our experience of working with women all over the world, are true, and tend to show up (variously) in any 'gender audits' we conduct.

5.4 However a more subtle but, in our view fundamental, deep-rooted barrier to women's career progression, concerns the very culture of organisations, especially at the top. This is not so widely understood in our experience. Within the limits of this paper we can only touch on this issue briefly, but this fundamental barrier concerns the concept of 'gender as culture' i.e. that there are male and female cultures where norms and behaviours, for reasons of nature and nurture, are different.

5.5 We find that senior women are frequently conscious of the accommodation and adaptation they have to make in working in the inherently male culture at the top of the business world. Much rarer are those senior male leaders who have given thought to the adaptations they might have to make to support the integration of women executives into the environment at the top, and to create the conditions in which these highly talented women can make their most effective contribution. Often there is still an unspoken expectation that women must just 'fit in'. The risk, clearly, is that 'unconscious bias' creeps in, and judgements are made about women, their leadership style, effectiveness and future potential, against male norms.

5.5 So women can be discounted (unconsciously and inadvertently) as 'not having the right stuff for leadership' or they might discount themselves, as they become disengaged with the effort of having to fit in all the time. Research also shows that self-confidence can decline the more you find yourself in a minority position - being out of step with your peers can make you question your judgement, your style and your capability.

5.6 Where we see real, sustained progress being made inside large corporations which are leading on this agenda, there is careful work going on both with the male decision-makers and with the talented women themselves. There are efforts to equip senior male leaders to understand this dynamic (via such initiatives as Reciprocal Mentoring Programmes at ExCo level) and therefore better manage, develop and integrate talented women moving into senior roles.

5.7 When it comes to women in the pipeline with the potential to move into top level roles, there is much that can be done to equip them to navigate their way towards career success, including at board level.

Briefly, there are three key elements we would highlight:

One is giving women the opportunity to set their own experience into the context of what is happening to men and other women inside their current organisation, and elsewhere. This is about information, discussion and testing assumptions. It almost invariably results in women 'recalibrating' the value they bring and feeling more confident and more in charge of their own careers.

The second is about providing, in a safe but stretching space, highly tailored development programmes, targeted at key cohorts of women in the pipeline. These give women the opportunity to experiment and build techniques and skills which enable them to develop their careers inside what is almost certainly an imperfect system with many unintended barriers to negotiate.

The third is about providing structured opportunities to gain visibility and exposure via mentorship and sponsorship. We see more and more initiatives within leading firms to provide support and opportunities for this within the organisation. Additionally, there are successful programmes which give selected women candidates, including those with the potential for future NED and ED roles, the opportunity for senior level mentorship and sponsorship across companies. Both of these are proving to be invaluable in developing, and making visible to key decision-makers, women candidates who might otherwise be unknown and therefore not considered.

## 5. Conclusion

We have been asked about our view on EU quotas many times in the past year by clients and others who are active with this agenda. Our quick summary in reply has been that we think the voluntary approach currently being pursued is the right one for the UK, BUT that there is no space for complacency or dawdling. The UK cannot afford to under-utilise its female talent, and the story on women on boards has been long, slow and frustrating. There is now real momentum and we would not wish to see this being disrupted by having to deal with EU-wide quotas. However, progress needs to be maintained and further accelerated. It is entirely in the gift, and the interests, of the key stakeholders to make this happen; we look

forward to seeing further and faster progress through voluntary effort and self-regulation by companies, facilitated by a more robust framework of Corporate Governance measures.

*July 2012*

## **Campaign for Merit in Business (CMB)—Written evidence**

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

1. The EU (and national governments) should have no role in ‘improving’ the representation of women on boards. The only evidence of a causal relationship between ‘improving’ the representation on women on boards, and corporate performance, clearly demonstrates that corporate performance will decline. The evidence is presented in an Appendix of this document, which refers to an article published on the website of The Institute of Economic Affairs.

2. The impact of declining corporate performance will inevitably be a decline in the government’s corporation tax revenues and, because less successful companies will be able to employ fewer people, there will in turn be a decline in income tax revenues.

3. Many organisations promote ‘improved’ gender diversity in the boardroom. On the blog of Campaign for Merit in Business <http://c4mb.wordpress.com> we’ve named many of the organisations and individuals (including the prime minister) who we’ve asked to provide evidence of the positive causal link they regularly and confidently claim between ‘improved’ gender balance in the boardroom, and enhanced corporate performance. No evidence which can withstand robust scrutiny has ever been put forward. Most studies deliberately confuse correlation with causation (or reports of these studies do). Among the organisations which have failed to supply evidence is the Cranfield International Centre for Women Leaders (‘CICWL’). I note that the two most senior people in the organisation, Professor Susan Vinnicombe and Dr Ruth Sealy, are ‘witnesses’ at the forthcoming sub-committee meeting on 16 July. I would request that you ask one or both of these women the following:

Mike Buchanan, Chief Executive of the Campaign for Merit in Business, states that studies reported as showing positive links between more women in the boardroom and enhanced corporate performance are confusing correlation with causation. He says he has challenged you and representatives of many other organisations to provide evidence of the alleged positive causal link between ‘improved’ gender balance in the boardroom, and enhanced corporate performance. No such evidence has ever been forthcoming, he says, and he knows of only two studies showing a causal link. Both show a negative causal link. In layman’s terms, increasing the number of women on boards has been found to damage corporate performance. The studies are the Ahern & Dittmar study for the University of Michigan, and the March 2012 discussion paper produced for Deutsche Bundesbank. Would you please provide Mr Buchanan with the evidence you have for a positive causal link in the coming two weeks, and send a copy to this sub-committee? Or, alternatively, admit in writing to both Mr

Buchanan and this committee that, to the best of your knowledge, no evidence for a positive causal link exists? Thank you.

*2 Can a “voluntary approach”, or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

There's a value judgement implicit in this question, namely that the low representation of women on corporate boards is 'unfair'. In fact the reasons for the low representation are very well understood – albeit not widely understood – and they've been outlined in detail in numerous books including *The Woman Racket* (2008), *Why Britain Hates Men: Exposing Feminism* (2012) and my own *The Glass Ceiling Delusion: the real reasons more women don't reach senior positions* (2011).

*3. How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

Because women's low representation on boards isn't a problem that needs solving, progress should be neither monitored nor audited. There are numerous non-governmental organisations which would reliably monitor 'progress' if government did nothing in this area.

*4. Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

Neither. Why would you seek to incentivise or punish a company to do something which will, on current evidence, be damaging to its financial performance?

*5. What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

No 'level of progress' is in itself acceptable. Companies should be free to choose their directors as they see fit, without the influence of quotas, or threats of quotas.

*6. Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

The introduction of quotas in Norway has damaged Norwegian businesses, while the voluntary introduction of more women onto the boards of German banks has also been damaging (I refer you to the Appendix).

*7. What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

It would weaken the companies in the UK's most important trading partner, the EU, and therefore be damaging to British exports.

*8. What are the positive and negative effects of legislative quotas?*

We are unaware of any positive effects, unless they're deemed 'positive' from a left-wing and feminist perspective. I refer you to my answer to question (6) concerning the negative effects on European businesses.

*9. Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

No measures should be pursued, because companies will be damaged if forced to 'improve' the representation of women on their boards.

*10. Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

No 'support' is needed for women when making their choice of careers. 'Support' is clearly a euphemism for a social engineering initiative, similar to the failed initiatives to 'improve' the number of women studying for male-typical lines of work such as engineering.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

Success would look like the EU, and the British government, leaving companies to do as they deem fit when making appointments to their boards and elsewhere. In our view the government's promotion of 'improved' gender balance in the boardroom could be deemed illegal under EU and British law, as it seeks to positively discriminate for women at the expense of men.

*July 2012*

## Confederation of British Industry—Written evidence

1. The CBI is the UK's leading business organisation, speaking for some 240,000 businesses that together employ around a third of the private sector workforce. Among businesses, improving gender diversity in leadership is recognised as an important issue, and it has travelled up the agenda swiftly in recent years.

2. There is a strong business case for increasing diversity in the boardroom. In a competitive global economy, no company can afford to ignore the talents of half the workforce. The UK's voluntary approach to improving gender diversity is reaping results – though there is much still to achieve. Actions taken at an EU level should not undermine this approach.

3. CBI members believe that:

- There is an unquestionable business case for diversity in the boardroom
- Voluntary approaches are effective, as they take account the different challenges faced by companies, and the need to develop a pipeline of diverse leaders throughout the business
- The UK's approach is delivering, but there is more to do
- Action taken at an EU level must not compromise the UK's successful approach – we oppose EU quotas. Asking Member States to set targets on a 'comply or explain' basis would be a better choice.

There is an unquestionable business case for diversity in the boardroom

4. A company's board manages the strategy and direction of the organisation on behalf of its shareholders. There are a number of cultural and social explanations as to why this environment has traditionally been a male-dominated one. There is a strong moral case for addressing this challenge, but the business case for improving boardroom diversity is also compelling.

5. Opening boardrooms to women is crucial to accessing the fullest possible talent pool. To really flourish, businesses need access to the most skilled and qualified applicants. With the UK workforce now split 53.6/46.4 (male/female), as of May 2012 – and with more women than men graduating from university every year – business must tap this female talent pool.

6. A diverse boardroom is also likely to increase the innovation and creativity of a board. The stereotype of a board, a group of middle aged men with similar backgrounds,

used to hold true in some companies. This is not likely to be the most conducive environment for creativity. A variety of backgrounds and experience is more likely to give rise to a broader spectrum of ideas, creativity and challenge.

7. In terms of good governance, there is strong evidence to suggest that bringing a diverse range of experience and perspective is beneficial for companies. Diverse boards are more likely to avoid group think, encourage consideration of alternatives, take into account more risks and develop contingency plans. This does not necessarily mean that boards are more risk averse – it means they are more risk aware.

8. Diverse boards also reflect more accurately a firm's customer base. It is not simply the case that women control half of consumer spending – Boston Consulting Group's Global Survey of Women estimated that women spend over 70% of consumer dollars worldwide. A diverse board can definitely help businesses know their customer, which is crucial to driving profits and business growth.

9. Finally, increasing female representation in the boardroom is also fundamental to a more diverse workplace generally. A boardroom sets the tone that drips down through the whole organisation, so increasing diversity is key to business performance and reputation.

Voluntary approaches are effective, as they take account of the different challenges faced by companies, and the need for a talent pipeline.

10. The CBI believes that action to improve diversity in leadership must be owned by the company itself to be effective. External demands – such as quotas – tend to drive a culture of doing the minimum required through a compliance mind-set, rather than the business case justification we set out above. In particular, it may lead to firms meeting the quota at the top, without taking the action that really matters – addressing the issue of the talent pipeline up through the business.

11. For this reason, CBI members strongly supported the approach taken by Lord Davies of targets owned by the board and reported on. As well as boosting ownership within the business, this approach delivers on several other key issues:

- it allows firms to focus on sector-specific issues – for instance where a sector has been very heavily male-dominated in the past. The causes and remedies of this will vary between firms
- it enables firms to focus on diversity throughout the business and the path to executive leadership, rather than the perceived “quick win” of more diverse non-executives
- many female leaders we talked to questioned whether quotas undermined their position – leaders need to be appointed on merit.

12. A voluntary approach also benefits from harnessing the good will of participating businesses, which is lost if mandatory measures are imposed upon them.

The UK's approach is delivering, but there is more to do

13. Progress against the targets set by Lord Davies has been encouraging in the first year, with businesses taking a range of measures to address gender diversity across their organisations.

14. Key to this success is the recognition that the ultimate goal is not a particular gender ratio, but rather a talent pipeline that poses no barriers to the talented rising to the top – regardless of gender, ethnicity, religion, or any other protected characteristic. Our goal remains true meritocracy. That is why businesses are taking action to ensure that there are no such unnecessary barriers (see Figure 1).

15. Together, the voluntary measures aimed at removing barriers are already having a positive effect. Women now account for 16.7% of all FTSE 100 directorships, up from 12.5% last year. In the year since the publication of Lord Davies' report, there are more than 100 extra female-held FTSE directorships – split roughly evenly between the FTSE 100 and the FTSE 250. The number of all-male boards is also being reduced – down to 11 in the FTSE 100 from 21 in 2011. This shows that the initiative is reaching all firms, not just those who are already some way down the road. In terms of appointments in the previous year alone, the percentage of female appointments is impressive: 27% of all board appointments have been women in the FTSE 100, next to 26% of the FTSE 250.

16. However, while UK businesses have made significant progress, we have merely sped up to a swift walk in terms of progress. The trend of the last year must be sustained if we are to resolve the issue once and for all. 38 FTSE 100 and 34 FTSE 250 companies set themselves targets last year, but numbers are growing, so we predict that the promising progress made this year will continue. Only a slight improvement of 2011's rate of progress is needed to meet Lord Davies' target of 20% female board representation by 2013.

### **UK businesses' action to remove barriers from the talent pipeline**

UK businesses recognise that the primary cause of gender inequality in the workplace is blockages across the talent pipeline, rather than simply barriers to entering the boardroom. In order to overcome these, businesses have taken action to ensure that barriers to the progression of talented women to the top are addressed, including:

- Career guidance and support are fundamental to ensuring that careers are not prematurely closed off to females. Businesses are playing a role in ensuring that those who need guidance have access to careers support, such as through Business in the Community's Business Class programme, but constraints on their time mean that this offering is inevitably patchy. The government must do more to deliver good support in schools across the country.

- Adjusting recruitment strategies to encourage a diverse pool of applicants so that there is not an unfair bias away from females. This type of bias at any level can stem the flow of women through an organisation. A good example of this is an emphasis on demonstrable skills, rather than experience, in a post's criteria. In some cases, this is not always possible – sometimes experience is essential, but in other cases a focus on long-term experience can be simply an unnecessary barrier to women breaking into a business.
- Offering flexible working so that the need for this does not form a barrier to progressing up through a business. More flexible provisions for parental leave and for workers in general mean that other priorities in both men and women's lives can be easily managed alongside a rise to the top.
- Becoming champions of diversity at a senior level, and this goes some way to impressing upon our potential future leaders that this can be achieved. Burberry is a good example of this – Angela Ahrendts has turned round the company since taking up her role as CEO in 2006.
- Leading mentoring schemes and women's groups that focus upon bringing women through an organisation through practices such as highlighting best practice, using role models and raising ambition.
- Making diversity part of shareholder dialogue, which is driving greater focus on the issue. Regulation would be a poor substitute for investor pressure, as shareholder sentiment is of primary concern for a board and is the most effective driver of change.
- Lord Davies' measures are already making businesses take action to address diversity at the top of the pipeline – in the boardroom. Voluntary targets have been taken up by many listed companies, and an amended UK Governance Code will require companies to set out their diversity strategy from late 2012. The revised provision (B.2.4) will read: "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 diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives". Furthermore, the government is looking at introducing the disclosure of female representation as part of narrative reporting.

Action taken at an EU level must not compromise the UK's successful approach – we oppose EU quotas. Asking Member States to set targets on a 'comply or explain' basis would be a better choice.

17. The need to address diversity in leadership is shared by businesses in many member states of the EU. The EU has competence to act because both dimensions – diversity as a social issue, and board diversity as a governance issue – are within the Commission's remit. Nevertheless, it is absolutely crucial in this case that the EU respects the principle of subsidiarity. In this case, the measures the UK has chosen to pursue are having the desired

effect, and so should be allowed to continue on its chosen course. It is also important to remember that the reasons for the relative lack of diversity boardrooms currently are social and cultural, so different Member States will find themselves with different challenges to address.

18. We fear the wrong approach from Europe could undermine our good progress. Mandatory quotas for the UK, in particular, would be tokenistic and counterproductive. Take Norway, where quotas have been enforced. It is true that women represent 40% of board members, but the majority of these are non-executives, many of whom sit on several boards. We would question whether this is a long-term solution of the issue. In Norway, the number of listed companies has also reduced. Between 2001 and 2009, the number of public companies reduced by a third (from 529 to 351), some of which seemed to delist to avoid the quota law. The real issue – whether women getting to the top of organisations and into the genuinely decision-making roles – has not been resolved. In fact, quotas have clouded the issue by distracting us from the really important questions, such as are there barriers in the talent pipeline? Introducing one rule for women and one for men would also work to entrench a sense of inequality, rather than relieve it.

19. Given the diverse situations across Member States, and the need to respect subsidiarity, the best outcome of this consultation would be non-legislative. Greater focus on measuring progress across member states, and in highlighting good practice, could deliver concrete areas for improvement and the possibility of “naming and shaming” laggards. If it is not felt that this would be sufficient on its own, it could be delivered through a Recommendation – which contains the threat of future action if countries do not take steps to comply.

20. However, if the Commission deems that legislative action is necessary, we suggest that Brussels should hold member state governments to account on a ‘comply or explain’ basis. If a member state’s chosen measures fail to sufficiently address the issue, the government of that country must explain why this is the case to the Commission. This would give the issue continuing profile, through the occurrence of annual reviews, and – due to the threat of infraction proceedings – provide an incentive for countries to take action.

*Employment & Skills Directorate*

*July 2012*

## **Dr Barnali Choudhury, Lecturer, Queen Mary University of London—Written evidence**

### **Success/The Ultimate Goal**

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

1. In providing evidence supporting initiatives to increase female representation on boards, it seems pertinent to begin by defining the overarching aim of these efforts. For this reason, I begin this submission by answering the final question posed in the Call for Evidence.
2. Since Rosabeth Kanter's 1977 path breaking work on female tokenism, numerous researchers have argued that women's contributions to groups are only meaningful when they reach a critical mass. Only then, studies have found, are the contributions made by women as the out-group digested and absorbed by the male dominant in-group. While researchers have not been able to agree on the number or percentage of women needed to obtain a critical mass, generally a range of between 30 and 60 percent has been suggested.
3. At the same time, women represent 45 percent of the labour force in the U.K. Thus, while empirical evidence suggests a minimum of 30 percent female representation on boards in order to derive utility from having women on boards, an equality rationale suggests boards should be roughly equivalent to the percentage of women on the labour force. To suggest otherwise is to argue that women are not as able as men to sit on boards (of which there is no evidence). The ultimate goal of these initiatives should therefore be to have roughly the same percentage of women on boards as there are women in the labour force. Nevertheless, at a minimum, women should represent more than 30 percent of the board.

### **Quotas**

*8. What are the positive and negative effects of legislative quotas?*

4. Quotas adopt a command and control approach to regulation. They are premised on the government's ability to command companies to adopt specific behaviour and control their behaviour through the threat of negative sanctions. Quotas can enable governments to impose minimum standards and, where the penalties for non-compliance are onerous, allow governments to induce greater degrees of compliance with the prescribed standards. Moreover, vigilant enforcement of quotas by governmental authorities provides consistent levels of corporate compliance over a period of time.

5. At the same time, the use of quotas signals a “one-size-fits-all” approach to governance, which often fails to take into account the individual circumstances of the company. Having to adhere to these rules can therefore disincentivise companies from developing individually-tailored solutions to the problems. Quotas further impose greater costs both on the government and on companies themselves. While governments face the costs of drafting, implementing, monitoring and enforcing the quota requirements, companies face internal management costs, or the costs of organizing themselves to comply with the requirements. During the ongoing financial crisis, these types of costs, in many instances, may be especially onerous for companies.

6. Most importantly, however, the imposition of EU wide quotas may fail to take into account the individual circumstances of each affected state. Drawing from the use of quotas in Norway – likely the most successful example of a state using quotas to increase gender diversity on boards – and applying its approach to the U.K. demonstrates some of the differences between the two states which may result in different levels of success with quotas in each country.

7. For example, one of the reasons for the success of the Norwegian quota legislation is because of the stringent sanctions for non-compliance that the legislation provides. Although, companies are warned initially of non-compliance, and then threatened with fines, the ultimate consequence of failing to adhere to the law is forced dissolution. In fact, several companies re-registered as private companies when they failed to adhere to the quota requirements and were threatened with forced dissolution. Conversely, under the U.K. Companies Act, fines, and not forced dissolution, are the norm for breaches. Thus, the sanctions for failing to adhere to company-law related legislation in the U.K. is not nearly as stringent as it is in Norway.

8. Second, quotas for achieving gender equality are common in Norway. Norwegian political parties have widely used gender quotas since 1974 and since 1981 all public boards, panels and committees require equal representation of both genders. In fact, most of the states that have imposed quotas to increase female representation on boards; including France, Spain, the Netherlands, Belgium, and Iceland; have a history of employing quotas for increasing female representation in politics. Consequently, quotas in these states often represent customary norms that are widely accepted. As one commentator has observed, for states which are used to quotas in politics, “the road is relatively short from politics to the economy”. Conversely, in the U.K., which does not widely use quotas or mandate legislative quotas for Parliament, the road to quotas in the economy is comparatively much longer and likely fraught with bumps.

9. Finally, the scope of the quota legislation in Norway is considerably smaller than comparable legislation would be in the UK. Applicable mainly to public, and not private, companies, the Norway quota requirements affected only about 400 public companies, many of which were already state owned or in which state-ownership was dominant. Comparable legislation in the U.K. would, on the other hand, affect approximately over 10,000 companies. Moreover, as state-ownership of public companies is not common in the U.K.,

there is likely to be a greater resistance from the private sector towards quota legislation in the U.K. than in Norway.

10. In short, the use of quotas in the U.K. faces normative and cultural obstacles which are not apparent in Norway. While mandating quotas at the EU level could swiftly remove many of the problems that imposing quotas at the state level would face, it would not be able to alter the societal norms which have given rise to many of the problems women face in joining boards in the first place. That is, while imposing quotas may statistically alter the composition of U.K. boards in the short run, it may not result in the normative changes which are necessary for the long-run. This, in turn, may affect changes needed to increase the supply of women to boards (the so-called pipeline problem).

### **Measures other than Quotas**

*9. Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards?*

11. In 2002, the National Football League (“NFL”) in the United States noticed that although a significant percentage of African-Americans were professional football players, only 6 percent of NFL teams were coached by African-Americans. Determined to increase the number of minority coaches, the NFL introduced the Rooney Rule under which NFL teams were mandated to interview at least one minority candidate for every head coach opening. The Rule is thought to have increased the number of minority head coaches from 6 to 22 percent in three years.

12. Among the Rule’s requirements, teams are required to clearly and fully define the role of the coach and the qualities needed for the position, to identify a deep and diverse pool of candidates using a variety of criteria for diversity, and to document all aspects of the interview process. Failure to adhere to the Rule results in a fine for the team and personal liability for the executives involved.

13. The Rooney Rule is not a quota. Whereas quotas generally refer to explicit hiring preferences, the Rooney Rule requires only that an interview be set aside for a minority candidate. Unlike a quota, the minority candidate does not gain an advantage when it comes to determining the appointment for the head coach position. Instead, he or she must still compete with all other qualified applicants for the position since the remaining candidates are not automatically excluded from consideration as they would under a quota system. As a proponent of the Rooney Rule describes it, the Rule “focuses on process, best practices, fair competition, levelling the playing field, and letting the best rise to the top...”.

14. The premise of the Rooney Rule seems equally applicable to the appointment of women to boards. Instead of imposing quotas, initiatives, either at EU or state level, could be established that mandate that board nominating committees interview at least one female candidate for every board opening until at least 40 to 45 percent of the board is represented by women. In addition, similar to the requirements of the Rooney Rule, board nominating

committees could be required to define the role and qualities of directors and seek out a pool of candidates using a variety of criteria for diversity, one of which must be gender. Moreover, the requirements of the rules could be extended to executive search firms, who are commonly involved in board appointments processes, such that the firms would be required to supply at least one female candidate for every three male candidates they recommend.

15. Enforcement of the Rule would likely be by way of two routes. First, either executive search firms or members of the nominating committee themselves could notify the authorities if a firm fails to interview a female candidate. Second, firms which have less than 40 percent of female representation on boards and which do not increase the number of women on their boards on a yearly basis could be required to supply documentation indicating the number of women they have interviewed for board positions in the past year, provide details of the interview process employed (including summaries of the women's qualifications) and provide reasons why the interviewed women were not hired.

16. Sanctions for failure to adhere to the requirements of the Rooney Rule for boards would, however, likely best be dealt with at the national level. As the example of Norway suggests, implementation of any practice for increasing the number of women on boards is likely best effected through the state's company law legislation (such as the Companies Act or its equivalent). Consequently, the sanctions provided for breach of any other rule under the Companies Act should be equally applicable to breach of any type of Rooney Rule for boards. If different sanctions apply to different rules, it should be up to the state to determine the strength of the sanction as this indicates the priority the state accords to gender equality measures.

17. While the NFL introduced the Rooney Rule to increase the demand for minority head coaches, it also introduced a new program to create a supply of qualified individuals. Thus, a year after it introduced the Rooney Rule, the NFL created a coaching fellowship program to prepare individuals to take on the responsibilities of a head coaching position. Similarly, increasing the demand for women on boards must also be complemented with initiatives that promote the supply of qualified women for these positions. Although a pipeline of qualified individuals has already been identified by the Cranfield School of Management, the need to perpetuate the pipeline remains important.

18. In part, a Rooney Rule for boards initiative for promoting women on boards may, in and of itself, address the supply problem. If companies are mandated to interview female candidates, there may be more impetus to home groom women who could later help companies meet this requirement. For example, National Grid plc has already adopted its own variant of a Rooney Rule under which it ensures that a third of the candidates put forward for mid-level management positions are female. However, for those companies that are more resistant to change –in addition to board mentorship and training programs already advocated in Lord Davies' report – enactment of a nation-wide database that houses the information of qualified female board candidates may be necessary to demonstrate to some companies the availability of qualified females.

19. Private organizations in both the United States and Norway have already put together non-government sponsored or mandated databases in which women interested in board positions can voluntarily submit their details and firms are charged to access this information. Conversely, if the promulgation of the database arises in connection with a Rooney Rule for boards initiative, the resulting database could be run either by the government or outsourced to a non-governmental organisation. Female candidates could voluntarily register their information while firms would be charged a yearly maintenance fee. The database could then be monitored to determine the number of women at different levels of management and the intensity of government-sponsored board internships or training programs could be adjusted accordingly.

20. A Rooney Rule for boards initiative to foster gender diversity on boards and a database to monitor the pipeline of qualified women boasts three distinct advantages over a quota program. First, unlike quotas, a Rooney Rule for boards initiative enables businesses to view and consider the individual skills and attributes of a particular woman, the candidate in question, rather than viewing her as a demographic statistic. This should enable her, if appointed to the board, to be more likely to be accepted by the remainder of the board (thereby increasing board cohesiveness) and allow her to exercise greater influence over board dynamics.

