



Briefing

Women on boards – one year on

Summary

Lord Davies of Abersoch has issued an annual progress report on his February 2011 ‘Women on boards’ review, tracking progress against each of his recommendations. In parallel, Cranfield University School of Management has published a new edition of its regular female FTSE board report.

In this briefing we outline some of the key points made in each report. Although there has been a significant change over the past year, showing how a voluntary business-led approach can work, it is clear that the focus on this topic will not diminish and that more is expected if regulation is to be avoided.

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Women on boards – the figures

FTSE 100

- Women hold 15.6 per cent of directorships, up from 12.5 per cent.
- 47 women have been appointed since Lord Davies's 2011 report was published.
- 27 per cent of all board appointments have been women, up from 13 per cent.
- There are still 11 all-male boards, down from 21.

FTSE 250

- Women hold 9.6 per cent of directorships, up from 7.8 per cent.
- 26 per cent of all board appointments have been women.
- 112 companies have all-male boards – now 44.8 per cent, down from 52.4 per cent.
- 53 women have been appointed since Lord Davies's 2011 report was published.

(Figures from Lord Davies's progress report, as at 29 February 2012; comparator figures November 2010.)

The 25 per cent target

Lord Davies's key recommendation was that FTSE 100 boards should aim for a minimum of 25 per cent female representation by 2015, and that all chairmen of FTSE 350 companies should set out the percentage of women they aim to have on their boards in 2013 and 2015.

Cranfield reports that:

- 17 companies in the FTSE 100 have already reached the 25 per cent target (21 for the FTSE 250), and for a further 17 (28 for the FTSE 250), women make up between 20 per cent and 25 per cent of directors;
- if the momentum continues, 26.7 per cent of FTSE 100 company directors will be women by 2015; and
- 38 FTSE 100 companies and 34 FTSE 250 companies have set themselves targets. Many companies have indicated they will set targets in the next financial year. Nine have stated they will not set targets.

Lord Davies says in his progress report that in the next year his group will focus on reaching the 25 per cent target in FTSE 350 companies and on building a 'sustainable, credible supply of board-ready women' through training and development initiatives.

We expect the number of companies that set targets to increase in the new financial year. It is clear that 25 per cent is a starting point and companies at or near that level should also set targets. Lord Davies suggests that companies adopt the voluntary gender equality reporting approach.

Reporting on diversity in the annual report

In 2011, Lord Davies recommended that companies should report on these issues in 2012 corporate governance statements.

Since most companies have not yet published an annual report in 2012, Cranfield has been unable to assess how companies are complying with this recommendation. But it reminds chairmen and boards that they should report 'demonstrating clear leadership and best practice'.

The Financial Reporting Council (FRC) announced in October 2011 that it would amend the UK Corporate Governance Code to include a gender principle that requires companies to explain their policy and report on its implementation. While the changes will not apply formally until October 2012, the FRC encourages compliance for annual reports published before then. It will report on this in its monitoring report on the UK Corporate Governance Code later this year.

The recruiting process

In his 2011 report, Lord Davies:

- recommended that chairmen disclose meaningful information in the company's annual report about the company's appointment process and how it addresses diversity, including a description of the search and nominations process; and
- encouraged companies to advertise non-executive director (NED) positions periodically to encourage greater diversity in applications.

In his progress report, Lord Davies says that the need to increase transparency in the recruitment process remains a high priority. He emphasises the role of chairmen and executive search firms in ensuring that

opportunities at board level are open to as wide and diverse a field as possible.

He does not advocate a particular way of recruiting – his view is that companies must determine what is most suitable and appropriate for their businesses. But he believes companies should consider various means of recruitment and advertising to gain access to a broader pool of candidates.

Despite the poor response to his recommendation that NED positions be advertised, Lord Davies sees this as a ‘crucial part of tackling this agenda’. He will continue to work with business to look at innovative ways to make progress, including talking to those women recently appointed to FTSE 100 boards to identify and develop good practice and lessons learned. Twenty-one executive search firms have signed up to the voluntary code of conduct and the Equality and Human Rights Commission is researching how the appointments process works in practice.

