



EU Sub-Committee on the Internal Market, Infrastructure and Employment Women on Boards inquiry Oral and written evidence

Contents

30% Club—Written evidence	5
30% Club, and European Women’s Lobby (EWL)—Oral evidence (QQ 246–287)	11
Aberdeen Asset Management—Written evidence	32
An Inspirational Journey (Heather Jackson)—Written evidence	36
An Inspirational Journey—Written evidence in support of submission by Heather Jackson.	43
Association of British Insurers (ABI)—Written evidence	46
Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women’s Organisations (NAWO), National Association of Pension Funds (NAPF), Trades Union Congress (TUC), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140)	57
Austrian Federal Chancellery—Written evidence	85
Aviva—Written evidence	89
Brook Graham—Written evidence	96
Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141– 196)	103
Department for Business, Innovation and Skills (BIS), Lord Davies of Abersoch, Government Equalities Office (GEO)—Oral evidence (QQ 1–81)	132
Department for Business, Innovation and Skills (BIS), and Department for Culture, Media and Sport (DCMS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)	158
Campaign for Merit in Business (CMB)—Written evidence	171
Dr Barnali Choudbury, Lecturer, Queen Mary University of London—Written evidence..	174
Confederation of British Industry (CBI)—Written evidence	179
Confederation of British Industry (CBI), Brook Graham, Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141– 196)	184
Confederation of Norwegian Enterprise (NHO)—Written evidence	185

Department for Culture, Media and Sport (DCMS) (Jo Swinson MP)—Oral evidence (QQ 288–299)	193
Lord Davies of Abersoch, Department for Business, Innovation and Skills (BIS); Government Equalities Office (GEO)—Oral evidence (QQ 1–81)	194
Employment Lawyers Association (ELA)—Written evidence	195
Equality and Human Rights Commission (EHRC)—Written evidence.....	211
Equality and Human Rights Commission, Association of British Insurers (ABI), Investment Management Association (IMA), National Alliance of Women’s Organisations (NAWO), National Association of Pension Funds (NAPF), Trades Union Congress (TUC), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140).....	219
European Commission—Written evidence	220
European Women’s Lobby (EWL)—Written evidence	228
European Women’s Lobby (EWL), and 30% Club—Oral evidence (QQ 272–287)	232
Fawcett Society—Written evidence.....	233
French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)	240
GC 100—Written evidence	264
Government Equalities Office (GEO), Department for Business, Innovation and Skills (BIS), Lord Davies of Abersoch—Oral evidence (QQ 1–81).....	270
Hermes Equity Ownership Services—Written evidence	271
Mary Honeyball MEP—Written evidence	272
Elin Hurvenes—Written evidence	277
IDDAS—Written evidence.....	282
Institute of Directors (IoD), Brook Graham, Confederation of British Industry (CBI), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)	286
Institute of Leadership & Management (ILM)—Written evidence.....	287
Investment Management Association (IMA)—Written evidence	295
Investment Management Association (IMA), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), National Alliance of Women’s Organisations (NAWO), National Association of Pension Funds (NAPF), Trades Union Congress (TUC), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140).....	301
Michael Klein—Written evidence	302
Arlene McCarthy MEP—Written evidence	308
Mentoring Foundation—Written evidence.....	313

Mouvement des Entreprises de France (MEDEF), French government, Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)	320
MWM Consulting, Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)	321
My Family Care—Written evidence.....	322
National Alliance of Women’s Organisations (NAWO)—Written evidence	323
National Alliance of Women’s Organisations (NAWO), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Association of Pension Funds (NAPF), Trades Union Congress (TUC), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140).....	327
National Association of Pension Funds Limited (NAPF)—Written evidence.....	328
National Association of Pension Funds (NAPF), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women’s Organisations (NAWO), Trades Union Congress (TUC), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140).....	334
National Employment Savings Trust Corporation (NEST)—Written evidence.....	335
Norwegian government, French government, Mouvement des Entreprises de France (MEDEF), Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)	343
PricewaterhouseCoopers LLP (PwC LLP)—Written evidence	344
Professional Boards Forum—Written evidence.....	351
Quoted Companies Alliance (QCA)—Written evidence	353
Raymond Russell—Written evidence.....	358
Sir Michael Rake, Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)	359
Sapphire Partners, Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Spencer Stuart—Oral evidence (QQ 141–196)	360
Dr Ruth Sealy, French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)	361
Spencer Stuart—Written evidence.....	362
Spencer Stuart, Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners—Oral evidence (QQ 141–196)	369
Trades Union Congress (TUC)—Written evidence	370

Trades Union Congress (TUC), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women’s Organisations (NAWO), National Association of Pension Funds (NAPF), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140).....	375
Professor Susan Vinnicombe OBE, French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy—Oral evidence (QQ 197–245)	376
Professor Sylvia Walby OBE—Written evidence.....	377
Professor Sylvia Walby OBE, Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women’s Organisations (NAWO), National Association of Pension Funds (NAPF), Trades Union Congress (TUC)—Oral evidence (QQ 82–140)	382
Marina Yannakoudakis MEP—Written evidence	383

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

30% Club, and European Women's Lobby (EWL)—Oral evidence (QQ 246–287)

Evidence Session No. 5.

Heard in Public.

Questions 246 - 287

MONDAY 23 JULY 2012

Members present

Baroness O'Cathain (Chairman)
Lord Brooke of Alverthorpe
Lord Clinton-Davis
Lord Fearn
Lord Haskel
Lord Kakkar
Earl of Liverpool
Baroness Scott of Needham Market
Baroness Valentine
Lord Wilson of Tillyorn

Examination of Witness

Helena Morrissey, Founder, 30% Club.

The Chairman: Thank you very much for coming to give evidence before our inquiry. I thank you also for your written evidence. The Members of the Committee will declare whether they have any relevant interests before asking questions. The session is on record and is being webcast live and will be subsequently accessible via the parliamentary website. The witness will receive a transcript of the session to check and correct and this will be put on the public record in printed form and on the parliamentary website. Could you begin by stating for the record your name and official title and, if you want, by making a short opening statement?

Helena Morrissey: Thank you for giving me the opportunity this afternoon to give evidence. My name is Helena Morrissey. I am chief executive officer of Newton Investment Management and founder of the 30% Club. The members of the club are chairmen of some of Britain's largest companies. They now number 53 and are voluntarily committed to business-led change for more women on their boards, with the ambition of achieving 30% by 2015. However, it is not a call for a quota; it is through a voluntary desire to change.

Q246 The Chairman: We have heard a lot of evidence about the "business case" for greater gender diversity. Is there such a clear case; and if so, why is the current proportion of women on boards so low and why are UK targets so modest?

Helena Morrissey: The business case that certainly the 30% Club prefers to belabour is around the intuitive argument that a more effective board will be a more diverse board. I am sure that you have heard about the dangers and the reality of groupthink. Our pretext is

that a board made up of different types of people with different backgrounds will challenge a management team effectively.

There are two pieces of empirical research with which you are probably familiar, by McKinsey and Catalyst; and two which you may not have come across: by Citigroup, which has done an analysis of the experience in Australia; and by SocGen, on European companies. They have tried to analyse the empirical evidence around what happens when a company board has more women on it. Usefully, all four studies corroborate the intuitive belief that a board that will make more effective decisions for a company is more diverse; that is, one that has more women, although that is not the only source of diversity. However, of course, you cannot prove cause and effect—perhaps women are particularly smart and choose the best companies and choose the best companies to join. I hesitate to make too much of a link, partly because it is such early days around having more women on more company boards. The most powerful advocates of the 30% Club are those chairmen who have seen first hand the difference that having more women on their boards has made to the dynamic of the conversation and the boardroom. That is a very powerful argument.

On the question why there are so few women on boards, the fact is that, up until around two years ago, this was not a hotly discussed topic. There were diversity initiatives within companies and some special interest groups, but it was seen more as a women's issue than as a business issue. The idea for the 30% Club came about in spring 2010. We officially launched in November of that year with seven founding chairmen. Over that relatively short time, the debate has moved on from “Why is this important?” to “How do we effect more change?” We are starting from a very low base—around 12% of boards were made up of women when the 30% idea was first envisaged—and a lot has happened in a relatively short time.

Q247 The Chairman: Why do you think that has happened?