21. Second, research has demonstrated that people involved in the selection of candidates may be subject to unconscious or ingrained biases towards individuals of different genders. Commentators have speculated that these biases may be limiting efforts at increasing the number of women on boards. In part, this is because director selection is heavily influenced by notions of trust which are usually determined as a result of personal relationships. However, where a personal relationship is not present, similarities between the candidate and the selector, such as gender, become proxies for trust. The effectiveness of a Rooney Rule for boards initiative thus lies in its potential to deconstruct unconscious biases of those that select directors.

22. Finally, a Rooney Rule for boards is also more likely to bring about a normative shift regarding the value of women as board members than under a quota system. If men who are resistant to the notion of women on boards are forced to interview a qualified woman, they are more likely to eventually see women as a value to the board instead of just as stereotypes.

*July 2012*

## **Equality and Human Rights Commission—Written evidence**

### **Statutory responsibilities**

This submission relates to a number of the Equality and Human Rights Commission's (EHRC) statutory and non-statutory duties.

First, the EHRC has a statutory duty under the Equality Act 2006 to encourage and support the development of a society in which: people's ability to achieve their potential is not limited by prejudice or discrimination, there is respect for and protection of each individual's human rights, there is respect for the dignity and worth of each individual, each individual has an equal opportunity to participate in society, and there is mutual respect between groups based on understanding and valuing of diversity and on shared respect for equality and human rights.

Second, the EHRC is responsible for monitoring the effectiveness of the equality and human rights enactments and advising on the effectiveness of enactments, as well as the likely effect of a proposed change of law .

Third, as a UN accredited National Human Rights Institution, the EHRC is required to 'promote and ensure the harmonisation of national legislation, regulations and practices with the international human rights instruments to which the State is a party'. This includes the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), adopted in 1979 by the UN General Assembly and ratified by the UK in 1986.

### **Evidence**

The Equality and Human Rights Commission (the EHRC) has consistently highlighted the slow progress of women to executive levels in the UK corporate world. Last year, the EHRC commissioned research into the appointments process and the role of executive search firms. This research was published in May 2012 .

The EHRC's research shows how selection of candidates based on 'fit' and previous board experience, rather than competencies, creates self-perpetuating homogeneous boards. It works against women who have had fewer opportunities to gain previous board level experience and limits the ability of chairmen to broaden the range of skills and experience of their boards.

As well as identifying examples of good practice at executive search firms, the report concludes that a more transparent, professional and rigorous approach to the selection process would allow chairmen and search agencies to appoint more female candidates and encourage more women to consider applying for roles as non-executive directors.

The EHRC is keen to work with partners to build on the emerging good practice of executive search firms described in the research findings, as a means to improve gender diversity in corporate governance and decision making.

### **Select Committee questions**

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

As set out above, the EHRC has a duty to promote equality of opportunity and eliminate discrimination. The EU has already played a significant role in raising this agenda, in reporting on progress and by proposing the introduction of legislative measures. We believe that the EU should maintain its focus on developing strategy and providing strategic direction for the member states . This should include the measurement of progress, data publication and research and promotion of best practice, for example, what is working well across the EU .

However, strategies or initiatives to improve representation of women on boards should be determined at national level influenced by the relevant national structures and approaches. Responsibility and accountability for progress should be at national level. In the UK the relationship and partnership between government and business is key to this success .

The current, preferred approach in the UK is a business-led non legislative one. The EHRC's view is that the success needs to be carefully measured and monitored as well as encouraged and supported. Alternative measures (legislative if necessary) should be considered if it does not succeed in delivering sustainable change .

*2. Can a “voluntary approach”, or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

The EHRC's work has focused on the recruiting practices for board appointments and the impact of the voluntary code of conduct for executive search firms. The report, 'Gender diversity on boards: the Appointment Process and the Role of Executive Search Firms' can be found at: <http://www.equalityhumanrights.com/news/2012/may/headhunters-and-chairmen-encouraged-to-do-more-to-increase-female-non-execs-on-ftse-boards/>

The EHRC's research shows that the UK approach – business led and voluntary, as defined by the Lord Davies review and recommendations - has been successful. Female board appointments in FTSE 100 companies increased by 3% to 16% in the first one year reporting period to March 2012. The Davies target for 2015 is 25%, but this is described as a starting point not the ultimate goal. The EHRC supports this approach, as lasting change will come if businesses appreciate the benefits of diverse boards. Lord Davies' recommendations, the amended UK Corporate Governance Code and the Voluntary Code of Conduct for Executive Search Firms clearly set out expectations for the business community.

However, based on its evidence the EHRC has two key issues of interest:

- Lord Davies asked the Chairmen of FTSE 250 companies to set out their own percentage targets for 2013 and 2015, but did not set specific targets. Progress by the FTSE 250 companies is much less pronounced: only 9.7% of FTSE 250 board membership is female. By March 2012 (the one year on Davies report) 38 FTSE 100 companies had set percentage targets, compared with only 34 FTSE 250 companies .
- The current focus on non-executive director (NED) appointments obscures the lack of women in executive director positions (which is traditionally the recruiting ground for FTSE 100 NEDs). ‘The Female FTSE Board Report 2012, Milestone or Millstone?’ (Cranfield University, School of Management) points out that only 6.6% (20 in total) of Executive Directors are women and this has changed little since 1999 (when the figure was 13).

To ensure progress continues, the EHRC’s analysis would point to:

- a series of longer term sustainable targets to 2017 and beyond, and
- a specific target for the FTSE 250.

It is unlikely that a totally voluntary approach would work without clear targets for change and pressure to create business ownership of them. There is little doubt that a factor for success thus far is the business community’s respect for Lord Davies and the government’s clear commitment to change. Changes to the Corporate Governance Code, pressure from the investor community, and improved gender reporting by companies at Board, executive and senior management level help make transparent companies’ commitment to change and their progress.

Sharing of best practice will help. The EHRC is considering the possibility of creating guidance with the sector to support this as part of its follow up to its research .

**Key issues identified in the EHRC’s report are:**

- A consistent and transparent appointment process with a clear specification brief is an important way of opening up appointments to women with diverse backgrounds but comparable experience.
- Companies need to develop the ‘talent pipeline’ of women and executive search firms can also develop databases of senior women and nurture talent.
- Metrics and reporting systems (including through information to shareholders) are effective ways of measuring progress across the FTSE 350 index.

- The voluntary code should be reviewed and strengthened and the number of signatories needs to increase. Executive search firms should also demonstrate how they are meeting the voluntary code and track and promote their own progress and improvements.

3. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

The EHRC's analysis suggests the EU should continue to collate and publish comparative data at the EU level . However progress needs to be monitored and reported on at the national level and at the frequency it currently is in the UK – every six months. Ownership of the issue and the relevant solutions should be a national business or government responsibility in the UK. Exchange of good practice and ideas at pan European level is welcome .

Recommendation 2 of the Davies report was that quoted companies should be required to disclose each year:

- the proportions of women on the Board,
- numbers of women in senior executive positions, and
- the total number of female employees in the company.

The Department for Business (BIS) has conducted a consultation on narrative reporting and asked how many are in favour of this type of disclosure. The response is described as reasonably positive on the data issue. They are expected to publish proposals in April 2013 to include in FRC's annual reporting requirements.

The EHRC's analysis would support proposals for a formal reporting requirement as we recognise that the collating and reporting of data is an important framework requirement at EU level.

The Government Equalities Office (GEO) is promoting a voluntary approach through its Think, Act, Report initiative which also supports greater transparency by companies about their progress.

4. *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

In some respects the carrot and stick approach is already in operation in UK and the EHRC's evidence suggests this is proving effective. Punishment is the implied threat of regulation if targets are not met.

Lord Davies has indicated that efforts need to be ramped up and change needs to be quicker to avoid government interference. The Prime Minister has stated he wants to see more

companies setting out their plans for women on boards and driving this forward. Regulation has not been ruled out and the implied threat of legislative measures from the EU is felt to be having an effect.

The Prime Minister, David Cameron, said at a news conference in Sweden, February 2012 he would like to boost numbers "preferably without having quotas" but said he would not rule them out "if we cannot get there by other means".

The EHRC's evidence suggests the greatest incentive is business ownership of this agenda and recognition of the benefits of diversity and improved board effectiveness. Businesses are also concerned about their corporate reputations, and enhanced interest amongst shareholders and investors helps drive their commitment to improving representation of women on boards.

*5. What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

Lord Davies has stated that the 25% target by 2015 is a starting point and not the ultimate goal. Given the positive progress so far, the EHRC's analysis suggests a longer term target to maintain impetus.

It would seem to be appropriate for the Davies Committee to remain in place until longer term targets are met and sustainable progress established. Evidence suggests there needs to be more progress at executive director and senior management level to claim real sustainable success.

*6. Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

The EHRC is not aware of any assessment of the impact on the single market.

Our analysis indicates that consistency of effort and focus and measurement is important but the different national approaches and systems in the EU suggest a flexible approach is required.

*7. What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

The EHRC's analysis suggests that, should the UK begin to lag behind Europe, the UK might see an exit of eligible women to sit on boards of businesses in other countries. Our research suggests that women on boards are often better qualified than their male counterparts, have multi-sectoral and international experience and contribute to improved Board decision making. Loss of such talent may place UK businesses at a disadvantage and could result in reputational risk in global markets.

*8. What are the positive and negative effects of legislative quotas?*

In July 2011, EHRC Commissioner Baroness Prosser gave evidence to the Financial Reporting Council's (FRC) consultation on Gender Diversity on Boards . In her evidence, Baroness Prosser suggested the need to consider introducing legal quotas if insufficient progress is made within three years. This is consistent with the 2011 Davies report which stresses that government must reserve the right to introduce more prescriptive alternatives if the recommended business approach does not achieve significant change .

*9. Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

The EHRC supports a business led approach but recognises that the sector may require further support to bring about systematic change.

The EHRC is considering the production of guidance to support a more transparent, consistent appointments process .

*10. Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

The EHRC's evidence shows that gender stereotyping influences the career choices of young people. Careers advice should support high aspirations for girls and women, and support young women choosing courses which are useful in corporate careers . EHRC evidence suggests ESF funding has been used to support projects to tackle gender stereotyping and could be used for careers/work projects in countries to increase young people's understanding of how businesses work, and the role of women on boards .

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

The EHRC's evidence indicates that the ultimate goal should be balanced boards and appointment on merit so as to achieve parity at NED and executive director level without the need for quotas. In the interim, attention needs to be focused on addressing the pipeline issues, such as the training and development of female executives and senior managers to reach the next level, transparency in the appointments process and regular monitoring of company performance and the appointment process.

### **About the Equality and Human Rights Commission**

The Equality and Human Rights Commission is a statutory body, established under the Equality Act 2006, which took over the responsibilities of Commission for Racial Equality, Disability Rights Commission and Equal Opportunities Commission.

It is the independent advocate for equality and human rights in Britain. It aims to reduce inequality, eliminate discrimination, strengthen good relations between people, and promote and protect human rights.

The Commission enforces equality legislation on age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and encourages compliance with the Human Rights Act. It also gives advice and guidance to businesses, the voluntary and public sectors, and to individuals.

*July 2012*

## **Fawcett Society—Written evidence**

I am writing in response to the call for evidence by the House of Lords EU Sub-Committee on the Internal Market, Infrastructure and Employment. I would firstly like to thank the Sub-Committee for providing the Fawcett Society with the opportunity to present our case on this important issue. The Fawcett Society welcomes an inquiry into the use of legislative quotas and would be eager to participate in a formal consultation at a later stage.

As the UK's leading campaign for women's rights, the Fawcett Society is concerned by the gender imbalance in boardrooms. This imbalance is not only detrimental to gender equality, but also negatively impacts business performance. Consequently, we would support the introduction of legislative quotas to redress the current gender imbalance in boardrooms. Quotas have proven to be highly successful internationally in helping women overcome the barriers they face in obtaining boardroom positions. In just 6 years, the percentage of female boardroom members in Norway increased from just 6% to 44.2% . Moreover, in the current economic climate the benefits of greater boardroom diversity for business performance must not be forgotten. Research has shown that the presence of women in boardrooms increases corporate competitiveness and reduces the potential for 'groupthink'.

Please find attached The Fawcett Society's submission outlining in greater detail the evidence in support of the introduction of legislative quotas.

### **I. Summary**

The Fawcett Society welcomes this opportunity to respond to the EU Sub-Committee on Internal Markets, Infrastructure and Employment call for evidence for proposing legislative quotas to improve the representation of women on boards across the EU.

Our response supports the proposal to introduce female quotas for company boardrooms. This submission argues:

- In favour of a radical approach to increase the numbers of women in leadership roles in order to drive a step-change in women's representation
- that the introduction of boardroom quotas in other countries such as Norway has led to significant improvements in business performance, overall responsiveness and corporate governance
- that quotas would acts as key mechanism to help support the establishment of clear pathways to support female talent into company boardrooms and support the overall achievement of workplace equality

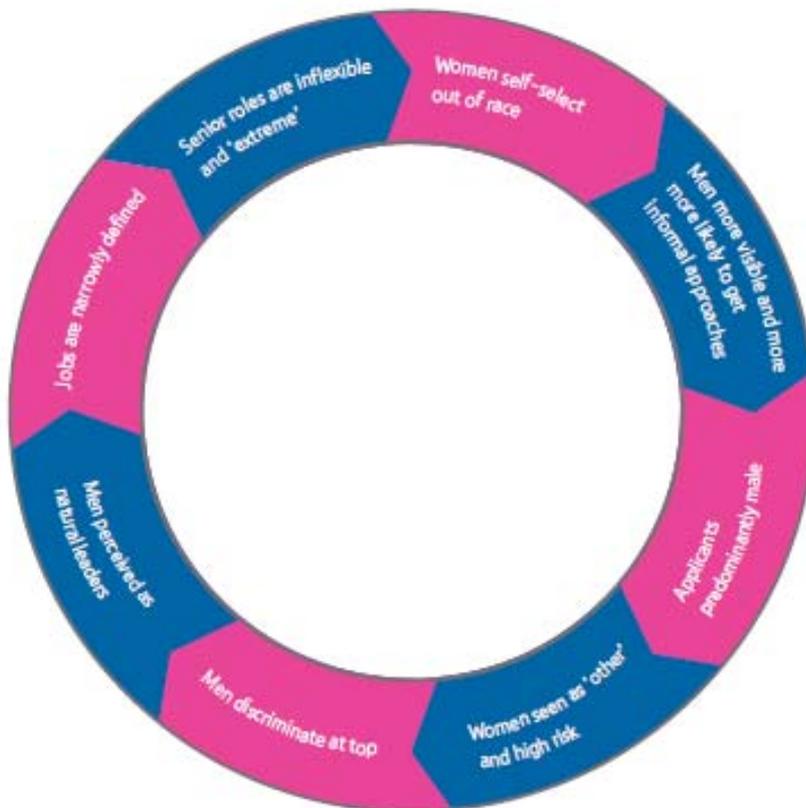
## 2. Introduction

### About the Fawcett Society

The Fawcett Society is the UK's leading campaign for equality between women and men. Our vision is of a society where women and our rights and freedoms are equally valued and respected and where we have equal power and influence in shaping our own lives and our wider world. For more information on Fawcett and our work visit [www.fawcettsociety.org.uk](http://www.fawcettsociety.org.uk)

### Our Submission

#### Diagram – Fawcett's submission presents key evidence in support of the introduction of boardroom quotas



### 3. Current statistics

Although there is evidence that women's representation in the top levels of companies has improved since the publication of Lord Davies' Women on Boards in March 2011, the overall rate of change has been slow.

Currently, the following statistics are true of women's representation in the boardroom:

- The overall percentage of women on boards stands at just 15%
- Only 163 women hold board seats on the FTSE 100, representing an increase of 25% since 2010.
- A mere 6.6% of executive directorships are female, and 22.4% of non-executive directorships.
- The percentage of women being appointed to boards was 24.7% from Jan 2011-12 - falling short of the 33% recommended in the Davies report.
- Of the FTSE250 companies, 54% only have one woman in their boardroom
- There are 4 female CEO's of the FTSE 100: Angela Ahrendts (Burberry), Dame Marjorie Scardino (Pearson), Alison Cooper (Imperial Tobacco), Cynthia Carroll (Anglo American).
- There are 14 women (9.9% of female directors) from ethnic minority groups – all but one are executive directors.

#### Current rates of change

- At the current rate of change it will take 70 years to achieve gender-balanced boardrooms in the UK
- The Davies Report calculated if one third of the FTSE 100 board appointments were given to women between 2011-2015, from a starting point of 12.5% female directors, a figure of 23.5% could be achieved across the FTSE 100 by 2015.

#### Women's career trajectories

- 32% of the general UK workforce (manager, directors and senior officials) are female
- 36.4% public appointments are given to women
- 14.2% vice chancellors are female

- 16% FTSE 100 board directors are women

#### 4. International evidence for the effectiveness of legally imposed quotas

Norway was the first country in the world to insist on female quotas for company boardrooms. Today, 44.2% of directors are women. This represents an increase of 37.4% since 2002. The UK has seen its own successes, but none that rival those achieved by its Norwegian counterparts. In March 2011 Lord Davies published his Women on Boards report which found that women comprised a mere 12.5% of members of FTSE 100 boards. Although this figure improved slightly in the year following publication, with the percentage of women on FTSE 100 boards rising to 15%, there is still a long way to go.

When fellow European countries - including France, Germany and the Netherlands – are considering following suit, and with Spain, Finland and Iceland having already introduced similar quotas to those of Norway, the UK cannot afford to shy away from radical action to tackle the trend of low female representation in UK business. Such action is vital to prevent the stagnation or gradual receding of the numbers of women reaching leadership positions.

#### 5. The business case

In 2007, McKinsey and Catalyst's respective analyses made a significant contribution to the business case for women leaders. Both reports demonstrated a correlation between women's representation at board level and the financial performance of companies worldwide, pin-pointing a 30% turning point at which women's representation has a significant impact across a set of corporate performance indicators.

Indeed, in February 2012 Prime Minister David Cameron at the Northern Future Forum Summit in Stockholm stated his belief that increasing the numbers of women at the top levels of business was vital to the UK economy.

The business of attracting, retaining and promoting the best talent is of primary concern to all UK businesses, particularly in the current financial climate of uncertainty.

BIS has identified four key dimensions associated with greater female representation of boards:

- Improving performance
- Accessing and retaining the widest talent pool
- Being more responsive to the market
- Achieving better corporate governance

These themes are explored in greater depth here.

## **Improving performance**

The case for increasing female leadership in UK boardrooms is simple and powerful, and can no longer be dismissed. Diversity at the top is a key to corporate competitiveness. As far back as 2007 both Catalyst and McKinsey have shown a correlation between gender diverse boards and greater company performance. Another report published by McKinsey in 2008 measured organisational excellence across 231 companies worldwide to reveal that companies with three or more women in senior management functions score more highly for each organisational criterion than companies with no women at the top. The study showed that performance increases significantly once a critical mass of 30% women at board level is attained; noting, however, no significant difference in performance for companies below the threshold.

In *Women on Boards* published in 2011, research showed that strong stock market growth among European companies is most likely to occur where there is a higher proportion of women in senior management teams. They found that organisations with more women on their boards were found to outperform their rivals with a 42% higher return in sales, 66% higher return on invested capital and 53% higher return on equity.

## **Greater likelihood of attracting and retaining talent**

75% of senior human resource managers around the world list attracting and retaining talent as their greatest priority. Competition for skills and experience is fierce, and increasingly relevant in an insecure economic climate. Diversity is key to attracting the best talent. The divide between public and private life is eroding and women and men increasingly seek workplaces with values that resonate with their own.

Meanwhile female entrepreneurship is thriving. But can companies afford to lose out on a talent pool of accomplished business capabilities increasingly applied to growing successful small businesses?

## **More responsive to the market**

A diverse board reflects, and is better equipped to meet the requirements of a diverse consumer base. As long as women continue to make the majority (80%) of consumer purchasing decisions, increasing female representation in company boardrooms is a no-brainer. Business cannot afford to pass up the opportunity for women to be involved in leading corporate strategy because of the potential to develop and tailor products to women.

## **Achieving better corporate governance**

Studies have shown that the more gender-balanced the board, the more likely it is to identify effective criteria for measuring strategy, monitor its implementation and observe a code of conduct.

## 6. A vicious circle

The low proportion of women to men in leadership positions in UK business is testament to the fact that women in the UK face significant barriers to progressing to the very top of decision making structures. Formal selection processes for directors can teeter between casual to non-existent where “shoulder-tapping” and peer referral is endemic, in stark contrast to the rigorous processes laid down for the appointment of CEOs.

The vicious circle shows how barriers to supply and demand combine to create low levels of representation in the UK today.

## 7. Recommendations

Boardroom quotas are a radical but not unthinkable means of affecting a paradigm shift in women’s leadership. In addition to the introduction of boardroom quotas, Fawcett suggests the following recommendations to increase women’s representation in leadership roles within companies:

- Widen the search for talent

Headhunters must take the lead on revolutionising approaches to filling executive roles. Searches should be based on skill sets and knowledge, and must look beyond the existing pool of experienced executives to bring new potential to light.

The UK could consider following the New Zealand model of maintaining a transparent and accessible range of available databases maintained by public, private and voluntary sector organisations to hold the details of aspiring directors.

- Harness the power of procurement

Learning from the impact of the Gender Equality Duty on the public sector, Government should use procurement channels to incentivise businesses to increase representation of women leaders.

- Frame diversity as integral to corporate performance

The business case for diversity must be recognised and supported from the very top. McKinsey recommends the implementing of key performance indicators – such as proportion of women in company’s various business lines, at each level of management, and among new recruits; pay levels and attrition rates between men and women in similar functions; ratio of women promoted to women eligible for promotion.

- Take action to counter even subtle forms of discrimination

Managers and all those involved in recruitment processes must be trained to recognise the value of diversity and to identify prejudices that affect decisions. Businesses can encourage women's progression into leadership roles by ensuring there is at least one woman on every shortlist for promotion.

## 8. Conclusions

The case for harnessing the power of female leadership in UK business is incontestable. The case for the economy is equally robust, given that the UK stands to gain £23bn by better harnessing women's skills.

Bold moves by other countries in recent years has overturned claims of any absence of female leadership potential, demonstrated that a significant step-change in women's representation is achievable.

The Fawcett Society fully recommends the introduction of quotas as a key mechanism in not only increasing the number of women in leadership roles and driving-through a step-change in women's representation, but in improving overall business performance of UK business and the economy.

*July 2012*

## GC 100—Written evidence

The GC100 welcomes the opportunity to respond to the call for evidence on the EU women on boards proposals made by the House of Lords EU Subcommittee B on Internal Market, Infrastructure and Employment.

The GC100 is the association for general counsel and company secretaries of companies in the FTSE100. There are currently some 120 members of the group representing some 80 companies. Please note, as a matter of formality, the views expressed in this letter do not necessarily represent the views of each individual GC100 member or of their employing companies.

As preliminary matters, we would like to comment that:

1) Many companies do not find the focus on gender balance on boards to be relevant or useful.

Many companies see a greater need to address the need for diversity of all kinds in the boardroom; and more broadly to ensure and enhance board effectiveness, rather than simply seeking to achieve numerical equality through the imposition of a quota;

2) Many people, including women, dislike the notion of quotas being set since that may give rise to appointments being made with the sole purpose of meeting the quota rather than appointments being made on merit.

Our responses to your consultation questions are set out below.

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

In our view, the EU is not the best forum in which to take steps to improve the representation of women on boards. Whilst there may be some steps the EU can take (see our response to question 9 below), the numerous differences in the laws and cultures of member states make it likely that more effective measures could be taken at national, rather than supra-national, level. For example, structures of boards in different types of companies in different jurisdictions in the EU may call for different approaches.

*2. Can a “voluntary approach”, or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

A “voluntary approach” may work and it should be tried as a first step rather than moving straight to legislation.

We consider a voluntary approach to be the most suitable way to address the issue of gender imbalance on boards because companies will be best placed to set realistic goals, define suitable metrics, and introduce effective initiatives to foster achievement of gender balance on boards.

We believe that a voluntary, business-led approach can work. It will take time for companies to recruit suitable board members and the Commission should give voluntary initiatives time to be implemented before assessing their effectiveness. In particular, many companies do not want to expand the size of their boards and/or they do not wish to change the balance on the board of executive to non-executive directors and/or they have particular skills requirements for their board at that moment that cannot be met immediately by the then available women candidates. Achieving gender balance on a board may take many years if the appointment of new directors is dependent on existing board members completing their terms of office.

In the UK for example, a typical NED will serve for a 6-9 year period. A board with say 6 NEDs is only therefore likely to be recruiting one new NED per year. It is therefore unrealistic to expect the percentage of women on boards to increase suddenly, as new appointments will tend to be made only when a current NED has fulfilled their term of office. Even if all replacement appointments were female (which would, in itself, be discriminatory), it would take at least 2 years to reach one third of the NEDs and longer if the Executive Directors are included in the calculation.

That said, the Davies Review of Women on Boards, which was published in March 2011 has had a visible influence on the number of women being appointed to FTSE company boards. It contained a recommendation that FTSE 350 boards should set out the percentage of women they aim to have on their boards in 2013 and 2015 with FTSE 100 boards being encouraged to aim for a minimum of 25 per cent female representation by 2015. By March 2012 the largest-ever annual increase in the percentage of women on FTSE boards had been seen and it appears the goal of 25 per cent female representation by 2015 may be achievable. In the FTSE100, women now account for 15.6 per cent of all directorships, up from 12.5 per cent and the number of male-only boards had reduced in one year from 21 to 11. In the FTSE 250, in March 2012 women accounted for 9.6 per cent of all directorships, up from 7.8 per cent a year previously and the proportion of male-only boards in the FTSE250 had fallen to 44.8 per cent (112 companies), down from 52.4 per cent.

Whilst we support moves to improve board diversity, it is important that all board appointments are made on merit. Whilst the pool of women who would make suitable board members is growing, it will take some time for a broad and deep roster of women potential board appointees to be established. Until that roster is better developed, the imposition of quotas could lead to the same small group of women serving on multiple

boards with the attendant risk that they may not have sufficient time to devote to their duties on each board.

An alternative is a 'comply or explain' regime which works well in other jurisdictions. Sustained improvement can be achieved by using this approach with the emphasis on transparency and disclosure. Audit firms, and other organisations that are in a position to do so, can play a valuable role in sharing information on (and thus encouraging adoption of) best practices in transparent reporting on gender statistics in the workplace.

*3. How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

We consider that progress should be monitored at a national, rather than European, level. If companies are required to disclose their progress in their annual reports their progress can be monitored by people and organisations interested in monitoring it. This approach works well in other areas, such as adherence by companies to the UK Corporate Governance Code.

*4. Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

Disclosure and transparency can often be an effective way of encouraging companies to improve their performance; many companies do not want to be on the bottom of performance ranking. The Davies Review progress report, published one year after the Davies Review was published, has to some extent served to incentivise companies to improve diversity. It has identified publically companies who have failed to take sufficient action on diversity, and this has "incentivised" corporate action. We would not support any stronger incentives or punishments.

