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Company Secretary's Review

Diversity in the Boardroom

Simon W. Holden discusses the report published by Lord Davies recently on increasing the number of women directors on the boards of listed companies.

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Introduction

Demographic disparities aside, women make up the other half of the world's population. They are comprised of literary greats, Nobel Prize winners, accomplished politicians and are represented equally alongside men in many walks of life; not, however, it seems in the boardrooms of UK plc.

The glass ceiling

In 2010, women made up just 12.5% of the members of boards of directors of FTSE 100 companies (2009: 12.2%) and on the boards of FTSE 250 companies the proportion was just 7.8% (2009: 7.3%). Whilst some commentators may claim this illustrates a progress of sorts, the pace of change is clearly not good enough, especially taking into account the range of initiatives aimed at training, mentoring and supporting women to be "board ready", and projects undertaken by companies to address organisational issues such as unconscious bias.

A report by Lord Davies of Abersoch, entitled "Women on boards", was published at the end of February 2011. It starts rather ominously with the stark fact that, at the current rate of change, it will take over 70 years to achieve gender-balanced boardrooms in the UK.

Why does it matter?

The business case for increasing the number of women in the boardrooms of UK plc is clear. Women are successful at university (how many times do we see references in the national press to females performing better than their male counterparts come examination time?) and in their early careers, but attrition rates increase as they progress through an organisation.

It would be wrong to think of the issue as simply a gender numbers game. Boards should be imbued with a richness that reflects modern day life, combining the contribution of a group of people with different skills and perspectives to offer, different experiences and backgrounds and who, together, are better equipped to consider the issues facing their organisations in a more rounded and holistic way.

The recommendations

The reasons giving rise to the compilation of the report are clear. Given the well documented and long record of women achieving the highest qualifications and leadership positions, the poor representation of women on boards, relative to their male counterparts, has raised questions about whether board recruitment is fundamentally flawed or, at worst, sexist. The report presents practical recommendations to address the imbalance.

Arguing that "radical change is needed in the mindset of the business community", Lord Davies recommends that FTSE 100 companies should be aiming for a minimum of 25% female board member representation by 2015, and that FTSE 350 companies should be setting their own challenging targets – with an expectation that many will achieve a much higher figure than this minimum.

The report says that chairmen should announce goals for 2013 and 2015 within the next six months, with chief executives being expected to review progress in those years. Lord Davies recommends that companies should fully disclose the number of women sitting on their boards and working in their organisations as a whole, to drive up the numbers of women with top jobs in business. In addition, the report calls on the Financial Reporting Council to amend the UK Corporate Governance Code to require listed companies to establish a policy concerning boardroom diversity and to disclose annually a summary of progress made.

Lord Davies also recommends that companies should periodically advertise non-executive board positions to encourage greater diversity in applications and that headhunting firms should draw up a voluntary code of practice addressing gender diversity in relation to board level appointments to FTSE 350 companies.

Breaking through the glass ceiling

The business case espoused in the report for gender diversity on boards has the following four key principles:

Improving performance

The report is littered with research references evidencing that the appointment of women to the board of a company can improve its performance. Examples include better decision-making occurring as a result of directors having a range of experiences and backgrounds, and women taking their non-executive director roles more seriously, preparing more conscientiously for meetings, and asking the more awkward questions of executive directors.

Boards are often criticised for having similar board members, with similar backgrounds, networks and education. Appointing more women to the boards of companies would promote a shift away from a culture of homogeneity to one of heterogeneity.

The correlation between strong business performance and women's participation in management is striking. A study conducted by an asset management firm (referred to in the report) found that operational and share price performance was significantly higher at one and three-year averages for those companies with women making up over 20% of board members than those with lower female representation.

Accessing the widest talent pool

In Europe and the USA, women account for approximately six out of every ten university graduates and in the UK women represent almost half of the labour force. These are trends that cannot be ignored. The failure of any business or economy to maximise the talents of all its people will result in below-par performance.

Being more responsive to the market

Women comprise 51% of the UK population and 46% of the economically active workforce. They are estimated to be responsible for approximately 70% of household purchasing decisions and to hold almost half of the UK's wealth.

Having women on boards, who in many cases would represent the users and customers of the companies' products, could improve understanding of customer needs, leading to more informed decision-making. With this in mind, it's not surprising that the companies in the UK with the highest number of women on their boards are consumer-facing industries.

Achieving better corporate governance

Those FTSE 100 companies with more women on their boards adopted the governance recommendations from the Higgs Review earlier than those without. In particular, they focused on better succession planning, new director induction and training, audit and balance of the whole board's skills, knowledge and experience, and regular reviews of board performance.

Early reactions to the report

It is clear there is a real division of opinion as to how to correct the imbalance. Some feel that the only solution would be to introduce quotas, whereas some believe this would see tokenism prevail. The report does not recommend quotas, but Lord Davies does state that the Government must reserve the right to adopt more prescriptive measures if the recommended business-led approach does not achieve significant change.

The Government has been very receptive of the report, with Business Secretary Vince Cable stating:

"I strongly welcome Lord Davies' report and am committed to promoting gender equality on the boards of UK listed companies. We will therefore seriously consider its recommendations. The report is clear that a business-led approach is the best way to increase the number of women on company boards, and we will therefore engage with business in considering his recommendations."

Encouraging businesses to adopt the recommendations in the report is clearly not enough. In order for a more meritocratic ideology to be adopted by UK companies, the likes of regulators, investors and executive search firms will all have to be encouraged to take forward the recommendations that fall to them respectively.

Home Secretary and Minister for Women and Equality Theresa May said:

"Inclusive and diverse boards benefit from fresh perspectives, new ideas and broad experience. A company with a board that reflects the people it serves is better able to understand its customers, and there is growing evidence that companies with more women on their boards outperform their male-dominated rivals."

Conclusion

The news that companies will not be forced to promote female workers to the boardroom by quota will be widely welcomed by nervous businesses, who are already having to contend with recent recommendations concerning corporate governance standards. However, a concerted effort still needs to be made to better utilise the female talent pool which is clearly available; otherwise companies will miss out on the vast array of talent at their disposal.

In 1974, when sex discrimination was first outlawed, only 2% of the UK workforce was comprised of women, whereas today this figure has swelled to almost half. Such growth may be seen as a revolution, but the truth is far closer to a snail-paced evolution as the figures for women in the boardroom lag far behind.

Reasons for the gender imbalance may include the power of the old boy's network or a lack of self-confidence in women at this level. Regardless of the explanation, companies need to embrace the two years of in-depth research afforded by the report in order to fulfil their duty to encourage and train women to reach the very top. It is easy to see why many believe the "glass ceiling" still exists when so many inequalities continue to prevail. It is yet more evidence that the glass ceiling has been reinforced and another reason for it to be torn away to create parity between the sexes. Put simply, if action is not taken, equality will continue to be an issue that will stifle British business at the very time it needs the diversity to prosper.

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