Helena Morrissey: A number of things have happily coincided. Our own initiative slightly predated the Davies committee report and was just before the coalition Government was formed. In those early discussions that I had with prospective chairmen supporters, those who were willing to entertain a conversation with me often said that they were very frustrated that the search firms and others involved in the chain to achieve more women candidates for board positions had not done more. Lord Davies's report very usefully set out a 10-point plan. Since that was published and through efforts on the part among others of the 30% Club, and due to the fact that we seem to be going from one business crisis or financial crisis to another, there has been a real appetite among Britain's largest companies, although it is not universal, to embrace change and to try to transform their boards and their management teams.

Q248 The Chairman: Can I just refer back to something that you said: that the company chairmen agreed that women made a difference? We have no evidence to that effect. It is a nice warm feeling, and people have said that they make a difference, but there is no scientific evidence which proves that. This is the problem that we have about making a business case. We all know that there is a huge case for diversity and equality, but the business case is more difficult to make, because there are people out there who say that women should not be let near boards at all—believe it or not. Can you point us in the direction of good statistical evidence from chairmen of FTSE 100 companies?

Helena Morrissey: As I said, it is a dangerous game to play because it is very hard to disaggregate the contribution made by women on boards from other factors driving company results. I would say, “Well, look around us”. This is why I think the financial crises

are a driver of change at present. By way of a perhaps dangerous example, the Royal Bank of Scotland had 18 members on its board—17 men and one woman. The 17 men had grown up very close to each other in the same part of Edinburgh, so it was not just the male/female issue that was relatively non-diverse. Although the FSA report into what happened at RBS cannot say—and this goes back to the statistical point—what was the exact quantum of RBS's failure that related to the lack of diversity on the board, the big-picture point of lack of challenge, a macho culture and a perhaps too strong CEO, as was the case perhaps also at Barclays, rather puts the onus of proof on those who say, "No, we're all fine now. We do not change".

The Chairman: Yes, but you do understand the position that we are in, in that we cannot specify what the business case is.

Helena Morrissey: As I said, the four studies, by McKinsey, Catalyst, SocGen and Citigroup—the URLs are all on our website—all contain analyses, but I am a bit reluctant to make too much of that.

The Chairman: Is it not true that Catalyst has now retracted its statements?

Helena Morrissey: I was not aware of that. It has been doing these studies for a number of years and I had not seen that. I have not seen any evidence to suggest that having more women on boards undermines shareholder value. The evidence that I have seen suggests that, if achieved the correct way—which is why I am anti-quotas—having more diversity is a good thing.

Q249 Lord Haskel: First, I congratulate you on your initiative. Why did you choose 30%? What happens then? Do you go for parity, or do you feel that 30% is enough? Is it feasible that you will achieve whatever you want by a self-regulatory approach and that the 30% is an indicator?

Helena Morrissey: I think that 30% is not where equality and parity lie; that was chosen because a lot of work that has been done suggests that three out of 10 is when the minority's opinion starts being heard as the opinion and not the minority that they represent. I came at it from that angle. Lord Davies's 25% average for the FTSE was looking at the rate of change. Those are not necessarily the same as saying what the end game is. Robert Swannell, who is the chair of Marks & Spencer, told me that he was not sure that he wanted to join because he thought that it should be the "50% Club". I believe that, if we get to 30%, we will have prised open the lid on a tightly knit group and I think that other sorts of diversity will follow. Therefore, 30% is a stepping stone—I probably will not open a "50% Club"—because it has been a mindset change to get to that point. We do not want to snatch defeat from the jaws of victory by having a discussion about other things that should be done. If one looks at the pace of change over the past two years—and I fully accept that, up until then, there had been very slow change on this issue—we see that nearly a half, around 45%, of FTSE 100 non-executive directorships have gone to women, with a figure of 40% in the FTSE 250. Given the role of the executive pipeline, which I am sure we will come on to today, I cannot see that businesses could embrace change any quicker and still appoint on merit.

Q250 Lord Haskel: Do you think then that, if 30% does what you have explained, the self-regulatory approach will achieve the 30%? Would you then leave it to self-regulation?

Helena Morrissey: Most definitely. In this country, we have a very strong comply-or-explain culture for companies. Recent events suggest that companies need to do a bit more complying or explaining sometimes. Ultimately, the owners of publicly listed companies are

the shareholders. People talk about coercing companies. If we are trying to do this ultimately for economic reasons and for better financial success for the country, I would suggest that coercing does not work. We have 6,000 pages of the *FSA Handbook*, yet we still seem to have one financial company scandal after another. It has to be owned and believed in by companies. If they are really going to change and include more types of opinion and people in their decision-making forums, I do not see that there is any other way than self-regulation. Otherwise, you get lip service and the appearance of success, but you do not really achieve change.

Q251 The Chairman: I went through your evidence very carefully—it was excellent evidence and I thank you for it—but of the list of 53 people you have at the back only 22 belong to the FTSE 100. Eleven of the 53 belong to limited liability partnerships. One would have thought that there is a sort of momentum among LLPs because of the qualifications and more women going into the law and accountancy. What if you take those apart? It is fine for them to pay lip service and say, “Yes, we’ll have 30% women in our partnership”—a lot of them, and certainly the bigger ones, probably have almost that—but when you come to the boards, there is this mistiness about them. Is it the FTSE 100 that we are talking about or the FTSE 350? Is it SMEs? Where are you targeting the 30% Club?

Helena Morrissey: Perhaps I may correct one point about the LLPs. They suffer from the problem more intensively than a lot of corporations. That is a bit ironic, because you are quite right that, at the entry level, they have up to 60% women. I have a separate partnership pipeline initiative within the 30% because those partnership firms struggle so badly. It comes down to the culture and what it means to become a partner and the sacrifices that people have to make in terms of time. Those companies have worse attrition at senior levels than many of the public listed companies.

This will sound very ambitious, but I want corporate culture change full stop. Although we started very focused on the FTSE—the initial founding chairmen were very much in that area—and obviously we have seen the fastest change in that area, if we are about trying to achieve sustainable, meaningful change for the long term and a different type of society, I suppose, where men and women share many aspects of growing together, including childcare and so forth, it would be false to limit ourselves to just the large companies. Smaller companies have different characteristics and challenges. They often claim that they have much smaller boards, which they factually do, and require more technical experts, whereas the FTSE has the luxury often of larger boards which are more able to attract international talent and so forth. That is a valid argument up to a point, but I note with some satisfaction that, although we have started from a very poor position with the 250, there has been a very sharp drop in the number of all-male boards. As I mentioned earlier, 40% of appointments to non-executive positions are going to women in that area now.

The Chairman: That is remarkable, but it is a very small timescale—since April of this year. Even so, it is quite an achievement. A lot of witnesses have made that point.

Q252 Lord Fearn: Many of our contributors have pointed to the 30% Club and Lord Davies of Abersoch as reasons for the present business engagement with gender diversity. Is there a risk that change will not be sustained if either or both those sources of pressure are removed?

Helena Morrissey: I think that there would be if either or both of us took the foot off right now. As I hope I have got across, ours is a collaborative approach rather than a hectoring approach in trying to engage with companies. I do not think that it is like painting a house, where we have to keep doing it over and over; it is more like teaching somebody to ride a

bicycle—once they have got it, things will change. We are in a quantum-leap stage where, when we look back in five years, we will think, “That was odd that we were having such a focus around that because look at the companies now and how they are made up”. We are at that intense point now where, particularly in the next year, it is incredibly important to keep the momentum going and accelerating the pace of change.

Q253 Lord Fearn: Do you visit most of the associations or businesses yourself?

Helena Morrissey: Well, I have a day job in the form of running an asset management company that has almost £50 billion of assets under management, so I do not do it all myself. I have a steering committee, which is all women. I also engage with groups of the chairmen; for example, we have a chairmen's advisory council. One thing that I want to get across that has probably not come up in any of the written evidence or anything that you might have heard so far is that the chairmen in turn put peer pressure on others in their group. That is a very good thing. It means that, instead of me recruiting every chairman who is a supporting member of the 30% Club, Roger Carr, Sir Win Bischoff, Robert Swannell and David Cruickshank from Deloitte have reached out and are recruiting, saying, “This is a good thing. You should be doing this. You should be doing something about women on your boards”. It is not always a hole in one—even somebody whom they know extremely well often takes some encouragement—but it is at that level that company chairmen are now engaging.

Q254 Lord Clinton-Davis: Your group rules out the idea of European regulatory action. If we do not preserve change, what should we resort to—quotas?