*5. What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

We believe that companies should be required to define their own objectives for gender balance on their board, including setting their own target for the percentage of women on the board and the timeframe in which they intend to meet that target. Whilst the obligation to set targets could be mandatory, the choice of target should be left to individual companies so that each company can take account of the factors bearing on it in particular.

There may come a time when it is apparent that progress is too slow without regulation. However, we do not think a "deadline" should be set yet. It should be borne in mind that it takes time for boards to change since directors hold tenure for several years so the rate of turnover tends not to be rapid.

*6. Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

It may be that the introduction of quotas in some countries within the EU will reduce the number of women available for board appointments in other member states, resulting in some companies facing difficulties in recruiting women from outside their own jurisdictions.

We do not think it is necessary nor serves any useful purpose to require consistency across the EU on women on boards.

*7. What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

There is some research that indicates that diversity of boards generally enriches the decision-making process by bringing different perspectives, reducing the risk of “Group think” and improving Board Effectiveness thereby contributing to company performance.

There may not yet be a sufficient body of research to establish a correlation, and perhaps demonstrate causation, between women on boards and economic benefits. However, the section on “the economic importance of gender diversity in corporate boards” in the EU’s “Progress Report on Women in Economic Decision Making in the EU” sets out the micro- and macro-economic benefits of increasing the presence of women on company boards, benefits which go beyond solely economics.

Until there are sufficient numbers of boards with a good proportion of women on them it will not be possible to determine whether a higher level of representation of women on boards does (or does not) bring advantages.

*8. What are the positive and negative effects of legislative quotas?*

Introducing quotas brings the risk of tokenism.

There appears currently to be a shortage of board-ready women so introducing quotas may put an unachievable requirement on to companies. In our view, effort should first be put in to building the pipeline of women in senior executive roles so that there is a pool of board-ready women from which companies may make suitable selections in future years.

*9. Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

There is a range of actions that could be taken to address the issue of gender imbalance in corporate boards in the EU. However, in our view these initiatives would be better if they were introduced at national level. We suggest the following could be introduced:

- The EC could address some of the other aspects of working life that cause blockages in careers for women, such as flexible working arrangements, pay inequality, lack of childcare facilities at affordable rates etc.

- The EC could issue – or recommend member states to issue - recommendations of the kind made in The Davies Review of Women on Boards and monitor progress over several years. If progress was too slow, then stronger measures could be considered.
- The EC could mandate – or encourage member states to mandate - reporting by companies that meet certain size thresholds on the number of women on their boards, the number of women in the company’s most senior management committee and the proportion of women employees in their workforce.
- The EC could mandate – or encourage member states to mandate - companies to set their own targets regarding the proportion of women on their board, to set an aspirational date for achievement of the target, and to report annually on progress towards achieving their target. Permitting companies to set their own targets for the proportion of women they want on their boards would allow different types of companies to set targets that are realistic for them. It could be mandated that companies provide progress updates in their annual report, along with a narrative describing the issues and challenges the company faces in achieving the target, and an explanation from the Chairman as to how the company has broadened the talent pool in its search for new board appointees.
- There is a need for companies to take steps to ensure there are sufficient numbers of women coming up through organisations and gaining relevant experience to make them suitable for board appointments. Companies could be required to include in their annual reports a narrative about what steps they are taking to ensure this is happening in their organisation.
- The EC could sponsor a firm to set up a database of potential women board appointees to improve access to the available women candidates, like the ACT Women’s Register in Australia.

*10. Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

Please see the response to Question 9 above.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

In our view success should be measured by measuring the improvement in company performance.

Broader, societal indicators of success with respect to women on boards across the EU could be evidence that women are being given the opportunity to develop their skills and experience to equip them to succeed at board level, thereby ensuring that increased board diversity happens organically.

*July 2012*

## **Mary Honeyball MEP—Written evidence**

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

1.1 Commissioner Reding (Vice-President for Justice and Home Affairs) introduced a "Women on the Board Pledge for Europe" in March 2011. This pledge called for publicly listed companies to pledge their commitment to increasing women's presence on corporate boards to 30% by 2015 and to 40% by 2020.

1.2 By March 2012 only 24 companies had signed the pledge. As a result in the same month Commissioner Reding opened a public consultation seeking views on possible action at EU level, including legislative measures, to redress the gender imbalance on company boards. The consultation ran until the 28 May, if the results of the consultation indicated that EU level measures are necessary they will be announced in the second half of 2012.

1.3 The European Commission also supported the European Business Schools to create the Women on Board Initiative which published a list of 7,000 "Board Ready" European women in 2012.

1.4 National Governments should seek to increase their efforts on this front. However, EU intervention is also imperative. Research from the Davies Report found that companies with higher percentages of women on corporate boards perform better than those with all-male boards. This highlights the potentially damaging impact on competition that differences in national legislation may bring about.

*2. Can a "voluntary approach", or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

2.1 There is a strong business case for gender diversity on boards. This was illustrated by the consulting firm McKinsey who found that the operational profit of companies with women on boards was 56 percent higher than those made up of only men. The voluntary approach encourages changes in companies' organisational behaviour, laying the foundations for the appointment of more women to boards.

2.2 The voluntary approach has worked to some extent in the UK. However, the speed of appointing women to boards has been slow at best, with an increase of only 2.5% between 2010 and 2011.

2.3 Currently 8 FTSE 100 companies still have all male boards and an additional 91 more female board seat holders are needed in order to meet the target of 25% set out in the Davies report.

2.4 In the FTSE 250 this figure increases to 98 companies with all male boards and 283 board seats are needed to meet the 25% level.

2.5 As the Davies Report highlighted it will take 70 years to achieve gender balance on boards at the current rate. This is too long. Companies need positive and negative incentives now to increase their commitment to more gender diverse boards.

*3. How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

*4. Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

4.1 A combination of incentives and sanctions should be used to encourage companies to increase the number of women on boards.

4.2 The threat of sanctions has been an effective way of quickly increasing the number of women on boards. In France legal quotas were passed in January 2011 to increase the number of women on boards to 40 % by 2017. An intermediate target of 20 % by 2014 as also set. By January 2012, the proportion of women on French company boards had already risen to 22.3%, up from 12.3% in October 2010.

4.3 In Norway, sanctions also encouraged companies to comply with a previously non-binding target of 40%. A binding law threatening the dissolution of non-compliant companies led to the number of women on boards increasing from 15% - 40 % from 2005 - 2008.

4.4 These two cases provide evidence of the impact that sanctions can have on increasing the gender balance on boards.

4.5 Companies with good gender diversity on their boards should be lauded as best practice examples.

4.6 Companies should also be provided with support if they are willing to work towards increasing the number of women on their boards. For example, they could be allowed to put forward employees to participate in programmes to nurture potential board room talent.

*5. What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

5.1 Since 2010, the number of women on UK FTSE 100 boards has increased by around 4.2%. This is insignificant progress in comparison to the Norwegian case, which saw an

increase of 25% of women on boards over a three year period, and the French case which witnessed an increase of 10% in a 15 month period following the introduction of binding quotas.

5.2 Although self-regulation is working in the UK, progress remains slow. The Davies Report (2011) stated that "at the current rate of change it will take over 70 years to achieve gender-balanced boardrooms in the UK".

5.3 In an ideal world self-regulation would be sufficient to bring about a greater degree of gender balance on boards. However progress is too slow in the UK. The successes seen in Norway and France demonstrate how intervention is necessary to increase the rate at which this happens.

*6. Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

6.1 Binding quotas were put into place by France, Belgium and Italy in 2011. The recent adoption of this legislation combined with the economic turmoil currently being felt across Europe makes it difficult to judge the impact that quotas have had on the single market thus far.

*7. What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

7.1 One potential problem which could arise following a lack of intervention in the UK is that it could lead to a female "Brain Drain". In other words it could lead to the best female talent seeking employment outside of the UK and a decrease in the competitiveness of UK companies.

7.2 Further to this the competitiveness of UK companies on the European market is also at risk. Companies with gender diverse leadership structures have been shown to be more effective, innovative and productive than homogeneous ones.

7.3 It is also important to consider the effect on UK competitiveness in terms of attracting the best talent on the global market. Businesses outside of Europe are increasingly focusing on greater gender diversity as a means to increase their competitiveness. The UK risks being left behind if similar practices are not encouraged in its own corporate culture.

*8. What are the positive and negative effects of legislative quotas?*

8.1 The discourse surrounding legislative quotas is divisive. As with any policy measure, quotas do have some negative effects however, these are far outweighed by the benefits gained from balanced boards.

8.2 One of the main arguments against the implementation is the idea that quotas prevent the selection of the best person for the job. It has been shown, for example with the "Board Ready Programme", that there are women who have the skills and experience to be appointed to boards. Quotas are a way of putting these women forward to take up board appointments.

8.3 Companies with female board members have been found to perform better, thus increasing their competitiveness. The consultancy firm McKinsey found that gender-balanced companies have a 56% higher operating profit compared to male-only companies. Ernst & Young looked at the 290 largest publicly-listed companies. They found that the earnings at companies with at least one woman on the board were significantly higher than in those that had no female board member.

*9. Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

9.1 The European Commission also supported the European Business Schools to create the Women on Board Initiative which published a list of 7,000 "Board Ready" European women in 2012. Such actions help to dismantle the myth that there are no suitable women available for appointment to boards and should be encouraged.

9.2 Identifying so called "talent pools" of women who have been identified as future leaders and providing support, training and mentoring for them is another key way of realising more balanced representation of women on boards.

9.3 More generally, there needs to be a shift in organisational culture away from the traditional "jobs for the boys" mindset towards more open and transparent system of appointments.

*10. Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

10.1 To ensure that the most diverse and effective talent pool is available for board selection it is vital that women are given support throughout their careers. This includes actions at both national and EU level to provide opportunities for women in terms of training, mentoring and networking. This would help to increase the talent pool of women ready for board positions.

10.2 Issues pertaining to work/life balance need to be addressed including issues such as the provision of adequate child care, maternity/paternity leave and more flexible working patterns.

10.3 The traditional "job for life" is becoming less common and career paths are becoming more diverse in the range of experiences that people gain. A more positive attitude towards career breaks, including family reasons, and the experiences and skills that they develop should also be encouraged.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

11.1 Success is the point at which quotas are no longer needed to ensure that there is a gender balance not only company boards but throughout society at large.

11.2 These barriers have been outlined in the Davies report "Women on Boards," by the consulting firm Mckinsey in their "Women Matter" report and by the European Women's Lobby in the "Women on Boards - From a Snail's Pace to a Giant Leap".

11.3 Barriers to women reaching the board relate to entrenched organisational culture and attitudes which privilege men over women. This means that women receive fewer opportunities over the course of their career to progress.

11.4 Not only must we increase the number of women on boards but ultimately we must also tackle the root causes of the barriers that currently prevent them from reaching the talent pool for selection.

*9 July 2012*

## Hermes Equity Ownership Services—Written evidence

We are pleased to have the opportunity to provide feedback on the European Commission consultation on gender imbalance in corporate boards in the EU.

By way of background, Hermes is a leading asset manager in the City of London. As part of our Equity Ownership Service (EOS), we also respond to consultations on behalf of a number of pension funds and institutional investors from the US, Australia and Canada, as well as across Europe. We assist these clients to act as good owners of the assets in which they invest. In all, EOS's advises clients with regard to assets worth a total of over €100 billion (as of 31 December 2011).

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

Success of self-regulation varies widely across Europe. Finland has achieved a comparatively high level of female representation using a “comply or explain” approach, whereas the 28.7% rate of female representation in Sweden came in place without even a recommendation. However, these countries appear to be the exception rather than the rule. So far, self-regulation has not delivered significant results in Germany, and Italy recently opted for a firmer regulatory approach in the absence of any voluntary development. Development in a number of other countries, such as Belgium, Ireland, and the UK, has been positive but relatively slow. In the UK, the push towards diversity gained momentum in the past year, with 25% of new board appointments in the FTSE 100 being women, thus raising their overall representation to 16%. The Cranfield review of the Davies report projects a percentage of 26.7 for 2015.

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

While we believe that self-regulatory action is as a rule preferable to a regulatory response, we are aware that in some cases, there might be limitations to the effectiveness of such an approach. Data across Europe suggests that significant progress without regulation has only been achieved in a very limited number of countries. Nonetheless, compulsory quotas should be considered only as a final resort, and companies should be encouraged to achieve appropriate gender balance without compulsory regulation. In the first stage firm recommendations, via local governance codes for example, should be preferred. However, should a comply or explain approach fail to deliver material progress within a medium term timeline, regulation may prove necessary. The examples of France and Italy have shown that sometimes a regulatory push can prove to be an effective tool to initiate a cultural change. We also believe that any European stance on gender balance should be associated with a recommendation on wider board diversity. This would place a strong emphasis on the overall balance and diversity in the composition of a board. The board should be made up of

members with an appropriate and diverse range of competencies, knowledge and experience to enable it effectively to discharge its duties and responsibilities.

#### a) Comply or explain approach

We believe that a recommendation for the addition of a comply-or-explain rule to corporate governance codes throughout the EU is the most appropriate first step.

towards addressing the status quo. Comply-or-explain rules have a proven track record of delivering lasting changes to corporate governance structures, and have been sufficient in a large number of cases. In general, they are preferable to a binding regulatory target. They do rely on investor pressure to be fully effective, which is why this type of approach is less preferable where sustained shareholder engagement or scrutiny is lacking. Therefore, measuring progress and reporting against targets are crucial if a recommendation based, comply-or-explain approach is favoured.

#### b) Quotas

We would consider these an option only if a self-regulated approach fails to deliver results within a reasonable timeframe. The need for such an approach may vary across markets. While there is reason to be optimistic about the UK closing in on a 30% goal by 2015, countries that are further behind, such as Portugal, may perform less well under a purely self-regulated approach. Therefore, introducing binding measures could prove an indispensable trigger for change in some cases. However, this should only be done if a self-regulatory approach has been attempted first without achieving tangible results.

(3) In your view, would an increased presence of women on company boards bring economic benefits, and which ones?

There is a strong correlation between female presence on a company board and market growth occurring at that company.<sup>1</sup> A possible reason for this is an improved boardroom dynamics. An improved gender balance on the board would also lead to the utilization of the full potential present in a given talent pool.

<sup>1</sup> In particular, see: “Women Matter: gender diversity, a corporate performance driver”, McKinsey & Company, 2007; “The Bottom Line: Corporate Performance and Women’s Representation on Boards”, Lois Joy, Nancy M Carter, Harvey M Wagener, Sriram Narayanan, Catalyst, 2007.

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

Defined objectives will make it easier to measure and evaluate progress, but should, at least for a certain adjustment period, have the character of recommendations rather than a

binding target. In order to make sure that businesses do not compromise the qualification and cohesion of the board, and have sufficient time to develop a pipeline of female talent, a timeframe of three to five years would be sufficient. After that period, the target level of representation might become binding. The target itself should be both realistically achievable and sufficiently high in order.

To realise the benefits associated with better balanced boards. 30% seems a reasonably balanced level which satisfies both requirements.

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

The macroeconomic impact of better decision-making associated with better balanced boards should be felt most strongly in the largest companies in any given country, regardless of whether they are publicly or privately held. Furthermore, with smaller boards, the risk that a candidate is chosen primarily because of a regulatory requirement and not primarily because of qualification is stronger. Beside the size of the board itself, the other reason is that smaller companies, as a rule, do not have a resource of comparable size to large companies to invest in recruitment. Therefore, we favour a progressive quotas for public listed companies with a 30% target for the largest index-traded companies in any given country (e.g. FTSE 100 in the UK, DAX and M-DAX in Germany, etc).

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

A balanced gender representation is equally important in executive and non-executive positions. However, both roles come with their own sets of challenges and, crucially, have undergone different levels of progress towards equal representation so far. In the two-stage approach outlined above, we believe that binding targets are best reserved for non-executive roles (after attempting a self-regulatory approach first). We believe that only a recommendation-based approach should be considered for executive roles on the EU-level.

(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?

Should a comply or explain approach not prove successful in a first stage, a binding rule may be necessary. As a result, sanctions would then be a logical part of the framework. We believe, however, that determining appropriate remedies should be left to national legislators in order to ensure compliance with local legal culture and court systems. Exceptions would be needed for transitional periods, particularly if changes to boards were forced on companies by external circumstances.

*July 2012*

## **IDDAS—Written evidence**

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

EU's role should be that of adviser, making recommendations and providing guidelines at a macro level. It is more appropriate for National Government to make decisions at the micro level. Diversity in board structures across the EU is important, however, it should not affect pursuing the common goal of improving representation of women on boards. The differences in Board structures and size may well have an impact.

*2. Can a “voluntary approach”, or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

The 'voluntary approach' in the UK particularly has yielded positive results so far at a non executive level. A time limit has to be set when the 'voluntary approach' is changed to a more specific rule based on the results achieved year by year, if voluntary measures do not work.

*3. How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

At a micro level the progress has to be monitored and audited by national Government through the right channels. Annual reporting on women representation on listed boards should be mandatory.

*4. Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

Progress is already recognised more so than incentivised at some level, as companies who are making the most progress are often used as 'best examples' in the press/media. This should be continued and every company who is making positive progress should be highlighted in all related press coverage. A special rating system could be created which awards this criteria, i.e. 'AAA, Standard & Poor Rating System'. Also, part of the annual audit for each listed company should include this specific criteria. The rating system would highlight the 'poor performers'.

*5. What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

To date it is evident that self regulation has not worked across the board, if we are to accept the recommended targets given by the Davies Report in February 2011. Current statistics taken from the recently published Cranfield Women on Boards report, show some movement – overall the January 2012 figures show the overall percentage of board directors who are female is 15%, an uplift of 2.5% (mostly non executive positions), there are only 20 women in executive positions, compared with 17 in 2004. The 2015 deadline of a quarter of places in the boardroom being held by women is therefore in sight for some of London's largest listed businesses. Worthy of note also is that the number of companies with no women on the board dropped to 11 and the number of companies with more than one woman on the board has increased to 50. This has now dropped further to 10 and is likely to drop further to 9 with Glencore announcing they are looking for a female NED.

6. *Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

Norway is evidently leading this initiative and the most obvious evidence of its impact on the single market is the fact that many EU members use Norway as 'best example' and 'gold standard'.

Consistency of the Norway initiative for example, could be attractive as it will 'standardise' the response across EU however, on the same time this is exactly what is also against this argument of 'consistency'- the fear of 'not all size fits all', each National Government should determine its best set of rules, guided by EU. However, you have to look at the different ownership structure of many businesses in Norway which facilitated this.

7. *What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

SEE 8 below.

8. *What are the positive and negative effects of legislative quotas?*

The introduction of quotas can create a negative effect on the credibility of women being accepted on to a Board. The emphasis, as with any appointment, should be on capability alone and recognition of the value that a diverse board will bring to the organisation. This should be Diversity of Thinking not just gender or ethnicity. We do however, believe that performance will be enhanced with an increase presence of women on boards. Diversity brings balance, different skill sets and a different perspective. There is evidence to support this view which shows better all round business performance equating to an increase in business revenue and a decrease in risk. Why might this be – putting aside the technical business ability and business acumen that women will bring, part of the answer rests with the way women exercise leadership. "The 2008 McKinsey Women Matter study demonstrated that some leadership behaviours observed more frequently among women than among men, have a positive impact on a company's organisational performance. Ultimately, this study

highlighted that the complementarity and diversity of leadership styles make a difference on companies; performance”.

9. *Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

We believe action is best taken at a national level. The emphasis should be on self regulation where the benefits of a more diverse boardroom are highlighted. The Davies Review into Women on Boards recommended that “companies make available a formal statement over their intentions concerning gender diversity”. This statement of intent should be supported by a very visible gender diversity programme which is led by the CEO and fully supported by the Chairman in order to ensure the executive as well as NED targets are met.

Fundamentally, it is the mindset of Chairman and CEOs as business leaders which need to change as together they lead the charge on creating a culture which actively provides opportunity for talented women to progress within the organisation – thus creating a talent pool which can be tapped into. Additionally, practical steps can be put in place to “groom women” for board positions. There will be some common areas of focus:

- Mentoring and Coaching Programmes
- Programmes to encourage female networking
- Personal Development Programmes
- Skill building programmes
- Options for flexible working conditions

However each organisation should review their own organisation and practices in detail to identify potential blockages to increasing the opportunities for women to progress to boardroom positions and develop specific programmes and interventions accordingly to aid this process.

10. *Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

SEE 9 above.

The importance of Career Management cannot be ignored or sidelined. At the earliest opportunity organisations should proactively provide the opportunity for women to manage their careers strategically – building in appropriate technical and expert support, together with coaching and mentoring support. A holistic approach, which covers the importance of

image, pr, marketing, networking, will all play a vital role in the progression of women into the Board room.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

A diverse board is ultimately a better board. Success in this context is the education at board level to open up opportunities to women, to break the 'all male' boards. Based on demographics alone (let alone the commercial and moral angle) 100% male boards should no longer be allowed to exist regardless of industry/sector by 2013 in the UK and 2015 across all EU members.

*July 2012*

## **Institute of Leadership & Management—Written evidence**

1. The Institute of Leadership & Management is the UK's premier leadership and management development organisation. Since our formation in 2001 we have worked with a network of around 2,500 training organisations, universities and colleges, and corporate training departments to develop and accredit the knowledge and skills of over three-quarters of a million practising managers, both in the UK and worldwide. We have a membership of around 40,000 managers to whom we provide opportunities for continuing professional development, networking and professional support, and we undertake research to better understand the experiences, challenges and opportunities facing leaders and managers today.
2. In 2011 we undertook a major study to compare the attitudes, expectations and experiences of a matched sample of male and female managers that explored their career paths and trajectories, and discovered some significant and disturbing differences that helped to make sense of the failure of many women to reach the top in leadership and management.
3. Earlier this year, with the financial support of RBS, we undertook a similar study focussed on the banking industry, with a view to identifying any specific characteristics that would explain the particular challenges women face in advancing their careers in banking. To supplement this, we have also looked in some detail at the demographic structure of leaders and managers across all industry sectors, to identify broader patterns and trends.
4. This research is particularly relevant to the issue of women on Boards, because that role represents the zenith of a leadership and management career. Board members of organisations of all sizes, public or private, both executive and non-executive, are (with a few exceptions) selected from the senior managements of their own and other organisations. In examining the profile of Board members, and the processes by which they are selected, it is necessary to consider the pool of talent from which they are selected. Non-executive Directors are primarily chosen from existing Executive Directors, who in turn are selected from the senior management of the organisation itself or of other, similar organisations. Senior managers are in turn appointed from the next rank down, and so on.
5. This pipeline of current and future Directors is a dynamic entity, constantly changing. Furthermore, changes at the top (a Director leaving and being replaced) tends to create movement down the length of this pipeline, eventually leading to someone being appointed to their first management position. Although the nature of this pipeline is probably self-evident, much of the discussion about women on Boards has tended to focus purely on those at Director level, and compare the current state with the recent past in order to predict the future. By limiting the scope of the discussion in this way, the range of possible actions and their likely effectiveness in addressing what is a real problem, are both heavily limited.

6. Britain's management population, the pipeline from which Directors are drawn, is changing remarkably rapidly. This is due to several, distinct demographic changes. First, it needs to be recognised that managers tend to be older, on average, than the rest of the workforce. This is primarily because managers are generally not appointed until they are in their early thirties - there are exceptions, and in some sectors (retail and hospitality are notable examples), people can become junior managers quite young. However, this leads to the simple fact that whilst around one quarter (23.9%) of all employees is aged under 30, only one in ten managers (10.8%) is under 30.

7. Furthermore, more senior managers tend to be about six and half years older than middle and junior managers (49.2 compared to 42.6). This reflects the fact that those who progress to senior management are selected from the wider managerial population (so are already above the average age for the workforce), are identified after a few more years of their managerial careers (usually in their later thirties) and progress into senior management in their early forties. (All data from the Annual Population Survey 2010: ONS)

8. Given this profile (17.7% of managers are over 55), a significant minority of managers is currently or shortly due to retire (a fact identified by UKCES in its 2010 report Skills for Jobs: Today and Tomorrow). Furthermore, the majority of these managers are men (especially those in more senior positions), because they were first appointed to management 25 or 30 years ago, when opportunities for women were far more limited than they are today.

9. These retiring managers will create significant movement throughout the talent pipeline, as each one leaving creates a place to be filled which may in turn lead to others being promoted. What is particularly significant about this process is that the new managers being appointed at the start of the pipeline are far more likely to be female, and to be better educated than the men leaving.

10. Women now account for 65% of graduate and post-graduate entrants to the labour market, and this is reflected in the profile of newly appointed managers. However, women are likely to be slightly older than men when first entering management (the difference is about two years, on average). Our research has discovered that this reflects a combination of lower expectations of advancement (which may be based on their perceptions of the management population ahead of them) and a greater caution about applying for promotion. Once in junior management positions, women's experiences and opportunities for advancement appear to be much closer to men's, at least into middle management positions.

11. However, we have identified a very real barrier for women at the point of transition from middle into senior management. This tends to happen, as mentioned above, when managers are in their mid to late thirties, which coincides with many women taking maternity leave or having significant child care responsibilities. At the point at which the expectations of the employer and the demands of the role intensify, many women are looking for a period of greater flexibility in their careers. Although this is for a relatively short period compared to their full working lives (after all, most employees in this age

bracket still have at least 30 years of employment ahead of them these days), nevertheless it acts as a real barrier for many women with the ability, ambition and aspiration to move into senior management.

12. Our research in the banking sector found that these barriers vary significantly across the different sub-sectors of that industry. For example, corporate banking appears to offer women significant opportunities to progress their careers whereas investment banking possesses significant cultural and attitudinal barriers, and working practices, that severely hamper and discourage women. We have no reason to believe that this variation is in any way unusual, and is likely to be replicated across and between other sectors.

13. ILM has been vociferous in raising awareness of this problem, because it causes both ethical and economic problems for employers. The ethical problems stem from the unfairness with which women are faced due to both biological and socio-cultural factors. Whilst childbirth and child care act as real barriers to their careers, it seems to have the opposite effect on men when they become fathers, spurring them on to seek advancement. Fairness and equality are important, and employers who demonstrate high ethical standards are likely to benefit from higher levels of employee engagement (cf. *Engaging for Success: enhancing performance through employee engagement* MacLeod and Clarke, BIS: 201X), employee retention and motivation (cf. *The Index of Leadership Trust 2011* ILM: 2011). Being ethical also brings positive financial returns.

14. It is also the case that women middle managers are at least as likely as their male counterparts to have been trained and to be able to perform effectively in their roles. Employers will have made an investment in developing their potential to move into senior management but will not be getting the return on that investment if they are being held back.

