

Gender imbalance in corporate boards in the EU

Answers to questions for the public consultation

A response by Peninah Thomson

I am the Chief Executive of The Mentoring Foundation, the co-founder and director of the FTSE 100 Cross-Company Mentoring Programme and the co-author of three books on gender diversity on boards.

The FTSE 100 Cross-Company Mentoring Programme has been in operation since 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. All the 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. 13 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 in countries such as Australia and South Africa.

The principal aims of the FTSE 100 Cross-Company Mentoring Programme are to:

- draw the career challenges of senior women executives to the attention of Chairmen and Chief Executives of top companies and organisations in the UK;
- develop and manage a mentoring Programme for senior women executives;
- help the women Mentees, through the advice and guidance provided by their Mentors, and by learning and development events organised as part of the FTSE Programme, to manage their own careers so that they can attain a Board position or otherwise progress their careers.
- facilitate the introduction of Mentees to leading business decision makers;
- carry out original research into issues connected with women leadership and participation in strategic-decision-making and publish a series of high-reputation books; and
- disseminate advice and guidance on new developments of human resource management policies to address the career challenges faced by senior women executives in the UK.

Fifty Three Chairman and Chief Executives of FTSE 100 and FTSE 250 Companies, and equivalent leaders from the Public Sector are currently acting as Mentors in the FTSE Programme. A full list of their names appears in Appendix (a), together with a brochure describing the Programme which is seen at Appendix (b)

Following Lord Davies' report, Women on Boards (2011) The Mentoring Foundation was, on the initiative of participating Chairmen, created to ensure the continued operation of the FTSE Programme, on a not-for-profit basis, and to expand the Programme to tackle directly the issues relating to the "pipeline" identified by Lord Davies in his report.

Therefore, both 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 precedes recent self-regulatory interventions and does not, as far as we can determine, depend upon a self-regulatory environment for its success.

I welcome this opportunity to respond to the seven questions asked by the European Commission's Directorate-General, Justice in my personal capacity and in doing so draw from my long experience with the FTSE 100 Programme and from the research conducted into the topic of women on boards for my books: *A Woman's Place is in the Boardroom* (2005); *A Woman's Place is in the Boardroom: The Roadmap* (2008) and *Women and the New Business Leadership* (2011)

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

The work of the Mentoring Foundation and the research conducted for my books is based in the UK. As the UK has adopted a self-regulatory model we are therefore well placed to comment on this question.

Self-regulation has become increasingly popular in recent years as a method for solving problems that avoids unwieldy over-regulation of business and markets. Its advantages (including speed, flexibility and low cost) as well as its disadvantages (lack of legal redress, lack of compulsion to comply and the danger of consumer confusion) are well documented and it is not my intention to rehearse those arguments in this submission.

My experience of this model as applied to the question of gender diversity is that it is - for now - operating as an effective catalyst for change.

Prior to Lord Davies' report, initiatives such as the FTSE 100 Cross-Company Mentoring Programme and others existed and achieved some success; yet female appointments to boards remained stuck at a three-year plateau of approximately 12.5%. Lord Davies' report:

- made the strong business case for gender diversity;
- highlighted barriers to growth - from women's perceptions, lack of confidence and attrition out of the workforce further down the "pipeline", to the practices of certain headhunters and company Chairmen; and
- set out targets for change.

The threat of regulatory intervention (characterized generally as "quotas") remains if Lord Davies' targets are not met. Six monthly reviews of progress are conducted and published.

In the year since Lord Davies' report the number of female appointments has increased to 15.8% and continues to grow. In March 2012, half of FTSE 100 board appointments were women.

Whilst Lord Davies in his latest review cautions against complacency, the UK is now on track to meet Lord Davies' targets by 2015.

My experience at The Mentoring Foundation echoes the findings of Lord Davies' report. The reasons for female underrepresentation at the highest corporate level are complex and might require multiple interventions at the individual and organisational level. In our view, the current approach, with its multi-pronged recommendations for headhunters, companies and Chairmen, allows the myriad problems affecting women and their career success to be more effectively tackled. This approach is more likely to lead to effective interventions that are deep-rooted and behavioural, and could offer a replicable blueprint for change on matters of diversity more generically - in relation, for example, to ethnic diversity.

The work of the Mentoring Foundation is one such intervention. It operates at the individual level through the mentoring relationships that develop, as well as at the organisational level through corporate membership of the FTSE 100 Cross-Company Mentoring Programme and the learning it brings to participants. It addresses both the supply (the Mentees) and demand (the Chairmen Mentors) side. One of the aims of the Programme - to increase the understanding of Chairmen of the issues facing women and to facilitate access by women to individuals and networks that they might not otherwise have - goes to the heart of the obstacles identified by Lord Davies and in our own research.