Helena Morrissey: Personally, I do not think that we should. Where quotas have been applied and where there has been long enough to see their effect, they have not solved any underlying problems. In Norway, which is so often quoted as a good example where quotas have worked, 40% of non-executive directors of public listed companies are women, but quotas have not solved the issue of women in management teams. In Norway, 2% of CEOs and less than 10% of senior executives are women. A statistical analysis by the University of Michigan suggested that, perhaps because they were imposed quickly, quotas undermine shareholder value. The end does not justify any means. Quotas are a flawed concept and are discriminatory. We have to look at the amount of rules that have been put in place, particularly in Europe in the past several years—for example, fiscal rules and so forth—which have just been broken. If we are going to achieve anything from this rather than just tokenism, quotas are never the right answer.

Q255 Lord Clinton-Davis: Do you think that the threat of quotas had any effect?

Helena Morrissey: I admit that I think that it is having an effect in terms of keeping up the momentum. The UK Government have done a good job of saying, “Well, if you do not get your own house in order, we'll be there”, but I think that very few people believe, perhaps erroneously, that they will apply quotas. If the EU imposes quotas—I know that Commissioner Reding is quoted as being in favour of quotas—I hope, and I am not being wildly optimistic, that it will be academic for us, because we will have got there. Perhaps everyone can say, “Oh, there was a threat”, but I believe that the seeds of change have been well and truly planted.

Q256 Lord Clinton-Davis: I am asking what the effect would be of taking quotas off the table altogether.

Helena Morrissey: It is a bit like people calling for the end of the world. At some point, if it has not happened, people question its credibility. It is not that I want to be evasive about it, but I do not feel that it is going to be necessary. We are making great change here. If you

look at any business-led change in the past several years, this is an example where you can point most to success. The ultimate threat is shareholders saying, “We’re going to disinvest in your company”.

Lord Clinton-Davis: It is a question of speculation, then.

Helena Morrissey: Yes, I think it is. There is no need to remove it from the table at the moment if it is having some impact on companies. At the beginning of all of this, after Lord Davies had suggested that companies come up with their own targets, letters were written—I do not mean Viviane Reding’s letters—but by Theresa May and Vince Cable and did not get much response. That was a bad moment for all of this. At that stage, it became obvious that companies had not got their heads around what this all meant. I do not think that it was that they did not care or did not see the threat of quotas as real, but now I think that, by and large, they have got their heads around it.

Q257 Lord Haskel: Last week, we heard from a lady from Norway, Ms Arni Hole, who is the director general of the Ministry of Children, Equality and Social Inclusion. We asked her why they had quotas. To put it in a nutshell, she said, “Look, we spend as much on educating women as on educating men and we want to get our money’s worth”. Is there anything in that argument for quotas?

Helena Morrissey: Not for quotas but perhaps for companies. That is one of the reasons why companies are now embracing the change. It is a waste of talent when women leave, particularly during their child-bearing years, which often coincide with that point in a career when they might be eligible for getting a sharp upward trajectory. I share the view that we have educated women and trained them in roles. Women themselves often feel very fulfilled as they become more senior—as do men—and then, suddenly, for all sorts of reasons which are often more sociological, they disappear. I do not think having a quota would solve that. We must ultimately recognise that there is a different way of developing careers, for example with technology. When I talk to the partnerships, which, as I mentioned previously, have these problems worst, I learn that they are thinking, “Actually, you can do a lot of this work and you don’t have to be chained to a desk. You can work just as hard, but you can work differently”. That route is longer than having quotas, but it does not need to be stretched out indefinitely into the long and distant future.

Q258 The Chairman: Have you ever come across something that I have come across probably half a dozen times in my career: that a big impetus for women going on boards was the fact that chairmen of companies suddenly realised that their teenage or young adult daughters had every right to be on the boards? I can name them, but I am not going to, but at least six said, “Well, I have been battered at home. I have given them a good education; they have been to university; they’ve got good degrees; and they are still aiming for my job in about six years’ time”—that was being slightly sarcastic. Have you had any of that coming from women within families?

Helena Morrissey: I have to say—again, I shall withhold names—that I recognise that behavioural trait on the part of some of the chairmen supporters that we have. I do not think that that is necessarily a bad thing, because it is a human aspect. I look at my grandmothers, who were of the age and class that did not get to go to university although they were probably very much cleverer than their husbands, and at my mother, who, although she worked, was not expected to develop a career. I will then look at my daughters - I have six - and, by that time, the situation will hopefully have moved along. It seems more and more bizarre as we go through the life cycles to have just one group of people in senior roles. That is a good motivation.

Q259 The Chairman: I usurped the position; I should not have asked that question because it was not on the list, but it suddenly dawned on me. Can I go back to Norway for one moment? Before you came in today, we discussed the fact that, when Norway brought in the law in 2006—it may have been 2004—some 100 Norwegian quoted companies delisted because they were not prepared to comply. Has that continued or did they re-list?

Helena Morrissey: No, as far as I am aware, they have not re-listed. That shows how hard it is, especially when you are a legislative body or organisation and a rule-driven society, to accept the fact that companies and people, as we are seeing every day at the moment, will circumnavigate rules. That is a painful truth. If you put in quota system, people may pay lip service and women may be there just to fill a quota, but you will not stop boards making mistakes because a CEO and the culture are wrong in a firm.

Q260 Lord Brooke of Alverthorpe: My question is not on Norway. Possibly the more interesting case will be France. Have you done any work in watching what is happening in France? Where do you think they are going in France? Why do you think France made very little progress on a voluntary basis?

Helena Morrissey: I do not think that it really tried so much. Christine Lagarde, who I know was involved at the time, might disagree, but France has obviously not gone down the Lord Davies route, which involved a very powerful, cross-party and pretty clearly directed set of recommendations. That was largely missing from the French attempts. We also have a very strong corporate governance code in the UK around comply or explain. Although we may think that companies have not succeeded in lots of areas, the practice, for example, of having the same individual as CEO and chairman has been stamped out, yet it is not forbidden in law—

Lord Brooke of Alverthorpe: It is broken sometimes.

Helena Morrissey: It is broken sometimes, but when we look at cases such as that of Sir Stuart Rose, we see that the shareholders said no. There is evidence of that kind of work, but that is building on what has been done. That is why we do not want to snatch defeat from the jaws of victory. A lot of things have converged.

Lord Brooke of Alverthorpe: But you are keeping your eye on what is happening in France.

Helena Morrissey: Yes, we are keeping our eye on France. We are keeping an eye on Spain, too, for all sorts of reasons—they are having another difficult day in Spain today. There is a fragmented business culture across the EU. That is why a one-size-fits-all approach would not work. Something that might work a little more effectively in France would not necessarily work here. It is very early days in France; we are keeping our eyes on it and on Spain. It is very important to monitor what is happening in Germany as well as the whole EU. We have got the edge here. A business-led approach that is seeing meaningful change is ultimately superior, so long as it is sustainable.

Q261 Earl of Liverpool: What action do you think that the EU should be taking in this area? Should it be monitoring and reporting on progress, facilitating information gathering such as databases, taking an active role in policy-making, or even leaving the issue entirely up to national Governments?

Helena Morrissey: Although my personal view would be to leave it to national governments, I suggested in the 30% Club's submission to the EU's consultation on women on boards and gender imbalance that the EU should mimic the Lord Davies approach by setting up a steering committee across different member states and doing things like look at

search firms' codes or practices in different countries, investor issues and pipeline development. Lord Davies came up with an excellent report and an excellent set of recommendations, but experience has taught us that a standard template for companies to report is desirable. I set out in our submission—I do not know whether it will take any notice of it—a six-point plan where the EU could feel that it was doing something, monitoring the situation and trying to improve practices in a number of the component parts, but not introduce legislation.

Earl of Liverpool: That is very helpful. Where can I read your six-point plan?

Helena Morrissey: The short version was in the written submission, but the Clerk has a copy of the full response that I sent into the European Union. I can send it to you as well if you wish.

Q262 Earl of Liverpool: You mentioned that a search code could be spread across Europe. Do you think that this will be accepted and that the EU will not want to take it any further in terms of searching for quotas? I think that a search code is an excellent proposal and it seems to be working well here. Do you think that that will work as well across Europe as it has worked here?

Helena Morrissey: I do not see why not. A lot of the major board practices in the search community are international. They do quite a lot of work, particularly in certain sectors such as the financial sector, placing people across borders. You are right that the search firms' own code, which perhaps was not at the most radical end of the spectrum but set out enough good practice, could be replicated. One of the things that Lord Davies talked about was the opaqueness of the recruitment process for board positions. I think that a little bit more could be done on that, but, I understand that across Europe—I think that France was the example that was quoted last week—a search firm is often not used to fill positions; that is done through word of mouth and contacts, which closes the lid on who is going to be considered.