15. Why is all this significant? Because without a supply of talented women moving into senior managerial roles, there will not be an adequate supply of potential female Board members. Quotas do not address this problem. They enable the relatively low proportion of senior female managers who have made that progression to gain Directorships but in so doing they address the effect not the cause of the problem. And, insofar as they appear to give preferential treatment to a small group of women, they make it hard to argue for greater equity further down the pipeline.

16. Regulatory or legislative action can offer quick wins, but may do so at the expense of long term gain. Our fear is that quotas encourage those employers who have done least to encourage flexible and family-friendly working to continue in their practices. They can legitimately argue that preferential treatment of a few women acts to counterbalance the disadvantages faced by many.

17. Our argument is for greater emphasis on flexible and family friendly working for both women and men, because both can benefit. This does not mean placing financial and regulatory burdens on employers, quite the reverse. Flexible working (in all its myriad forms) provides benefits to both the employee, the employer and to society as a whole.

Fractional appointments, job-share, home working, 'selling' additional holiday entitlement, allowing unpaid leave, etc, offer employers much greater flexibility in the way that they employ people, reduce overheads and absenteeism, increase motivation and employee retention (and at over £7,000 each to recruit new employees, retention of skilled staff is economically important). Enabling skilled women to remain economically active has to be good for society, but having highly skilled and well trained female managers limited in their employment opportunities is economically wasteful.

18. ILM's solution is to treat the real cause, not by additional regulation, but by looking carefully at the reasons why employers tend to be resistant to flexible working, and to look at ways of promoting it as an economically valuable activity. One of the few positive outcomes of the recession was the willingness of many employers to look for ways of reducing their labour costs without losing highly skilled and valued employees. Fractional working (ie working fewer days per week or fewer hours per day), job sharing and periods of unpaid leave all became solutions to problems rather than problems themselves. Many employers found that someone working 75% of a working week tended to be nearly as productive as they were on a 100% contract yet the employment costs were significantly reduced. This presents a real WIN:WIN situation, for employer and employee alike.

19. There is a real opportunity here to learn the lessons of the recession, to find out how the more innovative and forward-thinking companies (the kind of companies that the UK needs to ensure a prosperous future) managed to come through the recession without having had to sacrifice too many of the skilled people they need to build their futures. There is also a need to present regulations like the right of employees to request flexible working as an opportunity for employers to create a more flexible workforce. It is one of the great mysteries of the employment scene how many jobs turn out to require exactly 35, 37.5 or 40 hours work a week, exactly the same as the standard full time contract. Shorter hours don't just mean that jobs are designed to fit the exigencies of the organisation, it also reduces congestion at peak periods, bringing real social benefits.

20. However, ILM has also identified that employing people more flexibly presents significant challenges for managers, as they have to focus far more on outcomes and far less on inputs. It is far less important to monitor what someone is doing, far more important to monitor results of their working. All too many organisations are concerned that people look busy rather than that they are adding value. This ties into the UKCES's emphasis on high performance working and the Scottish Government's policy to encourage employers to maximise the returns on the skills of their workforce.

21. The Department of Business, Innovation and Skills has been preparing an evidence paper on the importance of effective leadership and management in enabling higher levels of productivity, to reduce the gap between the UK and its major economic competitors. ILM has been part of the group developing this paper and is fully supportive of its message and purpose. This specific issue illustrates exactly why higher standards of leadership and management are so critical; without them, employers are unable to employ the practices that enable them to take full advantage of the benefits offered by flexible working, leading to

crude and ultimately ineffectual Regulatory action to address problems like the lack of female representation on Boards.

22. Changing the law is relatively easy; changing social attitudes takes time. Governments should not be seduced by the apparent advantages of regulatory or legislative action when the alternative, although slower and more challenging, is likely to be more effective in the longer term, benefit far more people and organisations, and work with the changing nature of the workplace.

23. Change will happen; Government can help it or hinder it. Paradoxically, quotas, whilst offering a quick fix are likely to slow the changes that are gradually happening in the workplace. Too few people remember that in one generation there has been a social revolution in the workplace. Women are now in a far better place as the baby boomers leave the labour force, compared to what it was like when they joined. However, there is still more to be done, and ILM is passionate in believing that the focus should be on ensuring that tomorrow's corporate leaders are able to make the transition from their current positions to roles that will provide the launch pad for their progression to corporate Boards.

## **Questions and Answers**

*Q1 To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

ILM's view is that the problem is essentially a social issue, that will need to be addressed in the context of each countries' socio-cultural behavioural norms. The need is to support and, if possible, accelerate changes to attitudes about the career paths of women in management. An EU-wide strategy could not be sensitive to the different starting points in each country and the factors that shape current behaviour. In particular, as stressed in our initial comments, we do not see regulatory action as the answer, and believe it will serve to slow down progress in opening up access for women into senior management.

*Q2 Can a "voluntary approach", or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

Although we do not favour regulatory action, we believe that Government can accelerate the slow pace of change by an evidence-based approach to demonstrating that greater flexibility in working practices for women managers (and other professionals) has significant beneficial effects on the organisation, in terms of employee retention, engagement and commitment. Such an evidence base could then be used by Government in both its promotion of best practice to employers (as it does with other good practices) but could also be used in its ratings of suppliers. Employers that seek to ensure that they retain and promote women into senior management are employers who want to maximise the return on the investment they have made in those employees, a sure sign of a well run organisation.

*Q3 How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

We believe that monitoring should look at women's progress through the management levels, to identify the critical points at which barriers prevent their further advancement. Much of this is already being done by ONS, and there is value in making comparisons across the EU. However, there are significant issues around definitions of 'manager' which account for very different proportions of managers in the UK and Ireland, compared to the rest of the EU, and these would need to be addressed. Whilst these problems are not apparent with Board members, only monitoring women on Boards would fail to assess the real problem. However, the number of women in Executive Directorships is probably the single most effective indicator of progress, as it is a direct consequence of women moving into senior management, and cannot be (viewed as) tokenism. It shows that real change is taking place in employers.

*Q4 Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

As we have stressed, the problem is complex. The use of incentives or punishments would be difficult if they were to be based on the real problem. However, as we have suggested, Government can use its substantial purchasing power as an effective incentive/punishment, and send out important signals about the equity and economic arguments for reducing barriers for women.

*Q5 What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

The rate of progress is slow, but progress is happening. The experience of Norway shows that rapid change is possible, but simply creates a small cadre of women who benefit excessively through multiple Non-Executive Directorships. Significant social change can take a generation, but Government can accelerate this. However, we should not expect a closer balance of the sexes on Boards in less than two decades or so. However, a measure of the success of any initiative would be that the current rate of change continues to lead to increases in the number of women in senior management and on Boards.

*Q6 Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

The only impact that having more women on Boards would have would be if they led to better managed organisations. Insofar as we believe that quotas do not help women make the transition from middle into senior management (and may slow down progress), then they could mean that, counter-intuitively, those countries with quotas fail to promote more able women and so lose out to those who take full advantage of the abilities of the most talented women managers. It is the wasted talent that is the primary outcome of women's

disadvantage in their managerial careers, and social change coupled with market forces is most likely to lead to a levelling of practice. The common employment practices and employment rights create the right environment for this change to happen.

*Q7 What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

Overall, the real benefit comes from not wasting the talents of so many women managers who fail to progress into senior management, whilst less able men do. Opening up career progression for capable women managers must help improve business performance and reduce the waste of investment in their development which is not fully exploited now. Whilst the overall impact is that some men who may benefit from the career blocks that women face would now not benefit, the overall impact on the UK and EU economies must be positive. As the BIS report cited above shows, the UK suffers a 20% productivity shortfall compared to the leading countries, economically, and a major factor in this shortfall is the weakness of management in many UK companies – what the report describes as the ‘long tail of poorly managed firms’. This one element of a strategy to address the problem of this ‘long tail’.

*Q8 What are the positive and negative effects of legislative quotas?*

Quotas address the symptom not the cause. They give the illusion of change without the reality of solving the real problem. Ultimately, they have the potential to make the problem worse, rather than address it.

*Q9 Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

As we stress, the solution lies at changing the career opportunities for women in middle management, a solution that is more complex to implement and which must address the real situation in each different country.

*Q10 Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

There is some evidence from our research that, despite their better educational performance, women still are still unconfident about their potential and more risk averse in seeking managerial roles, compared to men. There is a real need to address the socio-cultural experiences that cause women to lack the same confidence of men in choosing their careers and setting their career goals. This is despite their superior educational performance. Parents, schools and universities, HR professionals and line managers can all play their part in working to address this. ILM is committed to working with this last group to ensure that they understand their role and the reasons for them needing to take action,

but much of the damage has been done in early socialisation, and they can only work to overcome some of these self-imposed barriers to progression. Can Government do anything? Certainly it can continue to promote positive practices in education and the careers service, and it can demonstrate that it is actively supportive of managers in the Public Sector who work to encourage women to take up opportunities at the same rate as men with similar abilities.

*Q11 What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

Ultimately, women will appear in management at all levels in the same proportion as men. This will vary across sectors, as the proportion of women and men starting out in different sectors varies enormously, an event larger issue.

*July 2012*

## Investment Management Association—Written evidence

### I. EXECUTIVE SUMMARY

I.1 The most important thing for investors is that a board is effective. It should be the best fit for a company and a board with a cross section of ideas, skills and experiences will be better equipped to develop the company in the long-term. A diverse board is more likely to challenge previously held assumptions, have a broader perspective on issues and be better able to manage different stakeholders. There is also a body of evidence that demonstrates greater diversity, particularly of gender, can have a positive effect on corporate performance. Nor is this just a gender issue in that there is a need for better diversity on non-gender or country issues - too many directors are accountants and lawyers with few having marketing or international experience.

I.2 Board appointments should be on merit and not to fill quotas. The lack of women on boards is a symptom of their underrepresentation at senior levels from where board members are recruited. Quotas would not address this and could also potentially alienate established board members. In Norway, established board members had to stand down to make way for women and the short supply meant that a few women sat on a number of boards. Legislation may even deter ambitious women from assuming executive positions by offering them a direct route to a non-executive directorship.

I.3 The UK has demonstrated that a voluntary approach works and given the diverse board structures and legislative frameworks across the EU, and the need to respect subsidiarity, any EU measures should be non-legislative. Company boards should be transparent in accounts on how they are seeking to increase gender diversity and what they have done. Over time this would drive higher standards of corporate governance in the long-term interests of shareholders. Shareholders should decide if the policy or any explanation for non-compliance is adequate and the impact this may have on a board's effectiveness. Moreover, such information will enable the Commission to monitor progress and it should revisit the situation in three to five years if there is not a marked improvement.

### QUESTIONS

2 *To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

2.1 IMA supports a pan European approach to corporate governance in a number of areas such as uniform shareholder rights, related party transactions, concert party rules etc - our members hold EU 420 billion of equities in European companies outside the UK. However, we believe that effective governance is essentially a local discipline where each

market requires a distinctive approach such that an EU wide “one size fits all” may not be effective.

2.2 Whilst there is a significant body of research that evidences the positive impact gender diversity can have on performance , given the diverse board structures and different legislative frameworks across the EU, and the need to respect subsidiarity, any EU measures should be non-legislative. In the first instance the Commission should seek to encourage best practice.

3 *Can a “voluntary approach”, or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

3.1 IMA considers a “voluntary approach” and market-led measures can ensure that boards are diverse and address any gender imbalance. The UK experience has demonstrated that a voluntary approach works.

3.2 Lord Davies’ report of February 2011 set a target of at least 25% of FTSE company boards to be made up of women by 2015 and that FTSE 350 companies should set out the percentage of women they aim to have on their boards in 2013 and 2015. His Progress Report one year later noted that:

- women account for 15.6% of all directorships in the FTSE 100 up from 12.5%;
- women account for 9.6% of all directorships in the FTSE 250 up from 7.8%; and
- there are now 11 all male boards in the FTSE 100 down from 21.

3.3 According to Cranfield School of Management’s Female FTSE Report , with this momentum, Lord Davies’ target will be achieved with 26.7% of FTSE 100 boards being made up of women by 2015.

3.4 The disclosures required by the UK Corporate Governance Code in a listed company’s annual report underpin this and mean that shareholders can challenge companies on their diversity policy. The Code requires companies to report on the work of the nominations committee . As from June 2010, it recognised the value of diversity: “the search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender ”.

3.5 Following Lord Davies review from 1 October 2012, companies will be required to report annually on their boardroom diversity policy, including gender, and on any measurable objectives for implementing the policy and the progress in achieving those objectives. Diversity, including gender, will also be one of the factors to be considered when a board evaluates its effectiveness. Moreover, the Government is looking at introducing the disclosure of proportion of women on boards as part of improving narrative

reports in accounts. This will mean that shareholders will be able to judge how the diversity policy has been implemented in practice.

3.6 The following measures would help ensure this change is sustained:

- Corporates develop the pipeline. One of the issues is that there needs to be a ready source of candidates. The training and development of women below board level is essential to ensure a credible and sustainable supply of women as both executive and non-executive directors. Companies should also allow their executives to take up at least one non-executive position.
- Voluntary, market-led initiatives. There are a number of these such as the FTSE 100 Cross Company Mentoring Programme, the Professional Boards Forum and the “30% Club”. The latter brings together chairs of UK boards and investors committed to increasing the proportion of female directors whose members support a goal of 30% of board positions being occupied by women by 2015.
- Search firms list women. The European Round Table of Industrialists is working with three executive search firms to establish a database of top female managers recommended by its members. The firms access this when proposing candidates for board positions.

Following Lord Davies’ recommendation, UK executive search firms drew up a voluntary code of conduct to address gender diversity which requires at least 30% of the candidates on “long lists” are women or an explicit justification why there are no qualified women. At least 25 search firms have signed up to the Code. However, not all firms are as proactive and companies need to be clear as to their expectations.

- Flexible working. More flexible working provisions such as allowing for parental leave etc mean that priorities can be managed and women as well as men can progress in a business.

4. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

4.1 IMA believes progress should be monitored through improved transparency in accounts as to the diversity policy under a ‘comply or explain’ regime and disclosure of the level of female representation – see 3.4. and 3.5 above. This would ensure there is scope for a company’s individual circumstances to be taken into account. Whilst such disclosures are not audited, auditors review the accounts as a whole for consistency.

4.2 Shareholders should decide if the policy or any explanation for non-compliance is adequate and the impact this may have on a board’s effectiveness. Moreover, the Commission will be able to monitor progress from such information and should revisit the situation in three to five years if there is not a marked improvement.

5 *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

5.1 IMA considers that progress will be incentivised by companies in markets that require transparency and good standards of governance, including diverse boards, having a lower cost of capital and improved liquidity. On the other hand, in markets where there is poor corporate governance, companies are likely to perform poorly, have less investment and more shareholder challenges at company meetings.

5.2 On the basis we do not support legislative solutions such as quotas, punishment for lack of progress is not appropriate.

6 *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

6.1 IMA supports an aim of achieving 30% representation of women on corporate boards. Lord Davies' Report proposed that FTSE 100 boards should aim for a minimum of 25% female representation by 2015 with an aspiration of 30% shortly afterwards. A report from McKinsey in 2007<sup>2</sup> showed that once there are three women on management committees with an average of 10 members performance increases significantly.

6.2 As regards timescales, it is difficult to see how a one-size-fits-all approach can be applied across Europe when individual Member States are at such different starting positions both in terms of women's representation on boards and in senior positions. For example, Scandinavian Member States start from a significantly higher base than others. As noted above, we consider the Commission should keep the situation under review and revisit the situation in three to five years if there is not a marked improvement.

7. *Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

7.1 One of the main means of ensuring consistency throughout the EU would be to introduce quotas for the proportion of women that should serve on a board. Within the EU we understand that this has been done by Belgium, France, Italy, the Netherlands and Spain. Whilst this will change the proportion of female representation, we do not consider it sustainable in that it will not ensure an ongoing source of suitable female candidates. In particular, the number of women in managerial roles varies greatly between Member States. Nor does it allow companies the opportunity to ensure the best fit for their board.

7.2 We do not consider that such a policy should be adopted throughout the EU. Diversity should be one factor in the selection process for board members in that board appointments should be based on merit and any approach to gender diversity should avoid the suggestion of quotas - gender should not be the only criterion for diversity. For example,

if a firm operates a global business, people with experience of different markets (such the United States, the EU or Asia) and diverse skills will be equally important.

8. *What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

8.1 One of the immediate advantages of a higher level of representation of women on boards across Europe would be to increase the available pool of talent for appointment to UK boards. Being able to draw on a broader pool of talent and experience would bring alternative perspectives to board decisions and help ensure the overall composition of the board is balanced.

9. *What are the positive and negative effects of legislative quotas?*

9.1 The positive effect of legislative quotas is that they work. In 2002 Norway announced that with effect from 2006 40% of board members will be required to be women. This was achieved in a relatively short period - the current proportion of women on Norwegian boards is 44%.

9.2 However, quotas do not address the real problem in that the lack of women on boards is a symptom of the fact they are underrepresented at senior executive levels from where many board members are recruited. They also potentially alienate established board members—not just the men but also the women who have been promoted through the ranks. Incoming women could find it difficult to earn respect when their appointment is known to be to fill a quota. In Norway, established board members had to stand down to make way for women and the short supply meant that a few women sat on a number of boards. Legislation may even deter ambitious women from taking on leading executive positions by offering them a direct route to non-executive directorships.

10. *Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

10.1 One of the more recent initiatives at European level that we would like to commend was that of the European Roundtable of Industrialists which in March this year launched two initiatives :

- Member companies publish an annual public declaration of targets and the current proportion of women in the workforce and in leadership positions both in their home country and worldwide. Thus as the situation varies widely between industrial sectors and countries, members determine targets appropriate to their situation. At each yearly update, members can enhance their commitments, and additional companies can join the initiative.

- With three leading executive search firms creating a European cross-industry database of female candidates for non-executive and supervisory board positions to stimulate increased participation of women on boards.

Thirty-one companies have agreed to sign up to one or both initiatives, including Siemens, Total, Telefónica, BASF and Philips.

*11. Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

11.1 IMA agrees that women would benefit from more support and flexible working provisions. This is a matter for companies and not for European-level action.

*12 What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

12.1 See question 6.

*July 2012*

## **Michael Klein , scientific consultant and adviser—Written evidence**

*“If the road to hell is paved with good intentions, than the highway to community harmonisation is littered with the debris of intergovernmental agreements”.*

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

(1) Before answering these questions in some detail, I want to stress the highly suggestive wording and the premises the questions are based upon.

1. The EU is indeed pressing hard to increase the share of women on boards of publicly listed companies. The very notion of doing so is based on a division of society along gender lines, and the assumption that variation within established male and female groups is identical. However, it is quite easy to challenge this assumption from a scientific point of view, e.g. by pointing out that women (in contrast to men) have a choice between job and family. While it is accepted that women stop working and care for children, it would be met with raised eyebrows were large numbers of men to adopt the title of “houseman”. So it is not possible to treat the group of men equal to the group of women. This is quite obvious when it comes to hard labour which – unscathed by any attempt to seek gender equality – remains a domain of men. This leaves only the conclusion that it is not gender equality which is being sought, because gender equality is – amongst others due to biological reasons – not a viable target, but the award of privileges to a particular group of women.

2. This conclusion leads to the next premise hidden in the question. It is not “representation of women” that is aimed at, but representation of women in particular circumstances, women who will not be found in the working classes, but mainly the middle classes. Accordingly, it is not women for whom a quota will be favourable, but a particular group of women, and it is not women who will be represented in boards by introducing quotas, but a particular group of women. This suggests that it is not women at all who shall enjoy legally granted “representation”, but the middle classes.

3. So it appears that the entire discussion about a quota for women in boardrooms is a discussion about awarding privileges to some women, while refusing the same privileges to other women. No quota for particularly disadvantaged women from poor backgrounds has been discussed so far, as far as I am aware. Hence, the label “women” is used as a fig-leaf for an rather ordinary rent seeking attempt.

(2) The following statements have to be read with the conclusion drawn above in mind, and the question has to be reformulated to: Is the granting of privileges to a particular set or class of women an issue in which the EU has to play a role?

(3) Again, before answering this question, it is necessary to look at the basics: Is there an issue at all? One would differentiate mere lobbying from beneficial lobbying by assuming that mere lobbying serves the interests of the lobbying group only, while beneficial lobbying serves the interest of the lobbying group and at least some parts of society. I suspect that people lobbying for more women on boards of publicly listed companies would claim to do so for the sake of the public. In any case the collective stance taken by proponents of a women's quota suggests this interpretation. Accordingly, one has to ask about the benefits of an introduction of a legal obligation to meet a certain target for the share of women in the boardroom. One has to ask this because to make a share of, say, 40% of women in the boardroom legally binding, poses a restriction to the freedom of enterprise and, as such, it needs justification. With respect to societal welfare it is only possible to legitimise a restriction to the freedom of enterprise when the benefit that results from it exceeds the costs of restriction. Hence, the question again has to be reformulated. It is now a question of whether the granting of privileges to a particular set or class of women is an issue for the EU to concern itself with, and whether it is beneficial for society as a whole if the EU is concerned with that issue.

(4) I would like to answer this question in two steps: Step one looks at the evidence that granting privileges to a particular group of women is at all beneficial to society, step two will address the question of societal benefit with respect to the EU.

1. The first benefit expected to result from more women in boardrooms is diversity. This quite obviously is not an argument, because if "diversity" improved board performance there would be no need to implement a quota specifically for women, because quotas for blue-eyed people (given a dominance of green-eyed people), for people over six feet tall (given a dominance of shorter people) or a quota for children (given a dominance of adults) would do the trick as well. Consequently, there has to be more to it than diversity, and proponents of a quota for women tell us what it is: it is only a women's quota that will benefit firms and society as a whole.

2. However, until now, nobody has identified the trait(s), characteristic(s) or personality factor(s) that is/are shared by women, which make them distinct to men and has a positive impact on board and firm performance. Not a single scientific theory has been put forward in this respect. Furthermore, there is no existing scientific theory apart from sociological theories that stress socialisation and gender role models that could provide any clue as to why women should behave systematically different to men and why behavioural differences between women should be smaller than behavioural differences between men and women. Unfortunately, to base the claim that a larger share of women in boardrooms would improve board performance on sociological theories of socialisation and gender role models would backfire as to the very nature of these models: They explain behavioural differences between men and women as a result of cultural expectations and socialisation. These, however, are

the very processes that lead to differences in career choice and persistence to pursue a career, hence they rather explain why patterns of men and women entering particular professions will persist, rather than offering any clue of the effect of destroying these patterns. Thus, the claim that women in boardrooms will act differently to men is theoretically unfounded.

3. The claim that more women in boardrooms will benefit firm and society is unfounded as well. Usually this claim is backed by two studies, one by McKinsey, the other conducted by the Finish think tank, EVA. While the study published by EVA and titled “Female Leadership and Firm Profitability” ends up with the assumption that benefits of an increased share of women in boardrooms originate from women being different to men, the study conducted by McKinsey suffers from confusing (a weak) correlation with causation. Neither study provides evidence for gender quotas being advantageous for firms or society as a whole.

4. By contrast, an elaborate study conducted by Kenneth R. Ahern and Amy K. Dittmar shows a number of negative effects attributable to an enforced share of women in the boardroom. Ahern and Dittmar use the naturalistic experiment provided by the Norwegian Government when it made a share of 40% of women on boards obligatory for publicly listed companies in Norway. Accordingly, Ahern and Dittmar were able to observe changes in e.g. financial performance measures before and after the quota had been introduced, and they were able to control for external factors like the financial crisis and other shocks to the market that would have or had an effect on firms. After controlling external factors, changes to be seen after the introduction of women quotas must be attributed to these quotas. Ahern and Dittmar saw quite a number of changes, all of them negative:

- Book to market value declined, indicating a decline in the quality of decisions taken by the board.
- Poorer decision quality after the introduction of a women’s quota was shown in poor performing acquisitions and a sharp increase in liabilities.
- Financial measures showing profitability or return on equity declined.

The authors summed-up their results as follows: “The quota led to younger and less experienced boards, increases in leverage and acquisitions, and deterioration in operating performance, consistent with less capable boards” (Ahern & Dittmar, 2011, p.1). The study shows that including more women does not result in improved board and firm performance. By contrast, it shows a deteriorating performance. This result cannot be aligned with what I will call the “trait-assumption”, which stipulates a benefit of women’s quotas resulting from the mere inclusion of more women in boards. Apparently, increasing women’s share on a board doesn’t result in better performance, by contrast. This rocks the foundation of the assumption that women have more in common amongst themselves than they have in common with men. As pointed out in the study by Ahern and Dittmar, it is not gender that matters as far as the quality of board decisions is concerned, but experience. And

experience is a quality that crosses gender lines and aligns some men with some women while it makes some women distinct from many other women. Thus the assumption of gender constituting two monolithic blocs does not hold. This result finds further backing in a study published under the auspices of the Deutsche Bundesbank. In brief, this study shows that boards with a higher share of women were more prone to risky decisions and had one commonality: less experience. Again, it is not the share of men and women that benefits a firm, but the amount of experience.

5. Another benefit, if not for firms, for the relationship between men and women that should result of a quota for women, is increased gender equality. Equality is a value that is rather innocent when it is meant to safeguard equal treatment, e.g. equal treatment before the law, equal access to education and the like. The main feature of equality is its assignment to all members of society. Equality by its very nature is not a means to grant privileges. However, this is exactly the way gender equality with respect to boardrooms is used. It grants privileges to a group of women at the expense of another group of women and at the expense of men. This is a cross violation of justice, procedural and distributional justice as well. It violates procedural justice because it favours lesser able women over men and over more able women and it violates distributional justice, equity that is, because it destroys the rule of merit. Suppose two women and two men apply for two vacancies in a board. The board members are obliged to meet a quota for women and decide to consider only the two female applicants. Undoubtedly, between the two women there will be a difference in ability, as there will be between the two women and the two men. Let's assume that, with respect to ability one woman and one man would have been chosen. In this case, the quota results in the able woman not being able to reap the merit her greater ability provides her with, and neither does the male applicant who is more able than the second female applicant. In the end, obligations to quotas dictate the personnel selection. It reaps havoc with equity principles, telling male applicants that merit doesn't pay, and assigning the stigma of being solely chosen by virtue of a women's quota to the abler of the two female applicants.

(5) In sum, the reformulated question has to be answered in the negative. The granting of privileges to a particular group of women cannot be justified by any kind of benefits. Hence, a violation of the freedom of enterprise is not to be justified. The question whether the implementation of policies which award privileges to a certain group of women is to be conducted by the European Union also has to be answered in the negative. By granting special privileges to a particular group of women, the EU would inevitably increase social differences and increase the rift between the well-off and the poor, and such a policy is hardly to be reconciled with either the harmonisation efforts of the EU or article 21 of the EU Charter of Fundamental Rights which prevents discrimination against particular social groups. Henceforth, the issue under consideration is not an issue for harmonisation attempts, because by increasing the share of a certain group of (middle-class) women in boardrooms, inequality within societies – as, for example, measured in the Gini-index – will inevitably increase.

