The Mentoring Foundation/Bank of England Colloquium – November 20th 2012

"The Investor Perspective – Launch of Pipeline Programme"

Good Morning.

The investor perspective – getting investors and companies engaged as part of their daily commercial activity - is clearly important if we are going to achieve real change that improves the output from our collective talent across UK plc.

Investor interests are aligned with this initiative: the best companies need the best leaders, so it is enlightened self interest to maximise the size of the available talent pool to maximise shareholder value.

It's something we feel strongly about at L&G. Our Chairman John Stewart has been closely involved in the creation of the mentoring programme that is being launched today, our board has two excellent female non-executives, Dame Clara Furse and Julia Wilson. Over a third of our Exco members are women, and they make a substantial contribution, and we are developing and growing a pool of future leadership talent in which women are strongly represented.

In 2011 we had 1 female employee identified as being ready to assume one of the 33 leadership group roles within the next 2 years. We now have 9 women in this position, and 13 women identified as being ready to assume one of the 50 MD or equivalent roles within the next 2 years.

I should add that as a father of five daughters, all of them ambitious and competitive, and all of them highly talented (at least that's my view as a parent) it's something I feel strongly about too. I am living with how women can progress on a weekly basis. The eldest, Lauren, the marketeer, works for L'Oreal, a business where women have made a huge contribution, it is a progressive dynamic company and indeed I have been impressed with PWC's engagement with my second daughter Stephanie, the accountant.

LGIM, L&G's fund management company, has assets under management of around £400bn or $640bn. We are the biggest shareholder in the FTSE All-share, with holdings of 4% or more of everything that's listed. That means we are substantial owners of the companies represented here today. For example, our combined debt and equity holdings in HSBC, as Douglas Flint will know, amounts to close to $10bn, while Sir Roger Carr will know that our holdings in Centrica are worth $2bn, Rolls Royce $1.1bn, Tesco $790m etc.

The long-term success of these companies is important to our business model, and to the ability of our institutional pension fund clients to meet their obligations to pay pensions. That's why we engage actively with investee companies on a range of issues, including boardroom diversity and talent management. As Sacha Sadan, who is responsible for governance at LGIM, says, this is an important commercial imperative, rather than a purely moral, political or regulatory one. It is one of Sacha's top 3 objectives in 2013. In the 1990's, we listened to people saying 'Greed is Good', in the 21st century we know 'Diversity is Better'.

Beyond compliance with regulatory change and political initiatives, why does it matter that companies have a diverse mix at Board level? Better companies have better boards, and from a shareholder perspective, I can give you some sound commercial reasons. Three of the top ones being:

- First, diversity at the senior level enables a company to discuss and resolve the concerns and issues of stakeholders, including customers and employees, better.
- Second, as a consequence of having a diverse mix on the board, it is less likely that dangerous "groupthink" takes over. This really matters at a time of fast-paced change the influence of men in the grey suits needs to be complemented.
- Third, the fact that women are represented in the upper reaches of a company inspires younger women to be more ambitious as they work their way up the career ladder. This enables the company to develop career paths to avoid the traditional trap where female talent drops away at the middle-management level, leaving a depleted pool from which to choose the top performers.

This is why mentoring is so important. To get to a point where we have more diverse and representative boards, we need to broaden the available talent pool of senior women from which board members are appointed.

There are many specific aspects we need to address to achieve this, but in my opinion, one of the most important aspects is tackling the attrition that occurs at the mid-level of so many womens' careers.

As Lord Davies said in his excellent report, "*the reasons are complex, and relate to factors such as lack of access to flexible working arrangements, difficulties in achieving work-life balance or disillusionment at a lack of career progression."*

There has to be, therefore, first of all a better understanding of the drivers – career and lifestyle – for women. And within that, there has to be a special awareness of the pressures that can exist precisely at the point when the transition from middle to senior management is most likely to be taking place, for example the "T-stage" of career that is broadening out from a specialist to a more generalist and senior management role. Too often, this is precisely when women drop away.

If we fail to do so, but instead go down a quota approach, we risk missing talent and taking pointless risks:

- we risk not getting the best and most talented people onto boards
- we risk appointing too few women to too many boards because the pool is not big enough
- particularly, we focus on non-executives as opposed to tackling the deficit of women in both Executive and NED roles
- and we risk actually demeaning those who are there on merit, but are assumed to be there to tick a box. Affirmative action can be a double-edged sword: looking at the EU impact on this, it would not be the first time that well-intentioned initiatives by Commissioner Reding have backfired, as female drivers are about to find out with rising car insurance premiums an unintended consequence of the EU gender directive. So I am pleased that the idea of hard quotas appears to have lost favour.