Q263 Lord Haskel: Just to follow up on Lord Liverpool's point, do you think then that we should distinguish between companies that are active in Europe and those that are not? For instance, among the FTSE 100 are the mining companies. They have nothing to do with Europe; they are only here because they chose to be quoted here for their own reasons. But they actually carry out very little business here. Should we then be separating out those companies that are active in Europe and take a socially responsible approach in Europe from those that are a long way away and that we should not bother with them?

Helena Morrissey: The practical aspects of that would be quite challenging, because a lot of the FTSE is very much international—people could argue about what percentage of their business was based here. Ultimately, it might come back to what we are trying to achieve. While I care passionately about equality, I am not doing this for a social justice reason; I am doing it because I believe that there will be better boards and better investment returns not just for me but for the economy. If companies choose to be listed here, they should respect the infrastructure of the country in which they are listed.

Lord Haskel: So it is part of being listed here, even though firms such as Antofagasta have their business in Latin America?

Helena Morrissey: Yes. There are very many examples in the FTSE of companies whose business is conducted predominantly outside these shores, but they try to fund themselves on Anglo-Saxon lines and in a way consistent with other standards that we have here. It would be wrong to say, "Okay, well, you can come here, but you can pick and choose from the good standards".

Q264 The Chairman: I have just realised that Lord Haskel has opened up another question in my mind about this. On a document that I received about four weeks ago from the FCO, which was not classified, about why the European Union was important to us, was a statement to the effect that 50% of the largest European business headquarters are based in London. That is 50% of the 27 countries' largest companies. Lord Haskel instanced Antofagasta; but it might also be a company mining in Australia. How are companies such as that going to be affected? Would they be affected by the voluntary method which we think might be better, or, if the European Union was going to impose quotas, would those be imposed on them?

Helena Morrissey: You asked me earlier whether the target audience was the FTSE or the 350. More latterly, we have started to realise that it should be somewhat borderless. Npower, for example, is not listed here. A lady had said to me, "Well, you haven't invited our chairman to join". I said, "Well, it's not supposed to be discriminatory because you are not listed here". It is ultimately about setting good standards and having people want to subscribe to them. We have seen other organisations like the 30% Club start in places as far flung as New Zealand—there, they call it the 25% Club; I have a slight issue with its lower ambition. It would be great if we were to catalyse the sense that businesses are successful for social responsibility reasons as well as for retaining the best talent and delivering the best results. If we all benefit from a stronger global economy, we should be a bit agnostic about where companies are based. That is a slightly broader ambition than I started with, so I should be careful where I go with that one.

Q265 Lord Haskel: I hear what you say, but a company such as Glencore, which is on the FTSE 100, is quoted here, but, for its own reasons, it is based in Switzerland. All its activities are run from there. It has no women on its board. Why should it bother about this?

Helena Morrissey: I believe that it is looking for one—you never know quite whether to believe everything that you read in the newspapers. A member of its company secretariat came along to our 30% Club meetings and was quite interested. We try to be broad-church about it and say, "Actually, if you do not have women on your board, please do come, too". We have had a variety of seminars. We have had an investor seminar, for example, and one on the Equality and Human Rights Commission's research on the executive search code. We invite people and they genuinely participate and ask questions.

Lord Haskel: But if there was a quota, they would have to pay attention to it.

Helena Morrissey: They would have to pay attention, but I wonder whether they would actually change their ways or just appoint women to fulfil a quota.

Q266 Lord Wilson of Tillyorn: We have huge diversity in Europe of policies towards gender equality on boards. Does it matter to British business or to the UK generally that that happens? To take it to its extreme, if there are other countries in Europe that have quotas, is there a possibility that we drain out our best women going to those places which have quotas or have more opportunities for more women on boards?

Helena Morrissey: It is always a possibility, but it is not a high risk or something that I particularly worry about. There is clearly a lot of momentum here. Good women are being sought out, offered roles and appointed to roles. I think that a lot of women would not necessarily want to be appointed to a board to fulfil a quota. Certainly, a lot with whom I have spoken would not want to be on a board to fulfil a quota. That attitude is certainly held here but further afield as well. Although we can never see what life might be like, I think that

we are an attractive place for people to do business and that women want to be on boards here.

Lord Wilson of Tillyorn: This is a slightly tangential question, but do you happen to know how many British women go and take jobs on boards of companies elsewhere in Europe or vice versa? How many of our boards are peopled by women who come in from Europe?

Helena Morrissey: I do not know how many British women are on boards of companies in other countries—although I will now try to find out—but I know of specific examples of women who have been recruited to boards here where chairmen are looking for international experience. That takes us to the broader diversity issue as well. I am not saying that they go about it, thinking, “Oh, good, I have killed two birds with one stone”. This helps to broaden the pipeline. I know that Kate Grussing, whom you have interviewed in this forum a couple of weeks ago, had been appointed to do a search where the company in question could not find the right person for the board. The company was hoping for a woman in order to fulfil its diversity agenda and could not find one within these shores, so it ended up finding an American woman. That helped the business, because the company also has interests there. I am sure that we should not get too hung up about it. I feel that, in a good global business community, it is not necessarily a bad thing. If women are generally improving quality and if we are keeping women longer in the workforce and having better pipelines globally, there will be more people of talent for companies to put on their boards.

The Chairman: But of course also, because of the Higgs directive, you cannot be on a board for more than six years. I would think that it was a jolly good thing to have a French or American woman on a board.

Q267 Baroness Valentine: While the number of non-executive directorships held by women increases, we have heard that the number of female executives remains “stubbornly low”. If this stubbornness persists, how can this be addressed? Could quotas or other concerted EU action serve as a driver to tackle this entrenched problem?

Helena Morrissey: This really is the big one. We could achieve numeric equality for women for non-executive appointments. You can have a broad talent set and range of experience and be a good non-executive director, but you need specific technical skills to be, for example, a chief financial officer, a CEO, a head of HR, a head of retail business and so forth. I do not think that there any shortcuts to this. I met someone recently who runs a trading floor at a bank—I probably put you off him now. He was lamenting the fact that he had only 7% female staff and no senior female traders. This is really around risk aversion. He said, “A quota would get me nowhere, because there is nobody to hire into that senior role”. We have to cultivate them and change the culture and the ability and desire of women to stay and develop their careers to ultimately solve the pipeline. The 30% Club is turning its attention to this. Clearly, we are not a diversity business. As I said earlier, it is a group of business people who believe in the outcome that we are aiming for. CEOs and their management teams need to be thinking about how they develop the next generation of female business leaders. I mentioned the partnership pipeline initiative. I have really focused on that because of that problem being so intense in that area and because, if we had more senior female partners at law, accountancy and consultancy firms, they in turn would be a useful pipeline for non-executive director roles. I do think that this one has to be solved. I do not think that having a quota would work; it is a multifaceted problem requiring many components to solve it. I went to Stockholm in February with the Prime Minister to the Northern Future Forum, where it was very interesting to hear from the Scandinavian and Baltic leaders about their experiences. Even in those countries where family situations are shared—childcare, for example, is quite different from in this country—they were still stuck

at, at best, 30% women in senior roles. So there is something beyond. I do not think that anyone has quite put their finger on what it is.

Q268 Baroness Valentine: Does the existence of a CEO or senior partner who wants to solve the problem make a big difference in this mix?

Helena Morrissey: Yes, I think that it does. There is no silver bullet, but there are a number of components. A lot of effort has been made in many companies. I have noticed that people now collaborate on what has worked and what has not. Often, people have been quite disappointed by big diversity initiatives—for example, around mentoring of women—and found that the improvement has been in the single percentages. It comes back to something that is embedded in business. Diversity initiatives often seem to be on the side—treating women as a special being that needs handling differently. There is obviously a difference around children, but we still need to think more about how we create a culture and environment in businesses where the differences in the skills sets and the ways that people work are valued. Companies should work harder at sponsoring women. I do not lack hope on this, but it will take a longer road to home.

Q269 The Chairman: Do you think that there is any scope for effort being made by the CBI and the IoD at entry levels into management or junior management positions, perhaps by running courses? They all have very fancy journals. It might be a matter of getting the younger generation on to the mailing list. I know that that has been done with women in banking and finance through a networking group. How otherwise can we get there?