*2. Can a "voluntary approach", or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

Given my argument that experience and ability, merit that is, are the sole traits which effect board performance, it is obvious that a company which aims to increase its performance, measured in turnover or market share, will strive to have the best people on its board. Since “ability” is independent of gender one would expect that sooner or later firm boards represent the availability of able people to the particular firm. Therefore, no voluntary approach is needed. As such a fair representation would be the natural result. Let me, however, again stress that to include a particular group of women on boards of firms doesn’t provide a fair “representation of women” – far from it. It may provide a “representation” for a particular social stratum, though, and elevate social inequality to a new level.

*3. How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

I have found no reason which justifies violation of freedom of enterprise and therefore no basis upon which a forced women’s quota can be based. Accordingly, there is no need to monitor or audit anything.

*4. Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

Please refer to the answer given to question 3. Since there is no need for legal action, the question whether lack of progress should be punished is not a viable question.

*5. What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

Please refer to answers to questions 3 and 4.

*6. Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

Harmonisation is not an end in itself. The reason for harmonisation is the expectation that doing business will be easier with a harmonised market and that harmonisation will better the circumstances of Europeans, will increase their welfare. As has been pointed out a quota for women in boards of publicly listed companies has detrimental effects on societal welfare. Accordingly, it is not a subject for harmonisation.

*7. What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

Please refer to the answer given to question 6.

*8. What are the positive and negative effects of legislative quotas?*

There is no justification for a violation of the freedom of enterprise. However, if a violation of freedom of enterprise were to take place it would not only harm motivation of market actors, employees in particular, but also reduce the amount of capable men and women entering a certain business. We would end up with what DiMaggio and Powell with reference to Max Weber called the “iron cage”, a situation of complete isomorphism between once different actors, a situation that would not allow for taking risks and being different from the pack, a situation that kills entrepreneurial spirit.

*9. Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

There is no need to arbitrarily choose a trait and demand equal representation. As argued above there is not a single valid argument which gives any kind of reason as to why a particular group of women should be privileged.

*10. Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

Again, it is not “women”, but a particular group of women who are to be granted privileges. While it is a well known fact in social psychology that satisfaction of one desire evokes another, there is no obvious reason as to why the granting of one privilege should lead to the granting of another. If including more women on boards harms the performance of firms forced to do so, imposing further financial strains on firms, e.g. by directing them to provide Kindergarten and other child care facilities, would further increase financial deterioration, and, as a matter of fact, it will lead to a reduction of professionalism, because it is not possible to devote oneself to a job and child care or family life at the same time.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

The only avenue open to law makers is to resist tampering with the freedom of enterprise. One cannot stress the importance of global markets and the increasing competition among nations on the one hand, while on the other hand making every effort to make life harder for business and, hence, giving companies every reason to use international markets to relocate headquarters somewhere East.

*July 2012*

## **Dr Annette Lawson OBE, Chair, National Alliance of Women's Organisations (NAWO)—Written evidence**

*1. The Government believe that quotas should be used only as a last resort and that a business-led approach to improving the representation of women on boards is preferable. Do you agree?*

Businesses have had a considerable length of time to sort this problem out. Although recently we can see change occurring now especially since the Davies report and serious voluntary codes being put in place, after such a lengthy period with very little effective action being taken to alter the poor statistics, we have to consider whether other interventions are required. And there is something to be said for this being EU lead – we often find that UK businesses do not want to undertake UK only initiatives if they think that their competitors in Europe are not being asked to do the same thing.

Possible supplementary question

*a. The Government argue that quotas are not necessary at the moment as the UK is making the “voluntary approach” work. Do you agree? At what stage do you believe a legislative intervention should be considered necessary?*

There are some signs that a few boards have shifted their position since the government began to take this issue on. Arguably, however, this is because they fear that more stringent measures will be taken if they fail to do anything. And arguably again, the very limited nature of the achievements so far is a sign that only token changes are being made. In gender equality, we often find that it is easy to have a token woman (or other "minority") on the board without making any long-term changes to the cultural barriers to real diversity. The sorts of changes we've seen in countries where quotas have been tried will not in my view happen with a voluntary approach unless one is prepared to sit back and wait for a very long time. The benefit of quotas is that they forced people to really think about how they can overcome the problem – not just think they can get away with adding a woman or 2 to their list. We saw the same thing happened in the Westminster Parliament – the percentage of women MPs doubled from around 10% to around 20% following the use of all women shortlists. The key thing to remember, which is often forgotten, is not that quotas introduce an unfair advantage for women, but that the statistics amply demonstrate that there is already a bias towards men. If those who are responsible for selection of people onto boards refuse to accept that, then we need to find other ways of leverage in change.

*2. Should work be carried out at EU-level to improve the representation of women on boards? Is this something where the EU can and should play a role? If so, what should that role be?*

Yes. Europe has usefully shown leadership in equality – take the Road Maps for gender equality as a good example.

3. *Would an increase in the proportion of women on boards across the EU have an impact on the UK? If so, would this impact be positive or negative?*

The impact would be positive – there is evidence that women on boards bring their different life experience to bear and improve the quality of decision-making – that is, after all, what is sought and needed i.e. there is a business case for this change as well as the ethical one. In addition, all male boards would become anarchic and any business continuing to lack women would seem out of place and sit uncomfortably as less progressive vis a vis its counterparts across Europe.

Possible supplementary question

a. *Do you believe there has been any impact on the UK as a result of the introduction of quotas in other Member States?*

Yes, I think part of the reason we are witnessing a more serious approach in the UK to this problem is due to the steps taken in especially Norway although it is not a member of the EU. It is also possible that businesses are wary of the threat that quotas might be imposed from Europe with sanctions applied and hence need to advance changes through voluntary measures.

4. *Part of the UK Government approach focuses on improvements to governance – either through the executive search code or through corporate governance code amendments. In your view, has this approach been successful? Could this approach be applied across the EU?*

5. *Some have argued that quotas are “patronising” to women. Do you agree with this view?*

I know that many – indeed very high proportions of women say they don't want quotas and view them as patronising but I do not think it's patronising to take effective steps to redress the current bias in favour of men. Businesses have been given many years to increase the number of women on their boards in substantial numbers and yet they continue to favour men despite the increase in the number of women in the talent pool. A key point here is that women have been much more successful in those areas where selection has to be based on transparent criteria – for example, we now have more women in senior ranks in the police, civil service and so on (although not nearly enough). In the public sector, there is an expectation that due process will be followed, and if the statistics show prima facie evidence of bias - which is what we have here, then action will be taken. The City has for a long time taken the view that it can regulate itself - and as we know, this has often turned out to be an overoptimistic view.

6. *In his report, Lord Davies recommended 25% as an initial women on boards target; the European Commission has recommended 40%. What do you believe should be the aim, at EU and national level? What does success look like?*

25% should be viewed only as step to at least 40% representation of either sex – why stop there? There is the critical mass notion and that needs to be at about a third. But people move in and out of Board positions as they do in all employment. Women often choose flexible work or part time work at various stages of their lives, especially around child-bearing and rearing. With small numbers on boards, there needs to be a sufficient number (not just proportion) that such movement can be managed without losing the gender balance.

7. *To which boards should measures to increase the representation of women apply? Should measures apply to both executive and non-executive positions?*

I think there are differences but would like to see quotas for both kinds of Boards. However, the other measures that improve women's chances should be simultaneously in place – good practice measures for selection, training, flexible working, parental leaves and so on in order to have a greater pool of executive level women on which to draw for executive directorships.

8. *A lot of attention is drawn to issues of “supply”. Do you believe there is currently a problem here? Is there a role for the EU in ensuring that there is a supply of female candidates as much as a demand?*

We do not think there is an issue of supply – there are great numbers of talented and experienced women available. But the Boards need to be willing to seek candidates from different career streams and backgrounds that are capable of doing the work. Someone who has managed substantial budgets in charities brings similar skills to someone who has had a profit and loss, bottom line management experience.

We also must not forget the need to support candidates who are in the minority in order to achieve diversity. Work the Women's National Commission did on mentoring women to achieve public appointments is relevant here. We found that women really value mentorship particularly from other women who have been there and done it. The WNC brought the two groups together. Unfortunately, the WNC has been abolished. But I think we can learn from some of its experiences. In particular, I would say that women, and especially ethnic minority women, reported that when they did get on the board, because they were in the minority, their views would only be sought when something came up which was directly connected to women – the rest of the time, they would be ignored. This is a key problem – by taking a voluntary approach, you may be able to get one or two women to come through the doors – but if you fail to make root and branch reform, those women will walk away within the year – if they find that their talents are not truly being used. The most effective way to deal with this is to aim to achieve a critical mass of women on boards – between a quarter to a third – there is research that indicates that this really embeds the changes.

*July 2012*

## **Arlene McCarthy MEP, Vice Chair of the Economic & Monetary Affairs Committee, European Parliament —Written evidence**

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

1.1 Tackling inequalities on boards is part of the EU's wider strategy to tackle gender inequalities.

1.2 The European Commission's Gender Equality Strategy from September 2010 includes exploring targeted initiatives to get more women into top jobs in economic decision making – part of this is to ensure a more equal balance on company boards.

1.3 Most large companies work across EU borders and therefore an EU wide approach is important to ensure consistency and equality across all EU member states.

*2. Can a “voluntary approach” or self-regulation achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

2.1 Commissioner Reding put forward a challenge to publicly listed companies in Europe in 2011, to voluntarily increase the number of women in boardrooms by signing the “Women on the Board Pledge for Europe”

2.2 In signing the pledge, companies agreed to commit themselves to raise female representation on their boards to 30% by 2015 and 40% by 2020. But disappointingly the voluntary initiative only resulted in 24 companies across the EU signing the pledge.

2.3 The percentage of women on boards at Europe's top firms is just 13.7% (11.8% in 2010). At this rate it would take another 40 years to reach 40%.

2.4 Female presidents and CEOs are even rarer. 3.2% (Jan 2012) 1.6% in 2003

2.5 While women account for 60% of new graduates in the EU

2.6 In fact the number of women chairing company boards fell to 3.2% in January from 3.4% in 2010

2.7 Commissioner Reding believes she has the mandate to take action, following the failure of the voluntary pledge initiative. The European Parliament supports this.

3. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

3.1 The only way to get an accurate overview of progress across Europe, what is working and what is not working is to compile and monitor this data at a European level.

4. *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

4.1 Analysis on the impact of different measures shows that those measures without an incentive or penalty have less impact than those with.

4.2 However tools such as corporate governance codes, rankings, charters and best practice guides play an important role in creating the right climate and culture for more women to come forward.

4.3 In Norway the success of their gender quota law can in part be attributed to a number of sanctions available for a breach of the law from official warnings and financial penalties to the final sanctions of delisting a company from the Stock Exchange.

4.4 It is clear there is not one correct way forward and that it is a combination of incentives, culture changing measures and legal measures with sanctions that will bring about genuine progress.

5. *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

5.1 At the current rate of change it will be more than 50 years before women are anywhere near equal in terms of representation on boards and that's simply not good enough.

5.2 If you look where real progress has been made then those member states that have quotas have made the most progress. France, which introduced quotas last year, has made the most progress, while Norway is the example of best practice.

5.3 A special Eurobarometer Report commissioned by the Director General for Justice found 75% in favour of laws to ensure sex balance on boards and even 4 out of 10 surveyed thought a 50% share for women would be realistic.

- 76% believe women have the necessary skills
- 9% even said monetary fines would be the most appropriate mechanism to enforce such legislation

6. *Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

6.1 Evidence from McKinsey & Co and Catalyst shows us that companies with gender-diverse management team experience higher growth in their share prices, better than average operating profits, and outperform their rivals in terms of sales, return on capital investment and return on equity.

7. *What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

7.1 Women's talents are currently underutilized at top level decision making. There is plenty of evidence from business consulting firms including McKinsey and Co Catalyst, a non-profit research group, that companies with gender-diverse management teams experience higher growth in share prices, better than average operating profits, and outperform their rivals in terms of sales, return on investment capital and return on equity.

7.2 The research showed that women asked more questions and made fewer "reckless" decisions. Maybe there is something in the joke that if Lehman Brothers had been Lehman Sisters, then we would not be in the financial mess we are in, or indeed would JP Morgan Chase have lost £2 billion as a result of excessive risk-taking.

7.3 We know that in companies where more females are in managements and in boards there is less risk-taking, lower bonuses. This is good for business and good for the financial sector.

7.4 Change is necessary in both the political and corporate world. To strengthen Europe's competitiveness, help combat the current economic crisis and create a sustainable future in which all talents are used to the full and all voices are heard in decisions, shaping the future of our economy.

8. *What are the positive and negative effects of legislative quotas?*

8.1 In the Norwegian Example the introduction of quotas did have some unintended consequences both positive and negative:

- Some companies changed their legal status as a reaction to the law to either prevent themselves from having to appoint more women to their boards or to positively engage and comply with the new law.
- There was a concern that some women were holding multiple board memberships (as men have done) and therefore there was a need to impose a limit on the number of board positions an individual can hold.

*9. Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

9.1 The wave of debate around quotas taking place across Europe is inspired by the Norwegian example. In 2006 Norway mandated boards to have 40% of their directors women and since 2009 most companies have met this target.

9.2 The Norwegian law requires that all public limited companies listed at the Norwegian stock exchange as well as state owned municipal and inter-municipal and cooperative companies, appoint at least 40% on the boards per 2008.

9.3 This led to a dramatic and fast increase from 6% women on boards in public limited companies in 2002 to 36% in 2008. In fact in Norway, Denmark and Finland, a minimum representation of women in boards of (majority) of state owned companies has been mandated by law for many years (Norway since 1981). 2004 Norway quota was extended to boards of publicly owned enterprises.

9.4 The impact on private (non-listed) companies has been less impressive since the share of women on boards grew from 15% in 2004 to 17% in 2009, but this may be caused by the high demand for qualified women for public company boards and the view of private companies that the quota laws will not apply to them.

9.5 EU countries where most progress has been made have introduced some form of legal binding quota system.

9.6 France adopted quotas in 2011 requiring that women hold 20% of board positions by 2014, 40% by 2017. Much of the statistical progress concerning the % increase of women on boards across Europe over recent years can be attributed to France.

9.7 Over the past decade the percentage of women on boards across Europe has risen by only 0.6. Between October 2010 to January 2012 that rose by 1.9%.

9.8 Countries which have also introduced quotas over recent years include: the Netherlands, Spain, France, Italy and Belgium.

9.9 Some countries have opted for self-regulation: Austria, Denmark, Finland, France, Germany, the Netherlands, Poland, Spain, Sweden and UK.

9.10 Finland has made progress by focusing on four key areas:

- Research and studies to evidence why we need more women on boards.
- Introduced an updated corporate governance code calling for representation of both genders on boards.

- Leading by example by setting 40% women on boards of state-owned companies and achieving it quickly.
- The media have played an active role in highlighting the advantages of having more women on boards.

9.11 Sweden followed the corporate governance route.

9.12 Unfortunately there are still a large number of European countries where there is a total lack of debate about women on boards or mention of the issue in national parliaments. In these countries women are woefully under represented on company boards.

*10. Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

10.1 The success of the Norwegian quota law did not happen in isolation. It was supported by a combination of factors which took place at the same time as the introduction of the law:

- Political leadership and vocal support for the democratic and economic arguments for increasing the number of women on boards.
- Targeting of talented women and supporting them with mentoring and training.
- Good co-operation between all stakeholders to create the right environment and support systems for women.
- Leading by example – more than 40% of women held senior position in government and state owned companies, so there was many available role models for women.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

11.1 Equal representation between men and women on company boards should be the ultimate goal. But realistic short (20%), medium (30%), and long term (40%) targets should be set.

*10 July 2012*

## **The Mentoring Foundation—Written evidence**

The Mentoring Foundation operates the FTSE 100 Cross-Company Mentoring Programme which was established in 2003. It facilitates mentoring relationships for senior women executives in FTSE 100 or equivalent organisations and has recently expanded to apply to FTSE 250 companies and equivalent. The Programme's aims include: to bring the challenges of senior women executives to the attention of Chairmen and Chief Executives of leading companies and to help the women Mentees, through the advice and guidance provided by their Mentors, attain Board positions or otherwise progress their careers.

All 53 Mentors on the FTSE 100 Cross-Company Mentoring Programme are Chairmen or Chief Executives of FTSE companies, or their equivalent in the public sector. To date 94 Mentees have participated in the Programme and 81 of those Mentees have gone on to achieve significant career success. 14 of the female non-executive director appointments made in the last 24 months have been Alumnae of the FTSE 100 Cross-Company Mentoring Programme. The Programme has been replicated in European countries such as France, Hungary and Ireland as well as outside Europe including in Australia and South Africa.

The Mentoring Foundation and the FTSE 100 Cross-Company Mentoring Programme can be regarded as part of the self-regulatory initiatives taking place in the UK, although the Programme pre-dates recent regulatory threats (namely of quotas) and self-regulatory interventions.

The Mentoring Foundation operates at the heart of the issues being examined by the Select Committee and is accordingly delighted to respond to the Call for Evidence made by the Sub-Committee. Peninah Thomson, CEO of The Mentoring Foundation and author of four books on the subject of gender and the board room, responded to the recent European Commission Consultation Process in her own name and on behalf of The Mentoring Foundation.

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be backed through measures at a European level or is it a matter for national Governments? Do the approaches in board structures across the EU affect the pursuit of a common European approach?*

The FTSE 100 Cross-Company Mentoring Programme has operated for nearly 10 years achieving incremental results for its women Mentees, most of whom have gone on to achieve significant corporate success. At the time of launch and for most of its life the Programme operated in an environment free of government intervention, either national or international. It relied instead on a sense of urgency and a strong commitment among the participating company Chairmen to bring about change. The mentoring relationships facilitated by the Foundation (lasting 12 or 24 months) for senior women have proved to be an extremely effective means of increasing the representation of women on boards. The

Programme represents a medium-term investment for companies – it is not a quick fix solution. However, given its longevity, the Foundation has already created a significant pool of board-ready candidates. That pool continues to grow.

On the question of national government action, The Mentoring Foundation's work has increased in prominence and interest since the UK national initiative spearheaded by Lord Davies at the request of government, and there is a feeling of increased pressure in the corporate world to achieve results, particularly as all parties (women included) seem to be against quotas.

It is difficult to assess the impact of recent EU discussions, given that the UK government had already taken steps. Nonetheless, the European Commission has historically made important – if sometimes controversial - contributions to national law on questions such as discrimination and employee rights and so it is right to consider the most appropriate means through which the European Commission can support European corporations in effecting change.

In our view, the UK government intervention in commissioning Lord Davies' report represents a good model for intervention at national level. Further, national and EU government support for initiatives such as the FTSE 100 Cross-Company Mentoring Programme, which are working at the “coal face” to bring about real change, would be enormously beneficial. In addition it would highlight the commitment of those participating companies and Chairmen with a long track record of supporting diversity, without any regulatory compulsion to do so. This could provide a welcome boost to UK corporates' reputations.

In respect of both EU and UK government intervention, we believe that as in all areas, where the market is delivering results, government should not seek to impose unwieldy regulation. This is even more the case given the negative views of quotas, which Lord Davies' consultation shows exist widely. The perception of women who achieve success could be materially damaged where their representation is seen as mandated rather than merited.

It is also noteworthy that the Programme delivered by The Mentoring Foundation has been emulated in a number of countries including France, where both board structures and the regulatory environment are different from the UK. Nonetheless, the underlying issues around equality remain broadly the same and similar initiatives exist. The appeal of self-regulatory initiatives such as these is that they can be fine-tuned to fit the specific environments within different countries. We do not believe, therefore, that differences in structure or approach need hamper the pursuit of better representation for women across Europe.

2. *Can a “voluntary approach”, or self-regulation achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

We believe that the UK self-regulatory approach is progressing towards proper representation of women on boards. A self-regulatory approach is unique in its ability to work across sectors and to encourage voluntary undertakings: for example Lord Davies' report recommended that search consultants as well as corporations change their practices and since his initial report a voluntary code of conduct has been agreed amongst a material number of recruitment consultancies.

The self-regulatory approach also encourages voluntary initiatives to assist progress. Lord Davies in his evidence before the Select Committee, on 25th June 2012, described how his study had revealed the need for more mentoring programmes. The Mentoring Foundation has expanded its existing Programme, opening it up to FTSE 250 companies, and is launching a new mentoring Programme for women in the “pipeline”, in order to meet the need identified by Lord Davies both for mentoring and to address the “attrition” in the pipeline that he referred to in *Women on Boards* (p17) .

Initiatives such as these, which address the root causes of female underrepresentation and which are supported through external scrutiny of female board appointments, provide an optimal environment to bring about change. This is evidenced by the progress reported in appointments of female board directors. The overall number of female board appointments has risen from a three-year plateau at 12.5% to 15.8% as at March 2012 (reported in Lord Davies' first annual review)

Progress can be sustained at least initially by the monitoring of targets and publication of levels of female representation on individual company boards, as is the case in the UK since Lord Davies' report. The threat of regulation if targets are not met is also an important catalyst for increased rates of change until targets are met.

It is widely believed that once female representation achieves the levels suggested by Lord Davies it will lead to a cultural shift within those organisations and that diversity (at least at the level of gender) will become the “norm”. It is anticipated that this will increase representation of women at executive as well as board level. It will also have reputational implications for companies which fail to meet the targets and reporting measures set by Lord Davies.

3. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

In the UK the task force put in place by Lord Davies continues to meet every six months and to report annually on progress. This, together with other reporting methods - such as the Cranfield Female FTSE annual report, ensures that attention on the subject remains relatively high.

There is also a dynamic and varied reporting environment offered by the many organisations with an interest in this area. Any internet search will deliver different and largely consistent reports in multiple formats. We do not see any need for UK and European governments to intervene on monitoring, save that as ever, government support, through highlighting and publicising progress (or stagnation), can be very effective in maintaining pressure.

4. *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

The current system of targets against a backdrop of regulatory threat and with regular reporting of progress, is delivering change at a significant pace. Continued government and media interest and focus upon progress will, we believe, provide enough incentive for change. We are also convinced that those companies which refuse to progress with diversity are likely to meet resistance through their own governance procedures (for example shareholder action when voting for Chairmen etc). Recent events have shown how the regulation of corporations is a complex and often unwieldy matter and we do not believe that any other regulatory intervention at this time is either necessary or desirable when the current environment appears to be delivering sufficient progress.

5. *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

The Mentoring Foundation supports the targets and timeframes proposed by Lord Davies in his report and we note that the UK is on track to meet or exceed them by 2015. This has resulted in material changes identified in recent reporting (see above). In the UK, the current situation indicates that self-regulation is working. Were progress to stall, we note that Lord Davies has retained the option to consider recommending quotas, thereby applying pressure to corporations (and other bodies working in this area). The Mentoring Foundation would support the monitoring role carried out by Lord Davies' taskforce and would suggest that the taskforce is the appropriate body to determine if and when any other measures may become necessary.

At the EU level, we note that progress varies across countries, but that the question of female representation on boards is becoming a material concern certainly in the larger European countries. As many companies are international, it may be that change in one country will affect board compositions in other countries (although there does not yet appear to be any evidence or reporting of trends to support this). Given the different approaches adopted (between quotas and self-regulation) across Europe, we do not believe that regulatory intervention by the EU would be necessary or appropriate. We would suggest that - as with other matters of corporate governance - intervention should be left to national governments where they deem appropriate.

6. *Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

We are not aware of any impact on the single market resulting from the introduction of quotas in certain EU countries. Current reporting indicates that where effective self-regulatory measures are put in place, such as in the UK, then goals can be met through these means. We believe that what matters is the end result and that at this time there is no market distortion resulting from these different methods to merit intervention at a pan-European level.

7. *What impact would a higher level of representation on boards across Europe have on the UK? Would it bring any advantages or disadvantages?*

Higher representation of women on boards in the UK is the principal aim of The Mentoring Foundation, using mentoring to ensure our Mentees are properly prepared and given the assistance and support they need in making that transition. We work in an increasingly global market and this is reflected in our Programme where we have Mentors and Mentees abroad (in Hong Kong, France and Canada, for example). We also co-operate with, and have advised, other similar initiatives in other countries. Therefore, whilst we believe that higher representation of women on boards across Europe would bring benefits in general, our experience suggests it would not specifically affect either the work of the Foundation or the achievement of targets in the UK. The UK is in any event making steady progress in accordance with Lord Davies' recommendations and activity in other European countries is unlikely to materially impact that progress.

8. *What are the positive and negative effects of legislative quotas?*

The immediate outcome of quotas is apparent from the high rate of increase in female appointments to boards in countries such as Norway and France where they have been imposed.

However, the imposition of quotas does not address the complex barriers that hold women back, as identified in Lord Davies' report and consistently fed back to us by the Mentees on our Programme. Questions of confidence, lack of suitable role-models and access to the right networks are not remedied through the imposition of quotas. Failure to address the root causes of underrepresentation in a measured and sustainable response will not secure lasting change and is likely to lead to a perception that women are being appointed on their gender alone. This will aggravate rather than resolve the barriers women face and will move the debate away from one of fair representation to a discussion on the merits of quotas. In our view (and in line with Lord Davies' findings) neither companies nor female board candidates endorse this approach.

There is some anecdotal evidence to support this from both Norway and France. In the former, female appointments have been reported to be of inferior quality or inadequate experience and in France we understand that companies are now looking abroad to fill their board positions as they do not believe they have the necessary numbers of good candidates in France. None of this kind of publicity furthers the cause of diversity through merit.

The work of The Mentoring Foundation and other initiatives to prepare women (and Chairmen) for increased female appointments of the right calibre are delivering material and uncontroversial change at a pace that meets Lord Davies' targets. Therefore, we believe that the potential negative consequences of quotas far outweigh any benefits particularly in the dynamic UK market which is delivering change in any event. The UK corporate environment, with its myriad initiatives to support women in their career advancement, risks being materially undermined by the imposition of quotas.

*9. Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at national level?*

We have referred to the invaluable support that can be offered by national and EU government to self-regulatory initiatives that bring about change, such as the work of The Mentoring Foundation. At the EU level, the UK model could well be considered as a blueprint for best practice in achieving diversity both in terms of gender and beyond. The key features of the UK model are, in our view:

- Government sponsored research or action to review the situation in each market and to recommend steps to bring about change (as with Lord Davies' report);
- Recommendations which look at all sides of the market such as supply (ensuring a true pipeline of board-ready women is developed), the demand side (recommending changes in hiring practice used by company Chairmen) and other intermediaries such as codes-of-conduct for intermediaries; and

Monitoring of progress against specific targets, against a backdrop of regulatory threat if targets are not met.