You can see some of these risks emerging in the pejorative discussion of the "golden skirts": the lazy assumption that enough female NEDS can be drawn from a limited pool to keep the politicians at bay, regardless of whether they individually have too many directorships, and regardless of whether they are seen as being in post for the right reasons. This would be a very poor outcome. It is up to us, as leaders, to visibly lead….. to avoid the problem, as well as ensuring that others including headhunters, take the agenda seriously and deliver it imaginatively.

So we need to broaden the pool of candidates for board membership, and this is where mentoring plays its most important role.

Legal & General's Chief Risk Officer and our Chief Technology Officer are both women, involved with and recipients of cross-company mentoring within the FTSE Cross-Company mentoring Executive Programme. Thank you Mike Rake and Spencer Dale for your support. This programme has had a ten year track record of success: 103 mentees have been through the programme, 87 of whom have gone on to achieve material promotions, 22 have been appointed to the ExCo or main Board of their own FTSE company and a further 23 have been appointed NED in another private sector company. Cause and effect is hard to prove, but this is a high level of correlation between participation and career progress.

Further down the company at L&G, nine out of the fourteen people selected for this year's intake for our future leaders programme are women, and it is here, at the end of senior management, that we are building the strong cohort from which tomorrow's top management will be taken. This is deliberate: if I look around the technical and professional areas which are strongly represented at any insurance and fund management company – accountancy, finance, and actuarial, I can see the rich base of talent coming through the junior and middle ranks, but also, historically, how that has fallen away at one or two stages below board level. The key outcome here is to create the opportunities for specialists from these categories to broaden out in terms of career progression as part of the trip to the top. This is helping us drive our performance, both financial and operational.

This is also where the next focus of the mentoring Foundation's efforts will be directed. I am delighted that, thanks to the efforts of Peninah Thomson and many others, today sees the launch of the FTSE 100 Cross-Company Mentoring Pipeline Programme aimed at the next generation of women leaders. This new pilot programme, with ten participants, is being launched today, drawing on the mentoring skills of alumnae from the first cross-FTSE programme to help and support women identified as future leaders in participating organisations.

The types of women selected as participants are likely to have 8-10 years' business experience, be high potential managers or technical experts, with the potential to achieve significant progress within 3-5 years and to obtain top leadership positions in the long term. I am delighted to say the participants have been identified, as have the mentors, and there is a good variety of sectors involved and here today. The cross-sectoral aspect is important; I'm delighted that as well as RBS, HSBC and Lloyds from the banking sector, and of course the Bank of England, we have BAE Systems and Tesco on board for the first pilot stage, and strong interest from PWC, Shell and Rolls Royce.

I am delighted that L&G has been involved from the start of this initiative, and I look forward to hearing about the successes of the programme going forward.

Returning now to our perspective as a shareholder, I'd like to conclude with some thoughts on what more could be done in support, of the Pipeline specifically and of more representative boards generally.

First, shareholders must increase the level of engagement with Boards on this topic: it is not the shareholders' job to make appointments to boards, but it is part of the governance process to ensure that Nominations Committees work effectively, and that they focus on talent and diversity, selecting from the widest talent pool rather than taking the easy way and making appointments in their own image.

Second, shareholders should recognise that succession planning is crucial to corporate success – good companies need a deep pool of talent from which to make top appointments, and a company which loses almost half its talent at one or two levels below the board is storing up a future problem.

And third, where a company's HR policies are effective – around career breaks, flexible working and so on – this should be recognised as creating the human infrastructure for future success. So many of our top companies operate in areas where intellectual and creative skills are the single most important corporate asset, so this is crucial.

It is too much, I suppose, to suggest an instant share price premium for companies which engage in mentoring. But it's not wholly fanciful either: great companies tend to be good at everything they do: production, marketing, finance, and also managing and making the most of their human capital. A 2010 McKinsey study found that across all industry sectors, companies with the most women on their boards of directors significantly and consistently outperform those with no female representation – by 41 percent in terms of return on equity and by 56 percent in terms of operating results.

This programme therefore has real value for shareholders as well as employees, and we are delighted to support it wholeheartedly.

Nigel Wilson
CEO, Legal & General
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