Helena Morrissey: It needs a really concerted approach. You are right to highlight the role that some of those organisations could play. I recently spoke at a CBI event where they had not just HR directors but business managers present. I have also been in to see Simon Walker, the Director General of the IoD. If everybody is doing their piece and pushing in the same direction, change can be effected. I do not think that women lack ambition. McKinsey has done some excellent work on this. Women tend to need, perhaps because of the child-rearing factor, work with meaning. They look at boardrooms sometimes. They see that they are all male, that they sit around for hours not getting anywhere, and they do not think that that is an appealing thing to aim for. I am not sure how much truth there is in that, but if we can open that up and have more role models and more examples of women adding a different dynamic to boardrooms and senior management teams and setting the agenda, suddenly a whole raft of women coming through—the 25 or 35 year-olds who might otherwise take their foot off the pedal or say that it is all too much—will be more encouraged. Everybody has to play a part.

The Chairman: And of course all people are different.

Q270 Lord Brooke of Alverthorpe: I was going to ask you about the pipeline as a means for developing or maintaining the flow of talent for the future, but we have answered that to a fair degree in talking about the different activities which were on the way. First, do you think there is any scope for Europe to play a part? We have not touched on that so far. Secondly, you mentioned your recent conference in Stockholm, where I, too, have some contacts on issues relating to social development for women. What did you bring back from Stockholm that we are presently not embracing in this country and could perhaps pass on to our boardrooms?

Helena Morrissey: On the first issue, one thing perhaps not being done by anybody at the moment—it is therefore something that the EU could do—is celebrating success and achievements in this area. There is no clear recognition where companies have a very diverse and effective board. There is much more of a stick than a carrot. I think that

companies would enjoy the positive publicity. If I was doing a seminar, instead of lecturing and hectoring people and telling them to change, it would be good to have some examples of companies which are clearly superior in their financial performance and have embraced this development. I feel that Europe, because it is so wide-ranging and encompasses so many different experiences, could do something around hosting a conference or something in that regard and showcase some examples.

On the Stockholm experience, I came away feeling both relieved and a little depressed. A number of companies have done so much for so much longer than us in this regard, particularly around the social dimension of helping women stay in the workforce. One woman from Denmark said that there would be no point in her staying at home with her daughter because the daughter would have no-one to play with as everybody else was in a nursery. She said, "We just go back because everybody is doing that". Denmark had obviously achieved that, but the fact that there was still a lack of parity at senior levels after all these changes again made me think that there was something deeper that we had not quite got to grips with. That is one reason why we should not rest all hopes and dreams on one solution—for example, on childcare tax breaks. There is not something that will suddenly magically solve this issue. We are in a leaps-and-bounds phase. We went through a long period in this country where there was no change and no attention being paid to the issue. We are now in that moment. We will not get there in a straight line, but we are on the right path and we just have to keep working, listening and learning when we do not quite get the results at the pace that we expect.

Q271 The Chairman: Thank you very much indeed. It has been very worthwhile. I am going to ask you a final question that I ask all witnesses. Are there any questions that you think I should have asked you? If so, what are they and would you like to answer them?

Helena Morrissey: We have not talked about the role of the investor, although I mentioned it a couple of times. As a point of observation, I feel that the changes to the corporate governance code that will come into effect this October will provide a further impetus. We talked about the danger of a falling away of the momentum. As part of their 2013 reports, boards are expected to produce specific gender diversity policies and ways of measuring their achievements, or lack thereof, in this area. If there are minds that have not been focused to date, that will be another opportunity. My plan with the 30% Club is to keep looking at the next hook, or creating one if there is not one. Although we have been trying to defend against the threat of quota, I think that the positive things that are happening will continue.

The Chairman: So it has got embedded in our DNA, do you think?

Helena Morrissey: I do not want to imply that every company chairman is saying that this is a wonderful thing. There are still a few dinosaurs, but they are becoming more of a minority. People are leaning on them from all directions. We want them eventually to say, "Actually, now we are down to eight all-male boards in the FTSE".

The Chairman: Thank you very much. Can I just say, as an excuse for us, that we have had as witnesses the Investment Management Association and the ABI? We had a very good session, so we have looked at that aspect. However, we were very interested in you in particular and the 30% Club. I think that we were right to be so interested. Thank you very much indeed.

Helena Morrissey: It was a pleasure. Thank you.

Examination of Witness

Sonja Lokar, President, European Women's Lobby.

Q272 The Chairman: Good afternoon and thank you very much for giving up your time to give evidence to our inquiry, Ms Lokar. Members of the Committee with relevant interests will declare them when they ask questions. This session is on the record, it is being webcast live and it will be subsequently accessible via the parliamentary website. The witness will receive a transcript of the session to check and correct, and this will be put on the public record in printed form and on the parliamentary website.

Ms Lokar, can you begin by stating for the record your name and official title? If you wish, you may make a brief opening statement.

Sonja Lokar: Thank you very much for having me here. My name is Sonja Lokar and I am president of the European Women's Lobby, which is Europe's biggest umbrella organisation of women fighting for equality between men and women. Our organisation is composed of more than 2,000 different women's non-governmental organisations and of 20 large Europe-wide organisations. Before we start the meeting, I would just like to say that in February this year the European Women's Lobby accepted, based on an analysis of the situation in 10 countries, the recommendations on how to deal with the issue of women on boards. These recommendations are very short—there are only six of them—and, if you want, I can talk about those now or later, however you prefer.

The Chairman: Will those come up in your answers to our questions, of which we have given you advance notice?

Sonja Lokar: Yes.

Q273 The Chairman: Let me ask the first question then. Why do you think the current proportion of women on boards is so low? Is the problem demand or supply or both?

Sonja Lokar: I think that the main root cause is that women and men have unequal access to resources, to economic power and even to the knowledge that is critical for being on a board. Because of this structural discrimination that has been there for ages and because of the prejudices that remain in society, we have a problem both on the supply side and on the demand side—although the lack of supply is different in character. On the demand side, demand is lacking because the political will is not there and the awareness of why women being on boards can be a big asset for companies is not there. On the supply side, the problem is much more complicated, because there are many different reasons why women sometimes either hesitate in going for such posts or, more than just hesitate, they are not invited to take up those posts. Even when they are invited, women face the structural problem of having a different lifestyle from men, in that they often have other responsibilities and want to give time to other things as well as being a company leader or board member. When the corporate culture is not inclined to accommodate their other needs, women hesitate to accept and opt not to take up such posts. Interestingly, the research published by McKinsey shows that the obstacles that women face are different at every level of the company—different on the day that they get the job, different when they have to get promotion, different when they come on to a board and different when they want to become president or CEO. It is really very complicated for the women to do it.

Q274 The Chairman: What do you think is the answer?

Sonja Lokar: The answer is not simple. We cannot just say, “Okay, just introduce quotas and force companies to change their attitude”. To do only that would be much too easy and not very fruitful either. Quotas themselves are not a magic wand that will change the situation overnight. In fact, the McKinsey research shows that, if you want to change anything for the better, you need to create within the company a gender diversity ecosystem. That involves several very important elements, of which perhaps the starting point is the commitment of the company leaders to focus on the issue and to do whatever is necessary to change the situation for the better. Nevertheless, the European Women's Lobby believes, as I do personally, that quotas—not just voluntary quotas but legally binding quotas with strong sanctions—are the trigger that will make company boards serious about this issue and give them an impetus to work on this differently from what they would have done if they were not obliged by law. I think that quotas are necessary not because they solve everything but because they trigger the process, which is much more complicated and needs more time to be properly implemented.

Q275 Lord Clinton-Davis: You have said that quotas are vital for the reasons that you have suggested. Do you believe that such a policy could be applied in the UK and across Europe?

Sonja Lokar: As far as I understand it, the process has already started. The first attempt began in Norway not as a binding quota regulation under law but as an open offer to companies to start the process so that, proceeding in their own way, they would have at least 40% female representation on the boards. After a while, the government understood that this would never happen, so they introduced a law that was really strong—for non-compliance the dissolution of the firm was on the agenda, which is not a mild sanction but a really tough one. It was really interesting to observe how, in a rather short period of time, the companies found enough women who were capable and willing to fill those posts. The problem was solved not in a very generous and gentle manner but with a firm position from the government and the state.

Other countries then followed suit. Iceland did practically the same as Norway. Others started with proposals allowing companies just to do things on their own, but those were then transformed into legal obligations—we have several countries in Europe that did that. Therefore, when Commissioner Viviane Reding picked up this initiative and started to work with it, that was an attempt to make something that had already begun as a process within some member states as a general European Union process. Of course, the question is: was that necessary? Is it good? Why should we not proceed with everyone doing whatever they feel like? I would say that to have a European initiative on any gender equality issue is a precious thing. I come from a country that is a new member state—I come from Slovenia, which is a small country.

Lord Clinton-Davis: Sorry, where do you come from?