Any pan-European study is likely to be broken down into individual country markets in any event with different countries requiring bespoke solutions to bring about lasting change. The EU could play a valuable role in encouraging more recalcitrant countries to make progress through benchmarking and other initiatives, if appropriate.

*10. Is support needed for women when making their choice of careers, and throughout their careers to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national government?*

The core of the Foundation's work is to support women in achieving career success at the highest level through first class mentoring relationships. We also believe, and Lord Davies' report showed, that much greater support is needed for women as they come through their careers particularly at mid-management level, where what Lord Davies described as "attrition" occurs.

As progress develops in the UK, focus is now turning to sustainable long term change through supporting the “pipeline” of next-generation talented women. To that end, with support from some of our existing member companies, The Mentoring Foundation is launching a new pilot initiative (Programme 2.0) to offer women at the junior end of senior management mentoring from very senior female executives in other companies. The Mentors for Programme 2.0 are all Alumnae of the main FTSE Programme. Therefore, women in the pipeline will be supported by some of the most senior female executives in UK companies, who have themselves benefitted from mentoring from Chairmen of FTSE 100 or equivalent companies. This “ripple” effect from one Programme to another will provide women in the pipeline with Mentors and role models as well as access to a growing network of powerful women and the Chairmen who have supported them. We believe that these initiatives offer a sustainable model for change that address the root causes of why women are being held back.

*11. What does success look like? What should the ultimate goal with respect to women on boards across the EU?*

It seems natural to suggest that success will be achieved when board and companies are staffed with people of all types who are there because they deserve to be. We believe that this will be manifest for women when they reach approximate parity on boards in an environment that supports sustainable change and where their success is considered to have been merited not mandated.

*9 July 2012*

## **National Association of Pension Funds Limited (NAPF)—Written evidence**

The NAPF is the leading voice of workplace pension provision in the UK. We represent some 1,200 pension schemes from all parts of the economy and 400 businesses providing essential services to the pensions industry. Ten million working people currently belong to NAPF member schemes, while around 5 million pensioners are receiving valuable retirement income from those schemes. NAPF member schemes hold assets of some £800 billion, and account for over one sixth of investment in the UK stock market. Our main objective is to ensure the security and sustainability of UK pensions.

- We believe there are several benefits associated with board diversity, particularly gender diversity, and understand and share the concern that low levels of women on boards can inhibit board effectiveness.
- It is important to ensure that any improvement in gender diversity does not come at the expense of skills and experience, and our view is that this is not a matter to be regulated.
- We do not believe that the debate about board diversity should be specifically limited to gender.
- We believe that companies should disclose their diversity policy, including the extent to which professional, international and gender diversity are considered.
- There is potential for shareholders to use their voting rights to encourage gender diversity.
- We believe that voluntary targets should be increased over time but that the key thing is a change in corporate culture and the development of an on-going pipeline to populate boards.
- Market driven initiatives, on a comply or explain basis, coupled with the reform of Corporate Governance Codes and the encouragement of responsible stewardship will in our view be the best way of achieving balanced and effective boards.

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

We welcome the focus on the issue at an EU level. Pension funds increasingly have diversified and international portfolios, as such good corporate governance principles are

important at home and abroad. That said; it is important that member states have the flexibility to achieve the desired objective in the manner appropriate to their corporate board structures and company law legislation, avoiding unnecessary unintended consequences.

The Davies review in the UK made ten recommendations and a similar comprehensive set of recommendations – not regulations – can and should be introduced at an EU level. Such recommendations covering: voluntary company disclosures; a code based ‘comply-or-explain’ approach; investor best practice guidance; executive search firms; and pipeline development will lead to an approach which will create sustainable and meaningful change.

2. *Can a “voluntary approach”, or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

It is important to ensure that any improvement in gender diversity does not come at the expense of skills and experience, and as such our view is that this is not a matter to be regulated.

Recent political, media and importantly market scrutiny issue has resulted in notable improvements in this area.

In the UK the Lord Davies “Independent Review into Women on Boards” has focused boards’ attention on gender diversity and the extensive media and market attention on the issue is encouraging boards to consider this issue and take action. We believe the resultant revisions to the UK Corporate Governance Code will go a good way to addressing the problem.

In our view self-regulation is the key to addressing the issue of balanced leadership. Many of the self-regulation mechanisms and proposals, such as the changes emanating from the Davies Report, are still very new. As such they should be allowed to become embedded and for companies to be given the opportunity to adapt to and embrace them.

Importantly, to truly address the issue in a sustainable fashion, companies need the time to be able to nurture their female executives, developing them into effective leaders. This sustained culture change should be the desired objective of policy makers as opposed to a short term sticking plaster which will only result in tackling the symptoms rather than the root causes of the issue.

Research conducted by the Cranfield School of Management on the first anniversary of the Lord Davies’ review revealed a significant move in a positive direction . If the current pace of change continues almost 30% of UK directors could be women by 2015 and almost 40% by 2020. It is sensible to allow the opportunity for this voluntary business led change to continue in the first instance.

3. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

Progress is monitorable via company reports; with increasing focus on the issue by shareholders and the media.

Coupled to this, we support the Davies Review recommendation that companies voluntarily set and disclose their approach to diversity. We believe that companies should disclose in their Annual Report and Accounts the company's diversity policy; including the extent to which professional, international and gender diversity are considered.

The importance of gender diversity has been emphasised in the past year and investors now expect boards to set out an explicit policy for achieving a greater degree of diversity than has been the practice in the past, as such stronger scrutiny of Board policy regarding director appointments and succession can be expected.

Through this fuller and more open disclosure the shareholders of companies can and will apply more pressure on companies if needed to act in a responsible and balanced way.

4. *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

We believe that any initiative should be market led and based on the "comply or explain" principle. This will mean that the market will sanction companies that do not meet their stated objectives.

The NAPF believes that there is a potential for shareholders to use their voting rights to encourage gender diversity, and our Corporate Governance Policy and Voting Guidelines currently ask that boards explain to shareholders what steps they are taking to bring diversity to their boardroom.

Where there is no statement on a company's diversity policy, shareholders may choose to vote against the election of a director – who in the UK are now up for re-election each year. We intend to update our guidelines later this year to reflect recent changes (which we welcome) to the UK Corporate Governance Code.

Companies who are committed to increasing balanced leadership should also apply pressure on their suppliers and partners to take action.

5. *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

We believe that company's voluntary targets should be increased over time but that the key thing is a change in corporate culture and the development of an on-going pipeline to populate boards.

We believe the goal of the 30% Club of 30% of female representation on FTSE-100 boards by 2015 is achievable and we would suggest that progress is kept under regular review by policy makers both at a national and EU level.

6. *Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

Any impact on the single market is perhaps best answered by business representatives.

The wider corporate governance debates taking place at present at EU level, including those considering issues such as the composition, objectives and limits on the number of board directorships individuals can hold are framed as "comply or explain" requirements; this issue could also be treated effectively in this way and result in a consistent EU approach to governance issues.

7. *What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

We think more balanced leadership will bring economic benefits; this is not just gender balance but also all other factors that allows board members to represent and understand their customers and workforce.

The UK currently is currently a world leader in corporate governance and companies choose to list in the UK for this reason. Ultimately the UK's high standards of and flexible approach to corporate governance is associated with lower costs of capital.

We believe that how diversity is achieved is extremely important. Companies that make a concerted effort to attract and nurture talent from a wide pool of experience and backgrounds are more likely to succeed and to attract investment. Greater diversity on boards should therefore bolster commercial competitiveness.

8. *What are the positive and negative effects of legislative quotas?*

We are not supportive of legislative quotas for the proportion of women on boards, as we are concerned that it could lead to a simple 'box-ticking' approach at the expense of board and company performance.

Mandatory quotas are blunt, unsophisticated instruments which address the symptoms of an issue as opposed to solving the root cause; they do not solve the broader issue of diversity nor the underlying problem of women coming through the senior management pipeline. We

favour a more sustainable solution whereby chairmen engage in setting, reporting against and achieving voluntary measureable targets.

In Norway, from 2004, companies were mandated to have 40% women directors (the average proportion at the time in Norway was 9%). Subsequent evidence indicates that the introduction of quotas actually undermined shareholder value. Research found: “Significant decreases in operating performance and higher costs as a result of the imposition of the quota. These results are consistent with boards of directors that lack sufficient experience to act as capable advisors.” The introduction of the quota also led to a large number of companies de-listing from the Norwegian stock exchange and failed to address the fundamentals of how women progress through organisations.

9. *Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

The UK’s approach of voluntary target setting and reporting could be replicated at an EU level. We would encourage the EU to maintain the focus on the issue through measurable voluntary objectives with clear timeframes for disclosure, allowing investors to hold companies to account in relation to their progress in improving diversity.

10. *Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

Support is required to ensure there are sufficient good quality candidates for board appointments, however, this should be largely led by companies themselves through appropriate mentoring, talent spotting and guidance.

There will likely be measures national governments can also take to both support women making career choices and to support them once in their careers in areas such as flexible working and child care; however, these are matters for national governments.

11. *What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

Success would be a notable and significant increase in the percentage of women on company boards, both as Executive Directors and Non-Executive Directors – this will require a parallel increase in the percentage of women in senior management positions with companies.

We do not believe however, that the debate about board diversity should be specifically limited to gender, instead boards should encompass a balance of skills, experience, independence and knowledge of the company, considerations should include professional, international and gender diversity. While we believe a significant increase in the percentage

of women on boards will help achieve this broader board diversity, we would caution against a siloed focus on gender diversity.

*July 2012*

## **National Employment Savings Trust Corporation (NEST)—Written evidence**

### **Summary**

1. The NEST pension scheme is forecast to have significant investments in companies across Europe. We have a strong interest in ensuring that the corporations we invest in, on our members' behalf, are managed effectively and the regulatory regime within which they operate is effective and proportionate.

2. We believe that greater board diversity – particularly more gender diversity – leads to better financial performance because of:

- diversity of thought, reduction of group think, and increased innovation
- decisions that better reflect and respond to client and customer bases
- utilisation of the entire corporate talent pool
- improved corporate governance and corporate ethics.

3. It is our view that the data on the number of women on the boards of EU corporations suggests that self regulation has been largely ineffective to date. However, since the financial crisis of 2008 there appears to have been a shift in the attitudes of shareholders, governments and corporations themselves which shows no signs of losing momentum.

4. In general we support a flexible system of corporate governance that puts the onus on company boards to explain how they have evolved a high standard of governance in the long-term interests of their shareholders. Initially we would therefore like to see the efforts of European and national institutions to be concentrated on improving reporting and transparency of corporate boards across the EU.

5. We believe the evidence for the benefits of greater gender diversity on boards is overwhelming. While we are mindful of the limitations of some methodologies employed we cannot ignore the plain fact that report after report consistently shows improved performance by companies with more women on their boards in terms of return on sales, return on capital and return on equity.

6. We are a strong proponent of the evidence and analysis provided by behavioural finance and psychology when it comes to decision making. In light of this we agree with the body of evidence that suggests 30 per cent representation on boards is the level where the contributions of a 'minority' group become valued in their own right as representatives of that group.

7. 30 per cent should initially be a target rather than a binding quota. Boards should clearly set out how they intend to meet this figure and the timescales involved.
8. We are primarily interested in improving performance in large listed companies as we're predominantly a global index investor.
9. We believe if shareholders are performing their functions correctly and if disclosure is improved the market will provide the ultimate sanction. Companies that don't meet diversity objectives will suffer poorer performance, lower investment and regular shareholder challenge at annual general meetings.

## **Introduction**

10. From October 2012 onwards, employers in the UK will have a statutory duty to enrol some or all of their workers into a pension scheme that meets or exceeds certain legal standards. Employers will be required to make minimum contributions for these workers.
11. NEST is a defined contribution pension scheme that's available to any UK employer who wishes to use it to meet their employer duties. It's been specifically designed for people who may not have saved in a pension scheme before and has a public service obligation to accept any employer that wishes to use it to meet their new duties.

More information about NEST can be found at:

<http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/key-facts-myths>

12. NEST is forecast to have significant investments in companies across Europe and around the world. As a long-term investor on behalf of potentially millions of low to moderate earning workers in the UK, ensuring that corporations are managed and governed effectively is an important part of our mandate. We therefore welcome the House of Lords and the European Commission's consultations on gender imbalance on corporate boards.

## **Safeguarding investment performance**

13. The composition and role of corporate boards has been a matter of particular focus for the UK government, asset owners, pension funds, trade bodies and social partners since the financial crisis in 2008. It's a space where we feel there are great opportunities for improvement in all EU member states.

## **Why improved corporate governance matters**

14. NEST Corporation is committed to developing a suitable investment strategy for its members that's based on evidence. To this end we've conducted an extensive programme of research and consultation to form the basis of our approach.

15. Our research has led to a strongly evidenced belief that ignoring corporate governance in our investment process would be a failure in our duty to act in our members' best interests. We believe that poor corporate governance leads to poor performance of corporations. Poor performance of corporations results in lower or less sustainable returns for NEST's members and can also result in less efficient global markets.

16. On the basis of this belief, we see part of NEST's role as an asset owner is to promote the best regulatory environment to support economic growth and sustainable corporate performance. We're committed to working with fund managers, other pension funds, trade bodies and social partners to achieve this.

17. To support this goal NEST has signed and is a vocal supporter of the Financial Reporting Council's UK Stewardship Code, which aims to improve the way companies and shareholders work together to improve corporate performance. NEST is also a signatory to the United Nations-backed Principles for Responsible Investment (UNPRI), which encourages consistent standards for responsible investment around the world.

### **The importance of diversity on boards**

18. This response is based on a great many studies from the UK and overseas about how corporate boards operate most effectively. The overwhelming majority conclude that boards drawn from a narrow stratum of society are less effective than boards that include members with a variety of experiences and backgrounds.

19. The evidence consistently suggests that greater board diversity – particularly more gender diversity – leads to better financial performance, measured as return on equity and return on capital employed.

20. Studies suggest causality between financial performance and diverse boards may be explained by:

- diversity of thought, reduction of group think, and increased innovation
- decisions that better reflect and respond to client and customer bases
- utilisation of the entire corporate talent pool
- improved corporate governance and corporate ethics.

### **Responses to specific questions**

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

21. One of NEST's investment beliefs is that diversification is a key tool for reducing investment risk. We are therefore invested in many regions around the globe and in many different sectors and types of company. In principle we believe that good governance is universal. We recognise there are different cultural norms or traditions to corporate governance around the world which it is important to understand, and a one size fits all is unlikely to be suitable. However, the principles of diversity of thinking; understanding customers; and utilising existing talent are in our view equally relevant and applicable for the running of all the companies we invest in who are based in EU member states.

*2. Can a "voluntary approach", or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

22. The data on the number of women on the boards of corporations across the EU suggests that self regulation has been largely ineffective to date. However, since the financial crisis - certainly in the UK - there appears to have been a shift in the attitudes of shareholders, government and corporations themselves which shows no signs of losing momentum.

23. In addition, the Financial Reporting Council has recently amended the UK Corporate Governance Code to require all listed companies to establish a policy in relation to boardroom diversity and annually disclose progress made to achieving these objectives.

24. The 30% Club is another UK initiative that brings together chairs of UK boards and investors committed to increasing the proportion of female directors. Its members have declared their voluntary support for a goal of 30 per cent of board positions being occupied by women by 2015. It now has an investor group sub-committee, a steering committee and 45 FTSE chairmen fully signed up.

25. These recent initiatives suggest that change is possible without statutory intervention where there is clear political and corporate will.

26. In our view the jury is still out as to whether or not self regulation is possible across the EU. We note, however, that markets and market participants, such as ratings agencies, are more likely to reward corporations that take these matters seriously as the evidence of market advantage that greater diversity brings is more widely recognised.

27. Overall, we sense that the debate in the UK at least appears to have moved in the last two years from asking why the issues are relevant to determining how change can be achieved. There is plenty of anecdotal evidence from the responsible investment community that this is a topic that has found a central place in mainstream discussions at board level between companies and investors. We would hope that a similar shift is being seen across the EU following the increased focus by the European institutions.

*4. Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

28. If shareholders are performing their functions correctly and if disclosure is improved we believe the market should provide the ultimate sanction. Companies that don't meet diversity objectives will suffer poorer performance, lower investment and regular shareholder challenges at AGMs.

29. One practical example of how shareholders can look to demonstrate to the companies which they invest in, the importance they place on diversity in corporate boards is through how they vote at AGMs and the policies and guidelines they make available to investee corporations. NEST's responsible investment partner (The Co-operative Asset Management) has recently changed its voting policy in relation to board diversity. In line with the recommendation set out in the Davies review of 2011:

"All chairmen of FTSE 350 companies should set out the percentage of women they aim to have on their boards in 2013 and 2015. Chairmen should announce their aspiration goals within the next six months (by September 2011)."

The Co-operative Asset Management voting policy now reads:

Investee companies who hold their AGMs after this date will be assessed as to whether they have made a public statement of aspirational levels of women on their boards, as per Lord Davies' recommendations.

The Co-operative Asset Management (TCAM) will, in the first instance, abstain on the re-election of the Chairman of the Nomination Committee, should a company fail to disclose such an aspiration or fail to elect any women to an all male board.

Should a company not put forward all its directors for annual re-election, we will abstain on the re-election of the Chairman or members of the Nomination Committee – dependent upon who is put forward for re-election. In applying this policy TCAM will remain mindful that this is a multi-faceted topic and consequently will adopt a pragmatic approach, analysing on a case-by-case basis several factors, such as the length of tenure of the Chair of the Nomination Committee and the merit of any explanation why aspirations or appointments have not been forthcoming. We will also take into account membership of the 30% Club.

In 2013 TCAM may escalate to a vote against where there is still no progress or indication of positive momentum.

30. NEST expects that in the coming years many more of the institutional asset owners that control billions of euros of EU corporations will take a similar approach to voting and engagement.

*5. What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

31. NEST is a strong proponent of the evidence and analysis provided by behavioural finance and psychology when it comes to decision making – be it about whether to save for a pension, or how much risk to take. In light of this we agree with the body of evidence that suggests 30 per cent is the level where the contributions of a ‘minority’ group become valued in their own right as representatives of that group.

32. Studies on the number of people required to challenge group orthodoxy suggest that three women are required to change boardroom dynamics. The McKinsey report shows that once a level of 30 per cent of women at board level is attained, the ‘diversity bonus’ jumps markedly.

33. 30 per cent should initially be a target rather than a binding quota. Boards should clearly set out how they intend to meet this figure and the timescales involved.

34. In terms of timescales, it is difficult to see how a one-size-fits-all approach can be applied across Europe when different states are at such different positions. For example Scandinavian member states will start from a significantly higher base than other member states. We would expect share owners, and the European institutions to recognise the diversity of member state experience and set stretching targets accordingly.

35. Looking beyond the EU, Norway has - in terms of achieving greater plurality within corporate boards - been a success story by having reached 40 per cent in a relatively short period. Our note of caution would be that while progress in Norway has been rapid due to the imposition of a statutory quota, the same approach may not be suitable for all member states.

36. The UK’s approach based on reporting, transparency and greater oversight by shareowners and regulatory authorities may prove equally effective. The Davies report for example sets a target of 25 per cent by 2015 with an aspiration of 30 per cent shortly afterwards. NEST supports the approach taken in the UK but recognises that failure of self regulation will undoubtedly increase calls for legislative intervention which will be difficult to resist.

*7. What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

37. NEST believes the evidence for the benefits of greater gender diversity on boards is overwhelming. While we are mindful of the limitations of some methodologies employed we cannot ignore the plain fact that report after report consistently shows improved performance by companies with more women on their boards in terms of return on sales, return on capital and return on equity.

38. The economic and business case for addressing the gender imbalance in the current structures of companies’ boards was the most compelling outcome of Lord Davies’ review,

'Women on Boards' in February 2011. It moves the debate away from a social issue to an urgent business imperative

39. The evidence shows that companies with more women on their boards experience better financial performance due to:

- better decision making
- increased innovation
- utilisation of the entire talent pool
- decisions that better reflects what companies' customers want
- improved corporate governance

40. Of these we would highlight the improvement in corporate decision-making that gender diversity can bring and the responsiveness of corporations to their customers.

41. Equally, there are many consequences of a lack of diversity on board effectiveness. These include a lack of appropriate representation and insight into a company's customers, workforce and geographic footprint, all key to successful delivery of strategy.

*9. Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

42. In general we support a flexible system of corporate governance that puts the onus on company boards to explain how they have evolved a high standard of governance in the long-term interests of their shareholders. Initially we would therefore like to see the efforts of the European institutions be concentrated on improving reporting and transparency of corporate boards across the EU.

43. We support Drucker's mantra that 'what gets measured gets done'. The primary focus for the short term should be to require companies to provide better information to their shareholders. Companies should disclose their efforts to improve their employment policies to ensure talent is able to rise to the top, as well as the steps they're taking to ensure the balance of corporate boards include more women. If they're not achieving adequate diversity throughout the company, boards need to explain why not.

44. We believe that the lack of progress towards greater diversity throughout member states could be at least partially overcome through principles and guidelines within a 'comply or explain' regime rather than necessarily taking a rules-based approach which may lead to unforeseen and unintended consequences.

45. Before legislation is considered corporations should be given a final opportunity to improve failings in their governance structures. Shareholders and regulators can help by demanding better information and engaging with corporations to help them change. For example shareholders, their fund managers and other agents responsible for voting, could incorporate specific policies related to gender balance within their governance voting policies.

*Paul Todd, Head of Investment Policy, on behalf of the NEST Corporation*

*10 July 2012*

## **PricewaterhouseCoopers LLP (PwC LLP)—Written evidence**

I am responding on behalf of PwC LLP, a professional services firm and part of the international PwC network, to your consultation on the EU Women on Boards proposals.

Over the course of the last 14 months, the UK has seen an unprecedented pace of change in the boardrooms of quoted companies.

This follows the report by Lord Davies of Abersoch, CBE which set out a roadmap for UK businesses to achieve

25% female representation on boards by 2015. As Lord Davies says himself in his March 2012 update on progress: “This is not a figure plucked from the air. It was arrived at following close analysis of board trends over recent years.” Crucially Lord Davies has laid down a voluntary business-led approach rather than a legislative one and

the UK is already seeing significant impact which, if maintained, could result in us exceeding the 25% target.

Whilst there may be evidence to suggest that diversity in the boardroom is important in widening the perspective and enhancing the quality of decision-making, board appointments should be on the basis of business need and based on the skills and experience of the individual. We do not support the imposition of quotas as a corporate governance standard. However, encouragement by Government (and the EU) to increase diversity through corporate governance codes with a ‘comply or explain’ requirement is appropriate in our view.

It is important to highlight that we believe diversity should be a consideration not only for board members but also further down the management chain, to assist with succession to board positions. It should also be noted that much of the evidence given in our response relates to large, listed companies as this is where initiatives to date have focused.

Our answers to the specific questions in the consultation are attached in the Appendix to this letter.

*July 2012*

## Appendix

### Responses to specific questions in the consultation document

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

1.1 As an important body representing a number of European states, the EU has a role to play in highlighting the issue of representation of women on boards and encouraging the implementation of measures to address it. However, as different countries are at different stages in their responses to address this – some with quotas already in place, others with ‘comply or explain’ recommendations – and have different corporate governance regimes, this would be best dealt with by national Governments. In the UK, it is only just over a year since Lord Davies’ report, ‘Women on boards’, was published but the “comply or explain” recommendations of his review have had an impact on recent board appointments.

1.2 It is a fact that not all board structures are the same throughout Europe, with some having a unitary board approach and others following a two tier board structure, and therefore national Governments will be better able to tailor measures that are appropriate to their environments.

*2. Can a “voluntary approach”, or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

2.1 In the three years prior to Lord Davies’ report, the number of women on FTSE 100 company boards had effectively plateaued (2009: 12.2%, 2010: 12.5%). However, over the past 14 months following the publication of the report, there has been the largest-ever reported increase in the percentage of women on FTSE 100 boards to 16%. Since February 2011 (the original report date) 47 female appointments have been made to FTSE 100 companies and 53 female appointments to FTSE 250 companies (‘Women on boards March 2012’). The UK experience to date therefore seems to show that self-regulation can be effective in driving culture change within business. In addition, the small number of women needed in absolute terms means that a mandatory, Europe-wide approach would not be efficient. The market should be able to get there by voluntary means.

2.2 Leaving aside the statistics, the crucial point here is the positive perspective being taken on women in the boardroom. In our experience, we see this process of becoming more open minded to gender driving cultural change within business. Within our own organisation, we are actively managing and monitoring the gender diversity of our talent pools to ensure that high potential, talented individuals are aligned to future growth areas of our business where opportunities to progress through to leadership will be available. In practical terms this means that organisations are seeking to understand better their demographics, especially where any barriers to gender equality or apparent anomalies may exist, so that they can take appropriate action and ultimately deliver their self-declared aspirations or targets. Women

should be given opportunities to experience board life – perhaps through serving on a subsidiary board. Companies looking for directors should also be prepared to consider a wider pool of candidates and not just those with a more traditional business background.

2.3 As a firm, PwC in the UK does not support quotas, a view reinforced by a recent poll of our own female partners and directors, where there was an emphatic 92% vote against their use. This view is also supported by discussions we have had with a number of women currently seeking board positions. Quotas are wholly inconsistent with efforts to build an inclusive culture where both sexes work together to ensure a meritocracy. Quotas risk driving tokenism and positive discrimination. Progress is about recognising the failings within systems of the past and changing them, not simply turning the tables and inflicting them on the opposite sex. Regulation does not drive culture change, as evidenced by the UK experience of equality legislation dating from 1970 (Equal Pay Act) and recently consolidated into the Equality Act 2010 since there is still a gender pay gap.

2.4 This positive trend in the UK will be sustained by the requirement – now being set out in the UK Corporate Governance Code – for disclosure and transparency, and also by future reporting by Lord Davies, with the support of Cranfield University, on progress toward the 2015 targets. Such public reporting and disclosure impacts the reputation of businesses, not only as socially responsible organisations, but also as ones that are efficiently and effectively led.

2.5 Sustainability will also require a continued focus on other entities, such as executive search firms, and the extent to which they are fulfilling their commitments to identifying suitable female candidates for the boardroom. Again, public reporting such as that recently issued by the Equality and Human Rights Commission: “Gender Diversity on Boards: The Appointment Process and the Role of Executive Search Firms” will assist here.

*3. How should progress be monitored and audited? Should monitoring be co-ordinated at the European level?*

3.1 Our own experience of improving diversity within PwC and working with our clients on diversity highlights the need for transparent data. Good demographic data analysis is required if business is to voluntarily set itself meaningful targets. Publicly disclosed data including gender information creates accountability, corporate responsibility and public scrutiny, all powerful and essential drivers of change.