Profile of new directors

Cranfield reports that, of the 47 women taking up roles as FTSE 100 directors in the year to January 2012:

- 29 (62 per cent) have no previous FTSE 350 board experience – most have experience on other boards, including in the charitable sector;
- 29 have backgrounds in finance (in terms of their roles, as opposed to industry sectors) – five of these had mixed experience in law and politics;
- 15 of the 29 women with no previous FTSE 350 board experience have backgrounds in finance;
- four were appointed executive directors (EDs) and 25 NEDs;
- of the new EDs, two were internal promotions with no previous FTSE 100 board experience and two were external hires with previous FTSE 350 board experience; and
- 26 replaced current directors (four replaced women and 22 replaced men) – these include two female finance

directors who replaced outgoing male finance directors and an additional female ED who replaced an outgoing male ED.

In his progress report, Lord Davies welcomes the recruitment of women with no previous FTSE 350 board experience, in particular because Cranfield has previously reported a ‘recycling of female directors’ among companies. He thinks that companies are opening up the appointment process to new women, but emphasises the need to build on this momentum.

Appointing executive directors

In 2011, Lord Davies recommended that chief executives should review the percentage of women they aim to have on their executive committees in 2013 and 2015. Cranfield says that this has been an ‘even more elusive exercise’ and very few chief executives have responded to this challenge.

In FTSE 100 companies there are:

- 20 women EDs (6.6 per cent of all FTSE 100 directors) – up from 13 in 1999 (when Cranfield published its first annual review);
- 285 male EDs; and
- 143 women NEDs (22.4 per cent of all FTSE 100 directors).

In FTSE 250 companies there are 10 female chief executives and seven women finance directors. (These 17 at the top of their industries have between them only six FTSE 350 NED positions – an untapped talent pool, in Cranfield’s view.)

Cranfield comments that the discussion about targets and quotas masks the ‘increasingly wide chasm between the numbers of women NEDs... compared with the numbers of women EDs’ and that ‘any criticism levied at the focus on the numbers of women on boards has often pointed to the real crisis in the numbers of female executive directors’.

The ‘female pipeline’

One of Lord Davies’s 2011 recommendations was that companies should be required to disclose each year the proportion of women

on the board, women in senior executive positions and female employees in the organisation as a whole.

Cranfield asked for information from FTSE 100 companies on the proportion of women in the company: as a percentage of the whole workforce; at junior management level; at middle management level; at senior management level; and at the level just below the board.

The report sets out the data received and identifies trends. For example, since 18 of the 24 companies that reported the percentage of women at executive or management committee level report figures of less than 25 per cent, there is much work to be done to develop and promote women to this level. Cranfield also reports that 'several organisations clearly did not routinely track this information'. In its view, it is 'critical for companies in optimising their talent management that they are aware of diversity at all levels', in particular to target initiatives appropriately.

Lord Davies reinforces this message in his progress report by emphasising that companies should commit to changing the culture from the inside, by developing the pipeline of staff they already have. He says that the new Women's Business Council established by the home secretary might also consider this area, and that his group will continue to work with the home secretary on these issues.

The Cranfield report includes several interesting case studies on how named companies are responding. For example: promoting flexible career paths and workplace flexibility; tackling unconscious bias in recruitment; setting internal gender targets; promotion process monitoring and reporting; mentoring and reverse mentoring; holding annual gender reviews; and ensuring diversity in the candidates for appointments.

Reports on age, nationality, ethnicity and tenure

The Cranfield report has interesting statistics on the ages, nationalities, ethnic backgrounds and length of tenure of male and female directors of FTSE 100 companies.

Investor reaction

Lord Davies recommended in 2011 that investors should pay close attention to his recommendations when considering company reporting and appointments to the board. The National Association of Pension Funds has said shareholders should consider abstaining from or voting against re-election of the chairman of the nominations committee if companies fail to have a policy to achieve diversity.

The Co-operative Asset Management has said that shareholders should do this when companies fail to disclose targets. Cranfield notes that a number of major investors responded very positively and now expect companies to comply with Lord Davies's recommendations. It encourages chairmen and company secretaries to follow best practice and show leadership in this area.

Next steps

Lord Davies comments that progress has been made against each of his recommendations and that this has helped to increase the number of women who reach boards. He concludes that the unprecedented pace of change demonstrates how a voluntary, business-led approach can work. At the same time, however, he emphasises that 'efforts need to be ramped up and the speed of change accelerated' if government action is to be avoided. The next 12 months will be crucial.

For more information see our briefing 'Update – women on boards', available on freshfields.com.