Sonja Lokar: I come from Slovenia, which is a small country close to Italy and Austria. When Slovenia was becoming a member of the European Union, we got so much out of the legislation of the European Union that you cannot imagine. To give just one example that was really important to us—this relates to the gender equality issue—before Slovenia became a member of the European Union, we could not persuade our government that sexual harassment at work was a serious problem. They did not see it like that. They even said that it was legally impossible to define sexual harassment. However, in order to become a member of the European Union one day, we could not do that without having a definition of sexual harassment in our labour code. Without this, I am sure that Slovenia would still have had legislation without one sentence on sexual harassment at work, even though it is a

huge problem—especially now when we have a crisis situation in which many young women are without work and employers and bosses are taking advantage of the situation. I have given you one example.

Now, about the boards and why it would be wonderful to have this initiative realised all over Europe, I think that the reasons are economic reasons. The European Union is not like an African or Asian country; women in the European Union are highly educated and the pool of talents is equally divided between men and women. We are losing half of the talented people—or even more, because there are so many educated women—and I do not think that the European Union can afford this. We are in a global competition, so by in losing these talents we are losing economic incentives. That is stupid. Why are we doing that?

It would also be good to have a European initiative to speed up the process. Some countries have started, but many others have not and, what is even worse, in some countries the process is going backwards. Before coming here, I looked into the last report on women and men in the European Union, which shows that in five countries the number of women on boards is diminishing and in some countries the very small number of CEOs and chairs of big companies who are women is diminishing. At the same time as other countries are progressing—including the UK, although you are not making progress at the speed of light—others are stagnating or even going back.

Q276 The Chairman: Where are those figures published?

Sonja Lokar: I have brought the paper with me—

The Chairman: If we could see those figures, that would be very useful.

Sonja Lokar: I will give you the paper, which is called *Report on Progress on Equality between Women and Men in 2011*. The report includes two tables that show this negative process.

What is even more interesting—this is also important to know—is that, when you have a good economic situation, ideas about improving the levels of human rights and so on are accepted with good will; when you have a crisis situation, all of a sudden what was already gained is pushed aside and new things are met with the response, “Now is not the right time, so we cannot bother with that now.” If you look at the list of the countries that are going backwards, you can see that these are the countries where the crisis has hit the hardest. They include Bulgaria, Cyprus, Slovenia, Estonia and others—I do not remember all of them off by heart. You can see the connection between the crisis and the diminishing possibilities for women on boards, which is shocking in a sense.

Q277 Lord Clinton-Davis: Would you accept that circumstances alter cases? In a country like ours, where progress is being made but rather slowly, there is a reluctance to accept quotas; in a country like France, the situation is quite different. What I am saying in effect is that each country has to be judged on its own merits.

Sonja Lokar: Yes, I agree with that. If you have well set targets against which progress can be measured regularly, I do not think that you need to bother with accepting quota regulations immediately. However, if progress is not fast enough or if there is regress, then quotas are necessary. For example, countries such as Sweden have come without using a legal quota nearly to the point where we want others to be, so why should we impose quota regulations on them when they do not need it? However, in your case, your target is set very low at 25%, whereas the European Union target is 40%. If you really want to escape or not be pressured into accepting quotas, you may have to raise the target and perhaps set mid-term targets to ensure that everything is going in the right direction. If it is, why should

anyone bother to force you to do things that you are already doing? I do not see the point in that.

Q278 Lord Fearn: Do you believe that there are advantages to a common European approach to increasing the proportion of women on boards? If so, what are they?

Sonja Lokar: I think that there are. Especially, I think that the competitiveness of the European Union needs to get better, and I firmly believe that having more women on boards can bring better economic results. That is one reason.

Another reason, as I said before, is that in the European Union the situation of women on boards is very unequal: there are some countries with high levels of female representation on boards—well, rather high levels, as the situation is not very good anywhere—and there are those that are lagging behind very much. When you accept a common European policy on this with common legislation, you open up the process so that everyone is required to come to the same level of women's human rights and I think that this is always a good thing to do.

Lord Fearn: When you say that five countries are going backwards on this, is that seen vividly or is it just a statistic that you have in a book?

Sonja Lokar: The question of statistics is very interesting. First, most companies, even those that have been thoroughly researched in the McKinsey report, do not have the necessary statistics and do not really know exactly what their situation is at every level of corporate governance. They do not know where their women are, what their problems are and what their needs are. They have not researched this before or taken any action. Of the 235 largest companies that were the subject of the research, only 125 were able to give statistical data on what was really going on in their firms and, when positive action was started in order to change the situation for the better, only 20—that is, less than 10%—could prove that things had moved forward, however slowly. Only 10% of the largest firms in the whole of Europe were able, with affirmative action on their own, to change the situation for the better, so I think that this is a serious problem.

However, when you look at the research, there is a very clear reason why this is so. If you compare how the men and women see the projects and programmes to improve the situation of gender diversity, you can see that men, who were asked the same question as the women were, saw the situation twice as brightly as the women did. When asked whether women and men are treated equally for promotion in firms, in the evaluation 65% of men said yes, whereas only 30% of women did so. So you see this imbalance. Men who have the power of deciding do not see the need or see this as a huge problem. That is normal, in that those who are discriminated against feel the problem whereas those who perhaps unknowingly profit from it do not feel that it is a problem and do not react to it. That is a huge issue and a big problem.

Q279 The Chairman: You said that you believe that the economic result is better when there are women on a board. What evidence do you have for that?

Sonja Lokar: Several researches have been published, which show that where boards have diversity in general—not only gender diversity, but other sorts of diversity such as race and age—the company does better. I did not bring that research with me, but it would be easy to get that evidence.

The Chairman: Would you mind supplying us with that? We want to make sure that everything that we say is evidence based.

Sonja Lokar: No problem. It needs to be accurate, yes.

Q280 Lord Haskel: We have already dealt with my next question, so perhaps I can phrase it rather differently. First of all, congratulations on your English.

Sonja Lokar: Oh dear, I am not so proud of it.

Lord Haskel: You have told us how European rules raise standards and how they have raised them in your country. You have also told us that you think that, if the voluntary arrangement will reach the standard that the European Union intends to set, you would be quite happy with that. What should happen to those countries that do not reach the standard?

Sonja Lokar: That is a very good question. However, I do not think that anything would happen to the countries; it would happen to the companies, which is a different story. You need strong quota regulation in the law. Without sanctions, it would be like a lion without teeth—and I have no doubt that, if there are strong sanctions, the companies will apply it. On the idea of financial sanctions, if you have a sanction of €1 million, the sanction might work; if the sanction is only €200, it will not work, so it all depends. We know that from the experience with quotas for political parity. For example, the law in France required that the list of candidates for national elections should be half men and half women, and those that did not obey this rule would be subject to deductions from the funds given by the state to political parties. However, all the parties preferred to pay the fine than to give the women the chance, and the fine was considerable money—it was not small money. They preferred that because it is easier to go the old way rather than to make the change.

Of course it was also a big problem for those who did not previously think of women as active qualified politicians to see any qualified women around. That is a sort of blindness. When you have the leading group, you will always look at the leading people as role models and you never look at those who are coming up. It is difficult to give a real chance to these women, who may be there but have not been seen or listened to for years.

The Chairman: Yes, we had evidence from Lord Davies, of whom you have probably heard, who said that there is no problem whatsoever with supply. He said that he could have instantly to hand 99 women who would be able to take up really good board positions.

Sonja Lokar: In many countries where they have tried to change things, people have started by establishing banks of talent. For example, in Serbia, which is one of the countries in the pipeline for EU membership, the women's movement is quite strong but a big problem was that the political party leaders said that there were no women who could be Ministers because they were not capable enough to take up such a post. The angry women of that country set up an initiative to establish a bank of talented Serbian women—with really incredible CVs in science, in economy, in culture and in other fields—and the result was that there are much more than 1,000 such women in little Serbia. Therefore, I imagine that in your country, with millions and millions of people, you really do not have a problem of supply.

Lord Haskel: Absolutely.

Q281 The Chairman: What has happened to these banks of talents?

Sonja Lokar: First, these banks started to be used. When people are looking to give someone a difficult task to do—not only in public administration but in companies—they now refer to this bank. Another thing that the women, who were really angry, stabilised a shadow government that had only women ministers. Every week, they published a special statement on whatever the hottest issue of the moment happened to be in Serbia, and the

shadow woman minister would say how she would solve the problem if she was in the post of the relevant minister.

The Chairman: This is wonderful. When does Serbia join the EU?