3.2 In the UK, Lord Davies’ report recommended that quoted companies should be required to disclose the proportion of women on the board, in senior executive positions and female employees in the organisation. We consider this to be a base line level of disclosure.

3.3 In October 2011 the Financial Reporting Council (FRC), in response to another of the report’s recommendations, announced, among other things, that they would amend the UK Corporate Governance Code to include a provision recommending listed companies to

explain their policy on boardroom diversity, including gender, and to report on how it is being implemented. The revised Code covers both board appointments and board effectiveness. In the absence of detailed guidance, public reporting in this space is likely to evolve but should, as a minimum, demonstrate that organisations understand their talent pipeline from a gender diversity perspective, that they have clear policies and plans for increasing gender diversity at board level and have a stated goal related to gender representation on the board.

3.4 As stated above, the EU is an important body representing a number of European states and, in our view, it has a role to play in facilitating and co-ordinating the exchange of best practice (based on the monitoring by member states) across its member states.

*4. Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

4.1 We do not support the use of sanctions. As noted above, self-regulation accompanied by transparent reporting has resulted in progress in the UK and this looks set to continue as transparency and disclosure are increasingly aligned with reputation and risk management. Sanctions would not sit well with a self-regulatory regime, as these have the more mandatory nature of quotas.

4.2 Progress should help to enhance a company's reputation which should be an incentive in itself.

*5. What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether national or European level) is needed?*

5.1 It is clear from the latest report on progress since Lord Davies published his report (as set out in "The Female FTSE Board Report 2012: Milestone or Millstone?") that a single figure is meaningless when organisations are all at very different starting points.

5.2 As the report noted, the number of FTSE 100 companies with declared aspirational targets is 38 but in terms of current position they range from 7% to 27%. The fact that many other companies have expressed their support but have not committed to a stated target may be reflective of the complexity of setting meaningful targets.

5.3 Furthermore, a number of those already at 25% have not declared any targets. The risk is that the stated figure of 25% is seen as the ultimate goal rather than a stepping stone. For example, the 40% quota set in Norway in 2006 seems to have led to a general sense of complacency at achieving c40% rather than aiming for a 50:50 equilibrium.

5.4 What defines progress at an individual entity level could therefore vary considerably: at one end of the spectrum it could be the setting of a target for the first time, perhaps based on a current 0% starting point, through to tracking movement towards a stretch target at the other.

5.5 Recommendations rather than binding objectives are therefore imperative to avoid suppressing the wider movement towards bringing more women into UK boardrooms. Based on the UK experience, what is fundamental is that any target relates to the individual entity's current position. This should be the basis of a deep analysis of the pipeline (and if appropriate the development of a plan for changing it), forward scenario planning and, ultimately, setting the target. In our experience, this activity should take place at a corporate level and at an operational level, so driving local accountability.

*6. Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

6.1 We do not have any evidence as to whether the introduction of quotas in some Member States has had an impact on the single market.

6.2 The arguments against consistency across the EU on women on boards are largely as mentioned in our response to question 1, ie that different Member States have differing corporate governance regimes and, in some cases, different board structures.

*7. What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

7.1 There is considerable research by academics and consultancies which attempts to demonstrate the link between women on boards and business performance. None has been able to demonstrate unequivocally a direct link between the two. The latest research from McKinsey ("Is there a payoff from top-team diversity?" April 2012) suggests that foreign nationals (as a proxy for cultural diversity) in the boardroom is of equal importance but again a causal link is difficult to prove.

7.2 Much of the reporting on the value of diversity on decision making (and the avoidance of group think) or enhanced corporate governance/ethics is based on academic psychological research with a dearth of business evidence.

7.3 The strongest evidence of economic benefits comes from having more senior female role models in business as a source of attraction to women in the labour market to join their organisations and thus become economically active. The evidence of benefit is therefore macro-economic rather than business specific.

*8. What are the positive and negative effects of legislative quotas?*

8.1 As stated in our response to questions 2 and 5 above, quotas risk being interpreted as an ultimate goal rather than one milestone on a path for future continuous improvement. They are also wholly inconsistent with efforts to build an inclusive culture where both sexes work together to ensure a meritocracy. Quotas risk driving tokenism and positive discrimination which, in turn, risks adversely impacting board effectiveness and business performance.

8.2 We see no sustained positive impact of a quota for the aforementioned reasons. They may bring more immediate results but these are not necessarily of long-term benefit.

*9. Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

9.1 As noted earlier, the 'comply or explain' corporate governance regime appears to be having an impact in the UK and could be considered as an alternative to quotas. As previously indicated, this is more suited for action at a national level because of the differing corporate governance regimes and different starting points in the various Member States.

*10. Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

10.1 Within our own organisation, we need to ensure that high potential, talented individuals are aligned to future growth areas of our business where opportunities to progress through to leadership will be available. This is at the heart of organisational strategic talent management and succession planning. Gender diversity of these talent pools should be actively managed and monitored; indeed this is essential in those organisations that have set aspirational gender targets.

10.2 This activity should also be replicated within our education system to ensure that young people have the skills and capabilities that will be required to fuel our growth businesses and industries. Any gender stereotyping which prevents women from considering certain careers which might inhibit their future potential needs to be tackled at a very early stage. As such this should be a matter for national governments rather than for EU level intervention.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

11.1 Success would ultimately be more diverse boards across the EU, not just from a gender perspective but also from an age/ nationality/etc perspective. Success would also include a more diverse pipeline at all levels of an organisation with women also sitting on executive/subsidiary boards and having equal opportunities for progression throughout their careers.

11.2 As noted in paragraph 5.3, it is somewhat meaningless and potentially counter-productive to set a single figure as an ultimate goal with respect to women on boards across the EU. What is important is demonstrable and sustained progress.

July 2012

## Professional Boards Forum—Written evidence

The UK Professional Boards Forum was established in 2008 by Elin Hurvenes and Jane Scott and has been a leader in promoting outstanding, qualified women for NED positions on FTSE 100 and 250 boards. More than 80 influential FTSE 100 and 250 chairmen have participated in our programme and, so far, more than 40 new board appointments have been awarded to our alumnae.

The Professional Boards Forum was founded in Norway in 2003 by entrepreneur Elin Hurvenes in response to the quota legislation requiring Oslo Stock Exchange-listed companies to increase the number of women on their boards from 6% to 40%.

Through a series of pioneering events, Elin generated an attractive arena for chairmen to meet women board candidates and expand their networks in a structured setting, tackling complex financial and strategic issues in a board-like situation. The Forum proved a very practical tool for chairmen as it exposed them to a talent pool they would otherwise not have known.

With the bold legislation, Norway put the issue of women on boards on the global agenda.

Our experience, both in Norway and the UK is that the shortage of qualified women is perceived, not real. In our view the main obstacles for women getting onto boards are

- traditional thinking and old-fashioned recruiting practices
- poor transparency in board recruiting
- chairmen's lack of network to women executives
- women's lack of visibility and network to the people who influence board composition
- women not seeing NED work as a career opportunity available to them

We regularly track the progress of women onto UK boards through our monthly updates on BoardWatch. (Latest update will be this week – maybe we should give fresh data? If not, just use what is currently on BoardWatch)

Our surveys show that positive progress has been made in the UK since the publication of Lord Davies's Report. We are not convinced quotas are necessary in the UK, given the current focus and commitment, particularly from the FTSE100 chairmen. For the FTSE250 we have yet to see the same level of engagement, though.

We welcome this important inquiry. We are both well in tune with the current situation in the UK. Elin Hurvenes has substantial insight and experience from the quota issue in Norway and we would be happy to share our knowledge with the inquiry. For more detailed information, please visit our website: [www.boardsforum.co.uk](http://www.boardsforum.co.uk).

*4 July 2012*

## **Quoted Companies Alliance—Written evidence**

### **Introduction**

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Corporate Governance Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

### **Response**

We welcome the opportunity to respond to this call for evidence in relation to the current EU proposals for women on boards and can confirm that we have already responded directly to the European Commission in relation to the proposals.

We are a strong advocate of good governance amongst the small and mid-size quoted companies we represent and amongst the UK and European corporate landscape more generally. We believe that initiatives to encourage more representative boards will improve the quality of board decision-making and accept that gender diversity is a key element of that.

We agree with the European Commission's view that it is essential to have high standards of corporate governance with highly effective boards running small and mid-size quoted companies. This must include boards which demonstrate a positive approach to diversity, incorporating factors such as skills, experience, culture and gender.

Diversity tends to promote the ability of board members to make appropriate and effective contributions to the company's strategy and the quality of board debate. We also believe that diversity ensures that boards remain connected with their shareholders, wider stakeholders and are better placed to navigate through difficult times.

Good corporate governance should be created by the companies and by investors promoting their requirements, leading to any issues being effectively addressed - and not through formal regulation by financial authorities.

We are concerned that, in relation to gender diversity, the imposition of quotas will not lead to good corporate governance. We believe that any imposition of quotas would be

premature and will fail to allow enough time for recent initiatives to increase board diversity to be fully realised.

In our third QCA/BDO Small and Mid-Cap Sentiment Index , we asked small and mid-size quoted companies questions on their policy in recruiting women to their corporate boards. We found that of the 64 respondents whose companies had been actively recruiting in the past 12 months, 23% had specifically asked recruiters to include within their remit female board members. Of those 64 it was found that 38% had a short list with female candidates, while 28% appointed a woman to a board position.

These results, together with the published statistics in relation to the FTSE100 in the year since Lord Davies' report was published, show that momentum is building and attitudes to the structure of small and mid-size quoted company boards is potentially changing. Good corporate governance is especially important in small and mid-size quoted companies, and it is clear that they are beginning to look to expanding the diversity of their corporate boards.

We have already expressed concern to the European Commission that that there seems to be significant differences between DG Internal Markets and DG Justice with regards to corporate governance and in particular, women on boards. Further clarity and an aligned and joint Commission position on the issue would be welcome and we trust that this review will add weight to the need for clarity and alignment in your feedback to the Commission.

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

We believe that the European Union has a key leadership role in improving and encouraging board diversity, with a current focus on the position of women on boards. The European institutions have a powerful history of supporting and promoting equal rights and board diversity is a key next stage of that. The EU is a very important instrument in promoting corporate governance best practices across all of Europe.

We believe that measures to improve the representation of women on boards must be tackled both through legislative measures and through cultural changes and accept that those legislative measures, as and where appropriate, will come both from Westminster and Brussels. We are, however, unconvinced of the need for, or benefit of, quotas at the current time.

We do not think it appropriate for subsidiary principles to be argued regarding the levels at which action should be taken - the range of measures to be undertaken include measures to promote genuine flexible working and new modes of behaviour not only for women but for all in the work place in order to create a new exciting corporate culture. Most of the required changes are behavioural rather than legislative.

We do not believe that differences in board structures across the European Union affect the pursuit of a common European approach, but do accept that cultural differences may lead to future complications.

2. *Can a "voluntary approach", or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

Since Lord Davies published his report, there has been insufficient time to determine whether a voluntary approach of self-regulation will work and be sustainable in the long-term. We strongly believe that the diversity initiative which has been developed over the last eighteen or so months should be given an opportunity to succeed. At the moment it looks like voluntary measures may succeed and strongly believe that time should be allowed to realise the same.

We also wish to note that we believe voluntary measures to be more sustainable because they reflect a change in corporate behaviour rather than imposed quotas.

3. *How should progress be monitored and audited? Should monitoring be coordinated at the European Level?*

We strongly believe that monitoring and audit should be done both at Member State and European level and European economic statistics collated for this purpose. It is valuable to understand various benchmarks being achieved by various countries, all of which have very different economies and cultures.

4. *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

We believe that progress should be incentivised and lack of progress censured. We are a strong supporter of a genuine and holistic comply or explain corporate governance culture within organisations. Explanations must be meaningful and those who do not comply but deliver sensible, proportionate and convincing explanations should not be criticised.

5. *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

We would prefer to see board composition being monitored over the next 12-36 months and to see whether from statistical analysis there is a continuing improvement before deciding whether legislative intervention is necessary.

6. *Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

We do not have access to sufficient information to comment on all aspects of this question.

7. *What impact would be higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

We do not think it is possible to give a substantive response to this question until the higher level of female representation on boards across Europe is achieved. However, we refer you to the findings of Lord Davies in his report of last year and have no reason to believe that these will not be reflected in changing corporate culture once a higher level of representation is achieved. Accordingly, we are supportive of increased diversity both on boards and within all levels of an organisation.

8. *What are the positive and negative effects of legislative quotas?*

Legislative quotas do have the strong attraction of simplicity. However, an interesting and useful example was the need to delay the Bribery Act 2010 because the statutory guidance had not been reduced and insufficient legislative analysis had been carried out for that guidance. It is easy for a legislator to set a quota: it is much harder for a legislator to seriously engage with the market to encourage and promote the appropriate environment to deliver meaningful behavioural changes. Increased diversity and, indeed, good corporate governance, is all about changing behaviours rather than satisfying a tick-box exercise.

9. *Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

Before a legislative quota is imposed, it may be useful to consider a reward structure such as the sponsored achievement awards for strong examples of diversity.

In a similar manner, Member States could give other incentives, such as lower corporation tax rates for companies that exceed diversity standards.

10. *Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

We strongly believe that support is needed for many persons, including women in their choice of careers so as to ensure that there are sufficient candidates of appropriate quality for all appointments, particularly from less represented elements of society. We think this is a matter for strong and focused European and Member State support, but do not think that it is necessary for this to require legislative action.

11. *What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

We do not think that success will be achieved by simply increasing the number of women on boards. Corporate boards are representative of the issue, but the ultimate goal needs to be

an increased diversity of spirit and greater the incentive and retention of women and other under-represented groups through the higher echelons of any corporate management structure, which will then feed into board. Without this cultural change throughout an organisation, there will be an increased burden put on a (potentially un-diverse) sector of women appropriately experienced to sit on board.

### **General Comment**

By way of general observation, it is appropriate for us to acknowledge that the conclusion whether or not a quota is imposed is a matter which will be decided in Brussels rather than Westminster. Accordingly, we do hope that your committee will positively project that, whilst female representation on board must be increased, to impose a quota is, at the moment, premature and could actually be counterproductive.

We would be very welcome to a meeting to further consider any of these points if it would be useful.

*11 July 2012*

## **Raymond Russell—Written evidence**

I write with reference to the Call for Evidence made by Sub-Committee B (Internal Market, Infrastructure and Employment) in respect of its meeting to be held at 4pm on Monday 16 July 2012. I write as an individual and not on behalf of any corporate body and I wish to comment on question 8 in the Call for Evidence.

The only governing factors in the selection of board members should in my opinion be:

1. Experience
2. Character
3. Personality
4. Drive
5. Dedication
6. Academic qualifications

From an economics point of view corporations function as 'wealth producers' in the individual economies in which they operate. In my view they should be looking to fill every one of their vacancies with the most suitable person they can find for the position, regardless of gender.

The merits of each individual application for a job within a company should be the sole consideration in the selection process. In my opinion this is the best way and indeed the only way to conduct the selection of staff for the benefit of both the individual corporation and the surrounding economy. A system of selecting employees, be it for board positions or lower levels, that does not take full account of the individual merits of each application for a particular job will cause harm not only to that corporation but also to the surrounding economy.

I therefore believe that the introduction of legislative quotas for women on boards will have a detrimental effect on corporations and the economies in which those corporations operate and, by extension, on all people within those economies, be they men or women.

*12 July 2012*

## Spencer Stuart—Written evidence

1. *To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments?*

1.1 The EU has an important role in promoting opportunities for women in the workplace at all levels, and for helping remove the barriers that prevent organisations from unlocking the potential of 50 per cent of the workforce. When it comes to the composition of public company boards, we believe that the EU has been, and should remain, a powerful advocate for change. However, given that several different governance systems are to be found among EU member countries, and companies themselves are at very different stages of development, one-size-fits-all legislation would be unhelpful and possibly counter-productive. The EU should monitor progress and propose measures but allow each country to apply them in the way that is most appropriate for the local market.

Do the differences in board structures across the EU affect the pursuit of a common European approach?

1.2 Yes. There has been considerable convergence in governance codes throughout Europe, but differences of emphasis and style remain: for example, in the number of board meetings per year; one- vs. two-tier boards; co-determination (employee representatives on the boards of German and Austrian companies); the level of work and commitment expected from individual directors; the requirement to attend off-site meetings, etc.

2. *Can a “voluntary approach”, or self-regulation, achieve a fair representation of women on boards?*

2.1 Yes. We believe that a voluntary, business-led approach can and will result in a fair representation of women on boards in the UK. The quality of directors appointed as part of a voluntary approach is likely to be higher – as well as their effectiveness around the boardroom table – since the primary impetus for their appointment will have been to strengthen the board, rather than achieve compliance.

How can change through voluntary measures be sustained?

2.2 We believe that government pressure and peer pressure are the best way to achieve the desired end, with quotas a last resort only when voluntary measures have been given sufficient time to take effect.

2.3 The evolution of corporate governance in the UK since the Cadbury Report in 1992 demonstrates that the principle of ‘comply or explain’ can be extremely effective in changing boardroom behaviour, and this applies equally to the issue of women on boards. Changes being introduced to the UK Corporate Governance Code in October 2012 will support the

recommendations of the Davies Report, encouraging further transparency and sustained action.

2.4 FTSE 100 boards are very likely to achieve the 25 per cent target proposed by the Davies Report by 2015. Providing judicious appointments are made, and women are being seen to add value to the boards they join, the benefits will become self-evident and the trajectory will be sustained, with women accounting for an ever-higher percentage across all UK listed company boards.

3. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

3.1 Numerous organisations are involved in monitoring progress at a national level, including academic institutions, advisors such as executive search firms and the media. In the UK at least, reporting and disclosure requirements are such that monitoring is not difficult. However, the EU has a role in coordinating the research produced across member states to make a region-wide picture readily available.

4. *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

4.1 It is hard to imagine what a meaningful incentive would look like. As for the threat of punishment, bad hiring decisions may be made in order to avoid penalties, which would be potentially damaging for business. Putting together a punishment regime is fraught with difficulties. For example, a board might lose one or two women unexpectedly, so any assessment of progress would need to consider a board's track record over a reasonable period of time. Monetary fines are unlikely to be effective, but almost by definition they would need to be tied to legislation. Whatever punishment is introduced should not come into force until sufficient time has passed, probably a period of five years.

4.2 We believe that the principle of comply or explain exists to create a balance between the stick and the carrot; it allows the market to be the ultimate arbiter of effective board behaviour and to choose its own sanctions when appropriate.

5. *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

5.1 There is already substantial momentum for better representation of women on boards throughout the EU, although each country is at a different stage in achieving board diversity. Targets at a national level are a good idea since they provide a benchmark against which progress can be measured; however, they need to involve a sensible time frame. Legislation might accelerate change, but should be reserved only as a last resort when voluntary measures fail. Clearly, some countries have already concluded that that point has been reached.

6. *Has the introduction of quotas in some Member States had any impact on the single market?*

6.1 Yes, it has had an impact. First, the introduction of quotas in some countries has raised awareness and increased debate over the issue of women on boards across the EU. Second, the early adopters of quotas/legislation have had the pick of the best candidates, not just in their own countries but overseas. The best candidates have been in greatest demand across the region. They also tend to be highly selective about which boards they join.

What are the arguments for and against consistency across the EU on women on boards?

**For:**

6.2 In principle, the pursuit of common governance goals across the EU is desirable.

6.3 Countries in which women play a smaller role in the business establishment will be forced to address an issue they might otherwise avoid.

6.4 The representation of women on boards would be guaranteed at a minimum level across the EU, overriding cultural resistance.

**Against:**

6.5 Each country within the EU is at a different evolutionary stage in terms of cultural acceptance and readiness of the candidate pool.

6.6 Each country has a different number of qualified women available to take board seats, depending on historical and cultural factors. Achieving a standardised minimum target set by the EU would be a struggle for some countries, less so for others.

6.7 Some countries have more limited candidate pools and their boards are less culturally attuned to accepting and assimilating the presence of less experienced women, especially those with a non-commercial background.

6.8 The law of unintended consequences is likely to come into force. For example, in Norway, some women presented with multiple offers of directorships have given up their executive careers to 'go plural' as non-executives, thus reducing the number of women occupying senior executive positions in the country.

6.9 In countries where there is employee representation on boards (Germany, Austria) and where boards are often already very large (up to 21 directors), quotas would result in every new director having to be a woman, which would lead to discrimination against male candidates.

7. *What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

**Advantages:**

7.1 An increase in the number of role models across the EU might have some positive effect on women in the UK, although board appointments outside the UK are not particularly visible.

7.2 Having more women on boards would almost certainly result in more diverse perspectives being aired and a higher standard of debate in the boardroom. This could in turn raise standards and the level of competitiveness across the region.

7.3 The number of qualified women able to join a UK board would be higher.

**Disadvantages:**

7.4 Some leading UK businesswomen may be tempted to leave their executive posts to 'go plural' abroad, and their skills could be lost to UK business.

8. *What are the positive and negative effects of legislative quotas?*

**Positive effects**

8.1 Quotas force company chairmen to confront an issue that they might otherwise avoid. In the UK, however, such chairmen are few and far between; the battle has been won in principle.

8.2 More women visible in senior positions encourages younger women to aim higher.

8.3 In countries where boards tend to be too large, quotas may act as incentive for boards to get smaller over time.

**Negative effects**

8.4 The perception of tokenism may put off some really good women candidates. Few women want to join a board because they are a woman; they want to be appointed because they are the right person for that board, regardless of their gender.

8.5 Quotas could encourage an attitude of "I'm entitled to sit on a board because I'm a woman", which is not healthy.

8.6 It is far easier, and more effective, for national governance codes to address specific needs and developments country by country on a 'comply or explain' basis. Legislation,

particularly at EU level, is unlikely to take into account the subtleties of conditions within individual markets.

8.7 Higher representation of women to satisfy targets could lead to bad hiring decisions, which could set back the long-term cause of ensuring better balanced and more diverse boards.

8.8 Boards are likely to get larger, at least in the short term. Over time, boards in the UK have been getting smaller because it is now generally accepted that larger boards tend to function less effectively. Most board appointments today come with a relatively narrow specification requiring a particular set of skills or experiences: for example, someone with knowledge of Asia Pacific markets, or a CEO from a minerals extraction business. Since it will not always be possible to find women with the requisite background or set of skills, boards may start to get larger to accommodate more women. This may result in less efficient boards.

8.9 Quotas for boards may lead to quotas for executive boards, which is even more problematic for industries where the female candidate pool is relatively small (e.g. engineers or mining specialists).

9. *Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

9.1 Over-concentration on women on boards obscures the real issue, which is that there is a limited presence of women at the senior executive level. Women are not well enough represented on executive committees, resulting in a disappointing pipeline of top-quality board candidates with commercial experience. It is operational executives that are in most demand on boards, especially those with financial acumen and commercial nous. Consequently, more needs to be done at every level (EU, national and corporate) to encourage women to reach their full executive potential and sustain their careers to the point where they qualify as credible board candidates.

9.2 Mentoring is therefore crucial, to prepare high-potential women not just to join boards but to attain their full potential throughout the course of their careers.

9.3 The most effective measures are going to be local/national: identifying and assessing potential candidates and training them to become effective board members.

9.4 As a global executive search firm operating across the EU, Spencer Stuart has developed a proprietary approach to assessing the intrinsic qualities of potential non-executive directors without previous board experience (called Board Intrinsic), which has the support of many board chairmen and of Lord Davies. We are rolling out this methodology across Europe.

9.5 Spencer Stuart also conducts an intensive, role-based training programme for prospective non-executive directors called Directors' Forum, which takes place at London Business School every year. Many women have been through this programme over the 19 years of its existence and have subsequently joined boards.

9.6 More Chairmen and CEOs should actively encourage their senior executives to take on non-executive roles. Not only is it an excellent development opportunity, but the experience they gain sitting on another board can have a positive effect on their executive job. That said, executives in the UK are normally only allowed one external board, which means that they are tied up for 3-6 years on that board and therefore no longer in the candidate pool. (In other parts of Europe, executives are allowed to sit on multiple boards, which is an indication of how different the expectations of the non-executive director role can be from one country to the next.)

*10. Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

10.1 Improving the pipeline of high quality women capable of taking on a directorship is essential, but there is no instant solution. However, few women are going to make career choices on the basis that one day they may end up on a board.

10.2 Nevertheless, mentoring is important to help women gain the right experiences, board exposure and qualifications that will put them into contention for board-level positions.

10.3 Women from outside the business world are often at a disadvantage because they may not have managed a P&L or developed a sufficient level of financial expertise that will enable them to participate in board decision-making over complex financial matters. Boards must not compromise on the qualifications needed from their non-executive directors, so women from outside the commercial world must be prepared to get up to speed on financial matters before they can be considered as credible board candidates.

10.4 These issues require action by individuals, organisations and national governments, not at the EU level.

*11. What does success look like?*

11.1 Good representation (at least 25% on boards).

11.2 30% representation on longlists for new positions.

11.3 Strong pipeline of women in senior executive positions.

11.4 Qualified women in other walks of life who can demonstrate both the intrinsic qualities required of a non-executive director and who have also developed a good commercial sense.

11.5 Chairmen open to considering women for board positions who possess the qualities outlined in 11.4. above, rather than focusing only on board-level experience only.

11.6 Clear reporting on board diversity objectives and progress in the annual report.

*What should be the ultimate goal with respect to women on boards across the EU?*

11.7 The ultimate goal is for boards across the EU to have dismantled any barriers that might prevent them from accessing and gaining full value from the most talented women capable of serving as non-executive directors.

*July 2012*

## **TUC—Written evidence**

### **1.1 Introduction**

1.1 The TUC welcomes the opportunity to respond to the Lords EU Select Committee on the EU call for evidence on the issue of women's representation on company boards.

1.2 The TUC represents 54 affiliated unions with a total of just over 6 million members, working in a wide range of organisations, sectors and occupations. The TUC represents approximately 3 million working women.

1.3 The TUC, the TUC Women's Committee, and the TUC's affiliated unions take a keen interest in issues relating women's representation in society and women's equality in the workplace.

1.4 The TUC welcomes the work of Lord Davies of Abersoch in the field of improving gender representation on company boards.

1.5 The TUC believes that quotas for women on boards are necessary – as well as a range of other measures such as codes of practice, mentoring schemes etc – in order to quickly and effectively improve gender equality on boards.

### **2.1 TUC Response**

*2.1 To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

While each member state may have differing company law, board structures, and differing labour market contexts concerning gender equality, the TUC believes that there is a strong argument for EU level measures to tackle the problem of under-representation of women on boards.

Arguably, much of the interest in the subject of women on boards in this country and other EU member states has been driven the EU and the EC. Without pressure from the EU, it is quite possible that the momentum that has gathered behind this issue would be lost and incentives to address this problem would dwindle.