In order to address the problem of attrition in the "pipeline" of female talent, the Mentoring Foundation will launch a second FTSE Programme in autumn 2012. This will draw upon our successful female Mentees from the main FTSE Programme to act as Mentors for high-potential women at more junior levels in participating companies at a time in their career when this attrition is most likely to occur. Six companies have agreed to participate in a pilot launch.

The FTSE 100 Cross-Company Mentoring Programme requires a medium-term investment by participants (Chairmen give up their time pro bono to Mentor, and each mentoring relationship lasts between one to two years). Whilst direct cause and effect cannot be proven, the success our Mentees have had in securing non-executive director positions and further career success demonstrates that this investment can bring about material, positive, career change and allows women to develop and be perceived as achieving success on their own merit.

We are concerned that a more interventionist approach could undermine the progress being made. For example, the imposition of quotas can lead to a perception that women being appointed lack merit, which may only serve to compound the issues of isolation and confidence that women are reported to experience as they progress further up the career ladder. Furthermore, it is, in our view, likely to shift the debate away from resolving the real issues that impede women towards a less constructive discussion around the merits of regulatory interventions and quotas.

A further unintended consequence of the introduction of quotas can be to lead to rapid appointments of women to boards by increasing board size rather than through replacement of retiring directors.. As Sir David Walker noted, in his review of corporate governance in the UK financial industry (2009), large boards tend to be afflicted by psycho-pathogens, such as 'group-think'. A higher proportion of women on boards helps to moderate the problem of 'group-think', but large boards, whatever their gender composition, contravene governance best practice.

The threat of regulation remains an important factor in a self-regulated market. There may come a time when progress halts and when it must be acknowledged that the progress self-regulation is achieving in addressing the market inefficiency represented by male-dominated boards is too little and too slow. In my view, that time has not yet come and the evidence to date suggests that the problem may ultimately be resolved without recourse to regulatory intervention.

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

Regulations prescribing a minimum percentage of women on boards have been implemented in a number of European countries. Whilst I continue to monitor their progress, for the reasons set out above I do not believe that EU-level quotas are necessary or desirable at this time in order to achieve gender diversity on corporate boards in the UK.

In particular, I would suggest that there may be differences in the impact on behaviour of self-regulation on the one hand and mandatory quotas on the other. Insofar as statutory regulation leads to a focus on compliance with statutory minima (mandatory output variables), the pipeline challenge (input variables) may receive less attention than it merits. It is hard to say whether there is a causal link between the type of regulation (statutory or voluntary) and attention paid to the pipeline, but initial research into this suggests that there may be more pipeline-related activity in self-regulated UK, for example, than in statutorily regulated France.

Finally, it should be noted that previous legislative initiatives such as discrimination legislation and flexible working rules have failed to result in high levels of female representation at the very top of organisations. Legislation can prove a blunt instrument when seeking to bring about behavioural and attitudinal change.

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

Numerous studies have found strong correlations between the number or proportion of women on boards and financial performance. It has been hard to demonstrate a clear, causal link, but the weight of evidence strongly suggests there is such a link.

*Such microeconomic benefit aggregates to macroeconomic benefit. In addition, research suggests a causal link between the proportion of women on the board and the quality of corporate governance (Adams and Ferreira, *Journal of Financial Economics*, 2008). This suggests overall macroeconomic risk, of which we have become acutely aware in recent years, will be reduced when there are more women on company boards.*

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

I prefer recommendations to statutory requirements, because, for the reasons alluded to above. I do not believe coercion is a good basis for developing the conviction that a deep-rooted, behavioural change is needed.

In the UK the targets set out by Lord Davies appear to be widely accepted as reasonably achievable and provide a sound basis for initial action. However, given demographics in the workplace there seems no reason not to aim for targets of equal representation between men and women in the long term.

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

The work of The Mentoring Foundation and the Davies report apply to FTSE 250 companies and their equivalents, which have sufficient resources to invest in the types of interventions necessary to achieve lasting gender diversity at executive committee and board levels. These companies are frequently international and high profile and are subject to reporting obligations. Reporting levels of diversity would therefore not apply any undue burden on these companies and would lead to greater transparency and accountability for hiring practices. They may also have a ripple effect on other countries in which these companies operate.

In addition, the extensive reporting of gender diversity by the media as a result of the Davies report and its subsequent reviews has led to increased interest generally in the hiring practices of companies across the board.

In particular, there are now signs that institutional investors are finally beginning to flex their muscles on matters of governance. This could accelerate progress towards more gender-balanced boards in self-regulated corporate governance regimes.

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

Such an initiative should apply to the whole board. The ultimate objective should be gender-balance on the board and the executive committee.

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?

My preference for self-regulation leads me to favour the sanctions imposed on poorly-governed companies by their shareholders and the market.

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