Lord Haskel: We should try that here.

The Chairman: Maybe we would be enthusiastic. That is a very enlightening point.

Q282 Baroness Valentine: In Norway, which introduced quotas in 2003, the number of women in executive posts is still very low and less than 3% of CEOs are women. Can quotas deliver sustainable change, or do they simply address the symptoms rather than the cause?

Sonja Lokar: As I told you, the quota itself is just a trigger that makes the responsible people do what they would not otherwise have done, but the root problems are much deeper and have to be addressed in a very systematic way. First of all, you need to have total evidence of the facts. Then you need to have every manager—not only the president of the company but everyone down the line—accept the idea that it is his responsibility to bring more women to that level. If you do not have a lot of women in the pipeline, it is very difficult to get the women at the very top. For the very top, you need sponsorship, mentorship and connections, which you can get only if you are part of this elite group in the firm. If there is nobody to pick up your hand and take you in, you cannot break down this wall. You have to do all of this to make it function, whereas in Norway I do not think that people did this last thing—they did everything else but not this thing. I think that they are now trying to look into how to solve that problem.

In the European Women's Lobby, when we were thinking about this point, we thought it important to have quotas not just for non-executive positions but for all positions on the board so that women would get used to working on specific executive tasks, such as financing or whatever is the most important in the firm. That could be one solution. Another important thing is to limit the number of board memberships that one person can accumulate. It is stupid that one person should have five board memberships, which crowds out everybody else. Why is that necessary? One reason why things are moving so slowly is because they are so blocked and the turnover of people in such posts is not as big as it should be. This has to be changed, too.

However, I suppose that that change will be the most difficult of all, given that we have seen the same story with the political empowerment of women. If you think about women in parliament, due to the quota regulations and the many years of women fighting to get eligible posts, things started to move and to change but the situation with regard to women Ministers is much worse. Some countries have half and half, but there are many countries that have less than 10%. For example, at the moment Hungary has zero women Ministers, and it is not a question of Hungary not having capable women; it is a question of political will. I think that rules have to be put in place for parity in all decision-making positions. For a woman to become Prime Minister or President of the state, it is even more difficult because those posts are connected to the leadership of political parties and women have the hardest possible time to become leaders of political parties.

Q283 The Chairman: Does that mean that you would welcome an EU directive that the gender breakdown of Ministers should be 50% women and 50% men? Do you think that the EU is the right conduit to ensure that this happens? In other words, should the EU put out more directives for quotas on every level of life? Surely that is not the purpose of the EU. Is it?

Sonja Lokar: Absolutely, that is not the purpose of the EU, but it always comes back to the question whether we want this or not. A good example is violence against women. As you will remember, in 1995 this was an issue not for the European Union but for the member states to deal with. We then had a Commissioner for internal affairs—from Sweden, of all places, of course—who decided that there was a huge problem with the trafficking of women across borders, which was considered not so much as a question of human rights as a security problem. However, through that security problem there came out the whole policy of the European Union on violence against women, which is now shaped such as to enable all countries in Europe to have approximately the same standard on this issue. So the question of whether the European Union should regulate quotas for political representation of women is a question of political will and a decision about whether this is urgent and important—I think that it is, but nobody really asks me. For example, I have proposed to the European Commission that it should establish a DAPHNE project for parity in Europe, because we need such a project just to make everybody aware of what we are losing with not having parity of men and women in political decision-making. But respective people turn a blind eye to it and they do not want to discuss it. My chances of making the idea of legally binding parity a European Union policy, even from the position where I am now, are very slim—I have already been trying to do this for five years.

Q284 Earl of Liverpool: I have another question on quotas, I am afraid. Some people have argued that quotas are patronising to women. How would you respond to this? Is there a risk that women appointed to boards through quotas would be seen as not having been appointed on merit?

Sonja Lokar: This is a very good question. Not only men but many very clever and capable women think that quotas are offensive. Some women think that quotas will take something away from them by transforming the situation such that they will lose their merit, which is bigger than the merit of many of the men with whom they compete, and be taken only as token women. Why do women and men think like that? They do so because the facts of structural inequalities that are inbuilt in our societies are not present to the people—they do not know. How can you know about this? First of all, you have to study quite a lot to get into the subject and to see all the different things, especially in those countries where men and women are formally equal in front of the law. “Where is the problem? There is no problem.” Formally, everything is fine. You really have to go into the study of the everyday life of men and women to understand that these structural barriers are there. The papers and the media and even the schools do not inform people about that. These are not common knowledge facts; these are facts for which you really need to put in quite a lot of effort to dig them out from the shadows.

The second thing is personal experience. I know a lot of women who formerly were fiercely against the quota. When they became MPs, they were very proud of that and they told me, “You see: I made it without the quota. I am capable enough that I do not need it.” However, when re-election time came, they were pushed out so quickly and so easily that before they turned around they were not MPs any more. That was when they understood and they started to be fighters for the quota regulations. In Slovenia—I am speaking again on the political empowerment of women—we tried seven times in 10 years to enact quota regulations in our Parliament, and every single time we failed. The reason was very simple: the few women who were in the Parliament came to the rostrum and said, “I don’t need the quota. This is offensive to me.” When all of them lost the elections in 1996, they came together and we established—I was also a member of the parliament once—a special coalition for parity in Slovenia and within three years we changed the constitution, and we enacted quota regulations for all levels of elections. So it all depends on how you understand

the problem and when. When a woman says, “I am offended by quotas”, it is difficult to say, “Okay, there is evidence that you are not right, but maybe you have to wait for the glass ceiling to come down on you and then you will understand.”

The Chairman: Lord Brooke has the last question.

Q285 Lord Brooke of Alverthorpe: I have listened with great interest to your answers, so thank you very much. Are there other measures that you think the EU should take, either alongside or instead of quotas?

Sonja Lokar: Absolutely. There are many things that the European Union can do. Again from my own experience of Slovenia becoming a member state of the European Union, I think that the most precious thing that we got out of that was the possibility to compare the level of rights and practice in our country with the best in the European Union. That is something that is absolutely helpful, because it gives you new ideas—you do not need to discover the hot water; it is already there. I think that organising a thorough exchange of experience is absolutely something that should be done a lot, whether or not quotas are enacted.

Another thing that I would very much opt for, if we are to be successful changers of the situation, is obligatory statistical insight into the companies in a way that reveals all specific points where changes are needed. This would be really helpful and it is not so aggressive. When companies do this, it is much more difficult for them to close their eyes and say that there is no problem because it will be evident in the figures. Before you have the figures, you do not know. Then even if we do not get a consensus on this directive—that is not an easy thing to do—we can still set up joint targets and then measure progress and organise a reporting process. That helps a lot. For example, I remember a similar thing being done with the Barcelona targets for childcare. Not all countries have improved their situation 100%, but there is progress. When you have this common vision and can present where each country stands at a particular moment, that helps countries to be responsive to their own voters, especially if the figures are published and you lead a campaign. What I would absolutely do is organise an awareness-raising campaign not only for the CEOs and people who decide but for everybody, because it is not common knowledge that this is a problem, why it is a problem and how we can solve it.

Q286 Lord Brooke of Alverthorpe: That was an interesting observation. If quotas were not introduced, would you see targets as having a role on a Europe-wide basis?

Sonja Lokar: As president of the European Women's Lobby, I would always opt for a legally binding, heavily sanctioned quotas system, but it may happen that we cannot get that. If so, it would not be the first time that you dream about something and then you get something else. However, there is always a second-best, and this second-best could be targets.

The Chairman: Just on that, can I just ask how you would monitor targets or quotas? What do you suggest the apparatus should be in the European Union for such monitoring?

Sonja Lokar: First, if we really want to monitor, we have to have this thorough statistical insight into the companies. This is the first step. Then it is important to recognise that every single company has a slightly different situation, so the problems are not solvable with one recipe to suit all. Every company has to discover what its weak spots are and how to respond to its weak spots. In the McKinsey report, you can see exactly which are the critical points but the extent of those varies from company to company and even from country to country. The situation of women on boards very much also depends on how many women are employed, how many women are employed full-time, how many women can work in

flexible arrangements—all these things are very important. I think that the system should be country specific and company specific.

I think that your system here is not bad at all. You have this combination of governmental initiative and companies having to set up their own process, which the Government will then follow to see whether the process is in fact followed and what its outcomes are. I suppose that something like that could also be possible at the European Union level.

Q287 The Chairman: Thank you very much. If Members have no more questions, let me ask you the question that I ask most witnesses. Are there any questions that you think we should have asked you? If there are, would you like to give us the answers to those questions? In other words, have there been any glaring omissions in our taking of evidence?