The TUC and the ETUC are of the opinion that in order to ensure a consistent approach and the same level of women's representation throughout the member states the ETUC believes that a EU level instrument is needed.

*2.2 Can a “voluntary approach”, or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

The TUC supports a range of measures and mechanisms to address the problem of under-representation of women on company boards.

Mentoring schemes, voluntary codes, best practice examples, changes to the practices of Executive Search Firms (ESFs), and increased transparency in recruitment processes all have a role to play.

The TUC has been supportive of the Davies Review and welcomes the work of Lord Davies in raising awareness of the issue of women on boards and in persuading companies to improve the gender balance on their boards.

However, it is clear that voluntary approaches, incentives, and “comply or explain” approaches have had little meaningful impact to date. Norway is the only country which has successfully made swift and meaningful changes to the representation of women on company boards and it did so by implementing quotas.

The TUC believes that more must be done to even out the playing field in the world of corporate boards. Quotas are one of a host of measures in the government’s armoury which should be deployed in order to achieve change.

*2.3 How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

Benchmarking and monitoring at European level is important. Monitoring of progress should take account of Non-Executive and Executive Director roles and of FTSE100 and FTSE250 companies.

*2.4 Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

From the TUC’s perspective, the question of incentives and sanctions is not an “either or”. Both incentives and sanctions have a role to play in achieving gender equality on boards.

*2.5 What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

The TUC is of the opinion that the current rate of progress is unacceptable and it is clear that attempts at self-regulation over the course of many years have failed. It is for this reason that the TUC supports the introduction of quotas.

*2.6 Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

While many EU member states have introduced a timetable for implementing quotas, none have yet reached the point of implementing quotas. The closest example we have is Norway, which of course is not a member state. It is therefore impossible to say with any certainty whether the introduction of quotas has had an impact on the single market. However, the TUC does not believe that the introduction of quotas in the future is likely to have any negative impact.

*2.7 What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/or disadvantages?*

The impact of higher representation of women on boards across Europe would be positive both in terms of furthering equality objectives and in terms of improved business operations and outcomes.

Lord Davies' report cites a Canadian study entitled "Not just the right thing, but the bright thing" which found that boards with three or more women on them performed better than all male boards in several areas including communication, employee and customer satisfaction, and corporate social responsibility.

The Davies report also cites a 2010 study by Harvard Business School which found women to be more assertive than men on certain important governance issues such as evaluating the board's own performance.

The European Parliament's Committee on Economic and Monetary Affairs called on the European Commission to improve women's representation on boards, emphasising that greater diversity would tend to reduce the sector's vulnerability to crises, contribute to stability, and improve the quality of debate and decision making.

A McKinsey study of large European companies indicates that the best companies in terms of work environment, innovation, accountability and profits were those with a higher proportion of women on boards. According to their latest report, companies with a gender balanced composition can achieve an operational profit which is 56% higher than that of male only companies.

*2.8 What are the positive and negative effects of legislative quotas?*

The TUC believes that the positive effects of legislative quotas would be:

Proven efficacy – We know from the example of Norway and a wealth of academic studies that quotas are an effective means of achieving change.

Fast pace of change – We know from the example of Norway that quotas effect change at a much faster pace than other “softer” measures.

Greater equality – By using quotas, the UK would be able to dramatically improve the gender balance on corporate boards in a relatively short time frame. This would bring greater equality to women who have hitherto faced barriers in accessing board appointments.

Better business – As detailed above, greater diversity on boards brings with it a host of business benefits, from challenging “group think” to improving customer satisfaction and corporate governance.

Negative effects:

Perception of tokenism – The TUC notes that accusations of tokenism are often levelled at those who take positive action to improve equal representation. However, these accusations are unfounded and distract from the fact that there are many well qualified women whose skills and experience are currently being overlooked by a system which favours “who you know” over “what you know”.

Arguments that women may feel patronised by quotas – Similarly, the aim of quotas is not to patronise but to level the playing field. The current system patronises women by failing to recognise and capitalise on their potential and excluding them from the upper echelons of their industry.

*2.9 Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

The TUC believes that a wide range of measures other than quotas have already been explored across the EU and none have been as successful as quotas.

The TUC supports, in addition to quotas, measures to address the gender pay gap, measures to clamp down on pregnancy discrimination, measures to address occupational segregation, measures to compel ESFs to provide more gender balanced long lists and short lists, measures to improve transparency in recruitment of NEDs and EDs.

It is the TUC’s view that the issue of women’s underrepresentation in economic decision-making should be addressed within the wider framework of tackling discriminations between women and men in the labour market and society.

The low rate of representation of women on boards can be explained by persistent unequal access to economic, social and cultural resources between women and men, by inequalities in the share of paid and unpaid work, by the persistent undervaluation of womens’ work.

Such factors are major reasons for women's attainment of fewer high posts than men despite representing the majority of university graduates. In this perspective, in addition to strategies and legislation concerning gender equality in employment, care leave measures and services need to be improved for women and men.

*2.10 Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

There has been a good deal of work on careers advice services in the UK and the role these services have in tackling occupational segregation. Schools, the media, employers, and careers advisers all have a role to play in challenging gender stereotypes and encouraging young women to pursue their interests and aspirations.

*2.11 What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

It is the opinion of the TUC that a measure of "success" would be a corporate landscape in which at least 40% of Board members were women, in which all Board appointments were recruited transparently and fairly, in which women on company boards receive equal remuneration compared to their male counterparts, in which pregnancy discrimination is eliminated, and in which the supply of quality, flexible and part time work enable both men and women to balance family/caring responsibilities with senior management roles.

Success would mean diversity and equality (not just gender) becoming the norm rather than the exception in the world of corporate boards.

*10 July 2012*

# Sylvia Walby—Written evidence

## I. Introduction

The goal of gender balance in corporate governance boards is widely shared for several reasons: justice for individuals; company economic performance; the public interest in the performance of companies granted legal privileges.

There are several routes to change: waiting and hoping for social changes; voluntary measures; legally enforced quotas.

The evidence-based assessment of what works leads to the conclusion that quotas are the only mechanism to have produced the speed and scale of change desired by EU policy makers; that voluntary mechanisms make valuable contributions to the process but produce changes that are slow; and that waiting for wider social changes would mean very slow change indeed.

The public interest in the governance of companies provides a stronger justification for the use of quotas than if the only reason were company or individual interest.

The assessment here draws upon a more detailed report by Armstrong and Walby .

## 2. The goal of gender balance in Boards

The aim of gender balance in the boardroom is widely shared, from Lord Davies and the Prime Minister, to the European Union Commission and Parliament, as part of the promotion of more equal participation by men and women in public life and in economic decision-making. Gender balance on boards of directors is important for three reasons:

First, justice for individuals seeking advancement on the basis of merit;

Second, the interest companies have in their own improved economic performance;

Third, the public interest in the effective governance of companies that are in receipt of legal privileges granted by Parliament.

*Justice for individuals:* Merit-based advancement is a goal that is in the interest of the individuals concerned as well as for companies and the wider public.

*Companies:* Lord Davies has reported on the evidence-base linking gender balance in the boardroom with the economic performance of companies. The association of gender balance in corporate boards with improved company performance is documented in several studies, for example, in the widely reported review by McKinsey.

Public interest: Boards of Directors are not only forms of employment but also forms of governance. Companies that have the privilege of limited liability in the event of bankruptcy (which can seriously damage all those who have dealt with that company) have duties to abide by governance procedures created by parliament. Gender balance in the boardroom is a matter of public interest, over which the public, via parliament and the law, is entitled to have influence. While 'equal treatment' is the legal practice normally underpinning equality issues in employment law, the mechanism of quotas is also used when the field is that of representation in public bodies.

### **3. Mechanisms to achieve gender balance in boardrooms**

The goal of increasing the proportion of women (and other under-represented groups) on Boards (and other public bodies) has been promoted by the UK and EU for many years. There are three main approaches:

*First, wait and hope for change;*

Second, voluntary practices by companies, sector bodies and industry self-regulation;

*Third, legally compelled quotas.*

#### **Wait for change:**

Wait and hope that wider social changes will eventually propel women through the pipeline into board positions, as they develop more education, skills and boardroom experience.

#### **Voluntary practices:**

There has been substantial innovation in a wide repertoire of actions:

Good practice in companies: e.g. setting targets; developing training, mentoring or sponsor programmes;

Cross-company and sector initiatives: awards, such as the 'Catalyst Award' for outstanding initiatives resulting in women's career advancement; charters; databases of women interested in becoming board members; networks e.g. the European Professional Women's Network; and mentoring initiatives e.g. FTSE 100 Cross-Company Mentoring Programme.

Industry Self-Regulation: Corporate Governance Codes, which tend to take form of guidelines rather than constituting binding measures, with non compliance requiring explanation in company reports (i.e. use of the 'comply or explain' principle).

#### **Legally compelled quotas:**

The use of quotas to achieve gender balance in corporate boards is under discussion and development in many countries and forums and is an issue in the UK, the EU and beyond. Norway has fully implemented a law on quotas on boards and seen a rise to 40% of women. Thirteen countries have introduced some form of quota legislation, though this varies significantly in the form of law used and the nature and severity of sanctions (Austria, Belgium, Denmark, Finland, France, Iceland, Ireland, Israel, Italy, the Netherlands, Norway, Spain and Switzerland) . The legislation usually includes a period during which voluntary methods are recommended, with the threat of introducing compulsion if the targets are not met. However, only Norway has seen the full implementation of these laws since the due date for reaching these targets is still pending in the other countries.

#### **4. What works?**

There is a body of evidence available to assess the efficacy of these three potential routes to change. The analysis of this evidence draws on a further body of work on gender relations in the economy .

The wider social, political and economic context can influence the level of women's representation on corporate boards, but it is not the main determinant of the proportion, so waiting for change is likely to mean a long wait. Terjesen and Singh , using a data set of 43 countries centred on 2003-5, find that female board membership was positively related to higher levels of women in management jobs, which is the pool from which board members are drawn, and also to lesser gender inequality in pay and with lower levels of gender inequalities in pay.

However, a comparison of Norway with countries with other Nordic countries (Denmark, Sweden) that have similar social structures by Hoel shows that the changes in the gender composition of corporate boards in Norway were not predominantly due to changes in social structure. If the gender composition of boards were to be determined by social structure, then the changes in the gender of corporate boards should have occurred in all three countries at the same time. However, the proportion of female directors in listed companies in the stock exchanges in Copenhagen (Denmark), Stockholm (Sweden) and Oslo (Norway) changed in very different ways between 2004 and 2007. In this period, the proportion of female directors increased from 8.5% to 10.0% in Copenhagen, from 16.1% to 19.2% in Stockholm and from 15.9% to 37.0% in Oslo. In particular, the speed and timing of company compliance is indicative of specific efforts to meet the law rather than general social processes. In 2005 only 17% of companies were in compliance, rising to 30% in 2006, 38% in January 2007, 60% in July 2007 and 77% in December 2007 .

Further, while the proportion of women on corporate boards in Norway rose rapidly as the date for the implementation for the legislation approached, Sorvik and Teigen show that adjacent phenomena such the proportion of chairs of boards or of top management who are women remained low. The proportion of the chairs rose only from 3% in 2002 to 5% in 2009; only 2% of CEOs are women; and only 10% of 'top management' is female. This

shows that that the increase in women on corporate boards was not part of a general change in the position of women in senior management.

Quotas are widely perceived as a last resort; but the repertoire of voluntary mechanisms has not achieved the 40% target (set by the EU) in any country. The body of research summarised here and reported on elsewhere at greater length, finds that the only mechanism that has achieved 40% of women on corporate boards in any country has been that of quotas. The voluntary mechanisms have achieved some changes to the gender balance of boardrooms; but these have been very slow and small.

The Norwegian law on quotas worked, in the sense that the proportion of women on corporate boards rose as intended. The percentage of women on corporate boards in Norway increased from 6% in 2002 to 9% in 2004, 12% in 2005, 18% in 2006, 25% in 2007, 36% in 2008, reaching 40% in 2009. Further, the initial resistance to quotas gradually disappeared.

There are caveats, but these do not challenge the overall conclusion. A few companies changed their legal status from public to private in order to avoid the legislation, but this was a small minority of companies. There have been allegations that the quotas undermine perceptions of women's professionalism through implying that success may not be due to merit; however, Rasmussen and Huse find that there is scant evidence for this view and that most of this is only anecdotal.

Voluntary measures are not irrelevant and can make contributions towards change by, for example, raising public awareness and promoting change in organisational practices. In their study of non-legislative measures, the Austrian Institute for SME Research found that such initiatives help to create a broader public awareness of gender issues in the labour market. Warth similarly found that discussions of voluntary strategies to promote gender equality in businesses raise public awareness of important issues and can contribute to creating a consensus for more far-reaching measures by governments, social partners and employers. Further, cultural change is perceived as more likely with the voluntary commitment of stakeholders rather than with the forced engagement through legislative actions. However, there are significant weaknesses in voluntary mechanisms. One major problem identified in 'soft law', such as the use of Corporate Governance Codes and its 'comply or explain' approach, lies in its less than satisfactory application and monitoring. Further, their impact is widely regarded as very slow.

There is a widely held view that 'soft' programmes are a useful accompaniment to 'hard' measures. Norway introduced additional voluntary measures at the same time as legally binding quotas. There were efforts to identify relevant women and also to train them to take places on Boards, in particular, four data bases of relevant women were established together with a training programme 'Female Future' together with stakeholder cooperation.

## **5. Priority and legitimacy of policies**

The priority and legitimacy accorded to the different policies depends upon the reason why the goal of gender balance in boardrooms is sought.

Individual interest: if the benefit is justice for individuals seeking merit-based advancement, then the use of voluntary mechanisms and greater utilisation of existing legal instruments for equal treatment may be appropriate.

Company benefit: if the only benefit of gender balance is that which accrues to companies, then it may be regarded as a matter for business

Public interest: if there is a wider public interest in the governance of companies then there is greater justification for the use of new legal instruments to impose quotas on those boards that fail to achieve gender balance through voluntary means. The public interest claim is supported by the impact of company failure on the wider economy and society. Companies receive legal privileges from Parliament and society that enable them to limit their liabilities in the event of bankruptcy. In exchange, it is reasonable for Parliament and society to require the legal regulation of the governance of companies to high standards, including the gender balance that has been demonstrated to improve the quality of decision-making. The public interest in the governance of these boards provides the justification for the adoption of legally binding quotas on their gender composition.

## **6. Conclusion**

The European Commission wants companies to increase the proportion of women on the board to 40% by 2020. Research on this issue finds that a change of this size and speed has never previously happened without legislation. The only policy intervention that has increased the proportion of women on corporate management boards to 40% has been that of legally binding quotas. The evidence is that while the use of voluntary regimes has led to some increase in the proportion of women on corporate boards, the effects are significantly smaller and slower. In the context of the poor decision-making by the largely male boards of finance companies that has been so damaging to the rest of the economy, it is unsurprising that the public is demanding an improvement in the quality of these boards. Corporate governance is an issue for democracy as well as for business.

*9 July 2012*

## 30% Club—Written evidence

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. Fifty-three chairmen, representing many of Britain's largest most successful companies have now declared their support for the 30% Club. A list of the supporting Chairmen as at submission is attached as Appendix I.

The 30% Club was formally launched in November 2010 and has since developed a concerted programme of specific actions aimed at accelerating the pace of change towards better-balanced boardrooms in the UK. We are working collaboratively with a number of other groups engaged on this issue, including the Davies Committee, Cranfield School of Management and the Professional Boards Forum. The neutral, non-commercial and apolitical status of the 30% Club has attracted widespread support and has enabled us to draw together a number of prevailing efforts and create new initiatives to achieve greater collective impact.

We are seeing mounting evidence of a change in mind-set and results in the UK. Between 2007 and 2010, the representation of women on FTSE-100 boards plateaued at around 12%. The past 18 months has seen a rapid acceleration in the pace of progress and this figure now stands at 16.7%. Over the relatively short period of time since the 30% Club was launched in November 2010 and the subsequent publication of the Davies Report Women on Boards in February 2011, the nature of the debate in Britain's largest companies has shifted from 'why is this important?' to 'how do we achieve change?' A series of voluntary, intensive and concerted efforts has catalysed this shift in attitudes.

In the pages that follow we provide specific responses to the questions raised in the Call for Evidence. The 30% Club strongly recommends that change be driven by a local, business-led approach, which we believe changes corporate culture in a positive, sustainable way and improves financial performance from businesses and economies.

*1. To what extent does the EU have a role to play in improving the representation of women on boards? Should this be tackled through measures at a European level or is it a matter for national Governments? Do the differences in board structures across the EU affect the pursuit of a common European approach?*

To achieve a sustained and meaningful shift in the proportion of women on boards (including executive members), this issue needs to be 'owned' by companies themselves, with support from national government. This is clearly now happening in the UK, following the

recommendations of the Davies Committee and through efforts of many, including the 30% Club. The proportion of female appointments to FTSE-100 NED positions is now running at 44% of all appointments (since 1 March 2012), compared with 13% in 2010 and around 30% in 2011. We are well on track to achieve at least 25% and possibly 30% female representation on UK boards by 2015. The UK government has in our view taken the correct and most effective stance, i.e. encouraging voluntary change while 'reserving the right' to apply quotas. The 'comply or explain' culture is extremely strong in the UK and we believe mandatory quotas or other sanctions applied by the EU are unnecessary, potentially harmful and most importantly, would not achieve sustainable business culture change.

Regarding board structures in Europe; there are many countries which have a two tier board structure with a management board (of the executives) and a supervisory board (of the independent outsiders) to oversee management. Some countries like Germany have employee representation on the supervisory board. The UK board structure of course is unified, with a mix of executives and non-executives serving together. However, the functions of oversight of the independent outsiders are essentially the same in either case. As such, the differences in board structures need not affect the pursuit of a common approach which is essentially to increase diversity on boards. However, it is clear that a quota approach, as it appears the EU may be favouring, cannot be applied to executive roles since these need clear and specific qualifications (for example, to be a Chief Financial Officer) whereas non-executives can offer a range of skills and various expertises. This is another reason to encourage a longer-term (albeit faster pace) of change at local levels, to develop more women in senior executive roles.

2. *Can a "voluntary approach", or self-regulation, achieve a fair representation of women on boards? How can change through voluntary measures be sustained?*

After decades of little change, the voluntary approach applied over the past two years in the UK has led to a sharp acceleration in the pace of appointments of women to boards. Since the 30% Club was launched in November 2010 with seven founding chairmen, the number of all-male FTSE-100 boards has fallen from 21 to 8; the proportion of female NEDs has risen from 12.5% to 16.7% and the pace continues to accelerate, with 44% of NED appointments going to women since 1 March 2012, compared with 30% last year and 13% in 2010. Furthermore, over 60% of the FTSE-100 directorships awarded to women last year were to those without prior boardroom experience, suggesting that executive search firms are broadening their lists of candidates and that nominations committees are now keen to diversify the talent on their board rather than appoint 'tried and tested' individuals.

While the FTSE-250 have further to go, again, the pace of change is significant; the proportion of all-male FTSE-250 boards has fallen from 52% to 39.8% and 40% of new appointments since 1 March 2012 have been women. There are now 53 Chairmen supporters of the 30% club, who have voluntarily committed to the goal of 30% women on their boards by the end of 2015 and are both doing something to achieve this and in many cases, evangelising about the issue based on their view that a more diverse board is a better board. The 30% Club is a neutral, non-commercial campaign with a structured forward

agenda of events and careful media plan. We have established an investor group comprising 13 institutional fund management houses representing over £1.8trn assets under management, to coordinate the investment community's role. As we are not a 'diversity business', we are also helping to bring the numerous efforts in this area together. We see significant momentum at present and given the zeitgeist, where business culture of the past is being increasingly challenged, we have no doubt that the change being seen in the UK through voluntary measures will be sustained.

3. *How should progress be monitored and audited? Should monitoring be coordinated at the European level?*

Progress is best monitored and measured at local levels, to ensure accuracy and consistency of measurement. BoardWatch, published monthly by Jane Scott of The Professional Boards Forum is a reliable and well-established monitor and Cranfield School of Management has a long record of careful analysis of the shape of UK boards. Any EU measures should be additional rather than substitutes for these reputable and regularly updated sources.

4. *Should progress be incentivised, or a lack of progress punished? If so, how could this be achieved?*

Ultimately, shareholders own publicly listed companies and any sanctions should be applied by them through abstaining or voting against the annual election of chairmen, the appointment of directors who are not perceived as suitable (including where there is insufficient board diversity) or through disinvesting in the shares. The 30% Club's investor group (13 institutions representing £1.8trn AUM) is working constructively to engage with company management and chairmen about this issue but members of the group already take all of the actions listed above where they perceive there to be a lack of action that will diminish the effectiveness of the board. We held a seminar in London in February 2012 to discuss 'Board effectiveness; why diversity matters', attracting over 150 delegates from the fund management community. At the seminar we launched some best practice guidelines for investors to engage with companies on this issue, believing that this engagement will provide added impetus to the current momentum.

The current threat of a quota is helping to focus the attention of some less proactive companies but we believe that the arguments against quotas outweigh any perceived benefits (see answer 8).

5. *What level of progress is acceptable? Is there a point at which it should be determined that self-regulation is not working and that a legislative intervention (whether at national or European level) is needed?*

The current rate of progress in the UK is a good example of an acceptable/pleasing level of progress. We expect this to continue with the changes to the Corporate Governance Code in October 2012 helping to further intensify pressure for voluntary change. The onus is on us all to monitor the rate of progress and to double efforts if it stalls. We do not believe

that there is a specific number which should trigger legislation, because we do not believe legislation is the right answer to creating sustainable meaningful change.

6. *Has the introduction of quotas in some Member States had any impact on the single market? What are the arguments for and against consistency across the EU on women on boards?*

There is no impact on the single market from the introduction of quotas in some countries; there are many differences in business practices across the EU and there is no clear reason why this issue specifically should be singled out as requiring a unified response.

7. *What impact would a higher level of representation of women on boards across Europe have on the UK? Would it bring any advantages and/ or disadvantages?*

The UK is already somewhat ahead of many EU countries in the pace of change in non-executive female appointments; in the degree to which this issue is now a serious consideration for all company chairmen and as a business issue generally. Although the number of women fulfilling executive management roles, particularly at board level, is low in the UK, on a number of measures we score ahead of our continental European brethren; for example, there are eight female CFOs of FTSE-100 companies, one in each of France and Germany and two in Italy (in their largest companies). The introduction of quotas in the EU might be largely academic for the UK, since we are likely to be at or to exceed the quota levels being suggested, through voluntary action.

8. *What are the positive and negative effects of legislative quotas?*

The only positive effect of a quota for women on boards is that it creates the appearance of a 'quantum leap' that those who are impatient crave. However, that quantum leap is often illusory and does not create meaningful change at other levels of a company. Of course the 30% Club believes that gender diversity is an important component of board effectiveness and is also often the first step together achieving more generally diverse boards. However, HOW diversity is achieved is critically important to the impact on the effectiveness of the board - the precipitous introduction of quotas in Norway detracted from rather than increased shareholder value (see *The Changing of the Boards: the Impact on Firm Valuation of Mandated Female Representation* by Kenneth R Ahern and Any Dittmar, University of Michigan May 20, 2011). The rapid introduction of the imposition of the quota led to younger and less experienced boards, increases in leverage and acquisitions and deterioration in operating performance, consistent with less capable boards. The quota in Norway has also failed to impact the pipeline of executive female talent; only 2% of CEOs in Norway are women and less than 10% of executive management teams are female. Furthermore, the quota also led to a large number of companies de-listing from the Norwegian stock exchange; around 100 companies de-listed in 2006 when the law became effective.

Quotas are also demeaning to women and unpopular with both male and female executives. They are unnecessary in the UK, where significant change is already happening.

9. *Other than quotas, what measures could be considered at European level to directly improve the representation of women on boards? Are there alternative measures that should be pursued, but which are better suited for action at a national level?*

In our written response to the EU consultation paper; Gender imbalance in corporate boards in the EU, we suggested that the EU, if it wishes to consider more action in this area, should establish a committee and recommendations along the lines of the Davies Report. We suggested six clear recommendations (amalgamating some of Lord Davies' ones and factoring in the experience since they were published)

- i. Disclosure by companies of their approach to boardroom diversity (initially there was some confusion in the UK over the way disclosure should be made so we suggest the EU publish a standard template and clear deadline)
- ii. Encouraging better balanced boards through a code-based (comply or explain) approach
- iii. Investor best practice guidelines
- iv. A Code of Conduct for executive search firms
- v. Encouragement of pipeline initiatives (more informal than the other recommendations, but could be elaborated upon)
- vi. An ongoing EU Steering Committee to review progress

The details of these suggestions have been provided separately to Mark Davies.

10. *Is support needed for women when making their choice of careers, and throughout their careers, to ensure that there are sufficient candidates for board appointments? Is this a matter for European-level action, or should it be a matter for national governments?*

Most definitely there needs to be a conscious and consistent effort to ensure that the current high level of female attrition – often at a critical juncture in their careers – is addressed. This is a multi-faceted problem requiring multiple components of a solution. The 30% Club is working on a number of new initiatives as well as linking together those already established and which seem to be having a positive impact. For example, the former include a Partnership Pipeline Initiative, where the leading law, accountancy and consultancy firms are coming together to diagnose and attempt to solve the particularly high attrition rate of women in those organisations ('the double-glazed ceiling' seems to apply to partnerships). Interestingly, this particular problem seems to revolve around the somewhat old-fashioned requirements to 'make partner', including long billable hours and 'face time' in the office. It appears to be acknowledged now that solving this to retain more female talent will also help these firms attract and retain the best male talent in the future, as young gifted people are expecting to contribute intellectually quite differently from the current senior generation.

Technology is a significant enabler in improving the retention of women and making corporate life a long term choice through the different stages of family and other commitments.

Again we feel strongly that this is not a matter for the EU; there are many cultural and sociological dimensions to solving this problem, which vary across nation states.

*11. What does success look like? What should be the ultimate goal with respect to women on boards across the EU?*

Success is when we have diverse businesses run by capable people of many types, when men and women share family and work and where, frankly, the issue is no longer discussed. This is not just about women on boards, but that is a visible and symbolic place to achieve a step change. The 30% Club is clearly aiming for 30% women on UK boards by the end of 2015, but we expect that once that milestone is reached, true parity will follow. We encourage other campaigns like ours across the globe and note interest from a number of European countries, from New Zealand (where a 25% Club has just been established) and the US, where we are working to create a similar movement. Our motivation is better business culture, a broader pool of talent for those businesses and more opportunities for women who seek to build their careers.

Please note that the views expressed in this response do not necessarily reflect the views of each and every 30% Club supporting chairman, member of the 30% Steering Committee or member of the 30% Club investor group, or their employing companies.

*July 2012*