Sonja Lokar: I was not thinking about that. I was surprised because you have asked the very difficult questions, which I really needed to think about. When you work as a feminist fighter, many things are self-evident to you but when you speak to people who are not necessarily of the same opinion as you are, these people open to you points of view that are not neglectable—you have to really give them some thought. I am thankful for that.

The Chairman: That is very kind. I take that as a compliment, so thank you. You have certainly opened our eyes, and some of those things will remain embedded in our brains for quite a long time, I should think. And thank you also for being very feisty, which is lovely. I trust that you know that word.

Sonja Lokar: What does “feisty” mean?

The Chairman: It means thrusting—which you are, in effect—and a bit of a whirlwind, and attractive with it.

Sonja Lokar: Thank you very much for having me here.

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.

An Inspirational Journey (Heather Jackson)—Written evidence

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.

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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.

July 2012

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 Report⁴ 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.

1.8. 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 are 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

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Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women's Organisations (NAWO), National Association of Pension Funds (NAPF), Trades Union Congress (TUC), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140)

Evidence Session No. 2.

Heard in Public.

Questions 82 - 112

MONDAY 2 JULY 2012

Members present

Baroness O'Cathain (Chairman)
Lord Brooke of Alverthorpe
Baroness Buscombe
Lord Clinton-Davis
Lord Haskel
Lord Kakkar
Earl of Liverpool
Baroness Scott of Needham Market
Baroness Valentine

Examination of Witnesses

Scarlet Harris, Women's Equality Officer, Trades Union Congress; **Dr Karen Jochelson**, Director of Policy, Employment and the Economy, Equality and Human Rights Commission; **Dr Annette Lawson OBE**, Chair, National Alliance of Women's Organisations; and **Professor Sylvia Walby OBE**, UNESCO Chair in Gender Research, Lancaster University.

Q82 The Chairman: Good afternoon. Thank you very much for coming and giving us your time. You know what this inquiry is all about and we are delighted that you are able to come and be witnesses to the Committee. All Members of the Committee will declare any relevant interests before they speak. The session will be recorded and webcast. A transcript will be produced and sent to witnesses; that will also be on the website and you can amend or change matters of fact if you think that they are incorrect.

Before we start, I would like you to introduce yourselves and give your titles. If anyone wants to make an opening statement, because we are up against it as regards time, could you keep it to about two minutes? Dr Lawson, would you like to begin, as you are on the left-hand side.

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Dr Annette Lawson: My name is Annette Lawson. I am currently chair of the National Alliance of Women's Organisations. I am a past vice-president of the European Women's Lobby and was a Commissioner of the Women's National Commission, which was the advisory body to the Government on issues of women and gender. It was abolished under the quangos abolition but I was chair of the international work on that commission and was chair of the commission for a short time.

Do you want me to go on?

Q83 The Chairman: Did you want to make an opening statement?

Dr Annette Lawson: A short one.

First, thank you for inviting NAWO to give evidence. NAWO is the National Alliance of Women's Organisations that are headquartered in England. We work with sister organisations in Wales, Scotland and Northern Ireland to come together in the UK Joint Committee on Women, which is the co-ordinating body for the European Women's Lobby. We all share a wish to see gender equality achieved and women's access to their human rights also made a reality.

I want to make three points before answering your questions. The very low proportion and the very low absolute numbers of women on the boards of companies in the UK, as well as in most countries of the EU, need to be understood in the context of low numbers and low proportions of women in all senior decision-making positions, including the political ones. We can look for experience, not only from the research that is done about boards and companies, both in the EU and here, but also explore strategies that have worked or not worked in other areas—such as women-only short lists for Parliament.

We also think that we need quotas.

Q84 The Chairman: That will come up in the questions. Is there anything that you would like to say in advance of that? Is there any addition to that?

Dr Annette Lawson: Only to say that we think that the other measures that are also coming up in discussion around this are just as important.

Q85 The Chairman: Good. Thank you. Ms Harris?

Scarlet Harris: My name is Scarlet Harris. I am the women's equality officer for the TUC. Very briefly, the TUC represents some 6 million workers, of whom half are women. Obviously, the issue of women on boards is quite far removed from the day-to-day reality of many of our members. Nonetheless, the TUC thinks that it is important to address issues of gender equality and women's representation in public life in general. That is why we are here today.

Q86 The Chairman: Thank you very much. Ms Jochelson?

Dr Karen Jochelson: I am Karen Jochelson. I am the Director of Policy on employment and the economy for the Equality and Human Rights Commission. We are a non-departmental government body and we are here to make Britain a fairer and more successful country by holding people and organisations to account in the way in which they meet their equality and human rights standards, with my particular focus being on the private sector.

I would like to make a very brief statement. Like Dr Lawson, we have had a long-running concern about the paucity of women's representation at senior levels across society and we

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have published numerous publications around that. We think that it is a real loss to the economy when you have very successful young women graduate and then fall out of the job market when their careers should be progressing. I know that you are going to ask us our views about quotas but we believe that the road to improvement is through systemic change, which means looking not only at law but at a range of responsibilities of companies, their investors and the recruiters. They all have a role to play in bringing improvements to the field.

Q87 The Chairman: Thank you. Finally, but by no means least, Professor Walby.

Professor Sylvia Walby: I am Sylvia Walby. I am a distinguished professor of sociology at Lancaster University and hold the UNESCO chair in gender research. I have an OBE for services to equality and diversity. I was the founding president of the European Sociological Association in the mid-1990s. My contribution here will be as a social scientist rather than as someone representing a democratic body. I engaged in a research report on women in corporate boards; I will draw from that research report when I answer your questions. I have attempted to submit that document to the Committee for its consideration.

The Chairman: That is very good of you. Thank you very much.

Professor Sylvia Walby: I should like to add a couple of points to your questions. Your questions are very much to the point about quotas. In the work which I have done, there were two main legitimations for increasing the proportion of women on these management and corporate boards of directors. One was the economic performance of the companies, which is of direct interest to the companies as well as to the whole economy. The second is the democratic interest, in that the forms of legal privileges which these companies have of limited liability and legal persona give a duty on these companies to meet standards of governance and an entitlement to democratic bodies to determine the practices of governance of bodies which can cause so much damage if they are not able to be effective. My work was particularly concerned with what works and whether voluntary mechanisms have ever worked. I will be answering your detailed questions on that.

The Chairman: Thank you very much. That has been very helpful from all of you. As you probably know, the purpose of this is the directive from the European Union. Therefore, we have to keep it central to that point about quotas and whether we think that they are a good idea. It does not have to be narrowly about that—we obviously need to expand it—but I do not want us to be going off into other areas, because we have time pressures. First, Lady Scott.

Q88 Baroness Scott of Needham Market: Perhaps I may start with the central question. The Government have made it clear that they prefer a business-led approach to that of quotas. I think that the Committee would like hear from each of you about whether you think a business-led approach will work. Some of you have indicated that it will not and that quotas are necessary. But I should like you to address, if possible, why it is—given the clear evidence that there is a good business case for women on the boards and in senior positions of companies—that this has not happened until now and, from that, why you think that quotas are the only way forward, if that is what you believe.

Professor Sylvia Walby: Yes, the contribution of business is obviously extremely important. A very wide range of mechanisms have been introduced by businesses and by wider corporate bodies to attempt to move this issue forward. There has been everything from mentoring to building databases of women. They have all made a contribution but none of them, in any country in the European Union, has been fully successful. The reason for

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looking carefully at quotas is that it has been only the introduction of legally binding quotas which has led to an increase in the proportion of women on these boards to 40%. What works is an empirical question. It has been quotas which have worked.

Your question is why, given that there is a business case, there has not been more action. Most clearly, there is a business case for engaging with the talents of women and increasing diversity on boards to improve the quality of decision-making. We know from research evidence that a uniform body has poorer decision-making capacity than a body which has diversity, including gender diversity, ethnic diversity and other forms of diversity. So why do businesses not do it? We know that it is not only the qualifications of women that are taken into account. Indeed, we know from the research evidence that women recently appointed on corporate boards are better qualified than the men. They are better educated and more likely to have an MBA, for example, than men. Given the quality of the women coming forward, we must ask why businesses have not shown themselves competent to bring them in. At that point, we must look to mechanisms of closure and to the self-reproduction of these business groups which have chosen simply not to engage in best practice. Given the wider interest at this point, pressure from outside bodies, including Parliament, would appear to be an effective way forward.

The Chairman: Perhaps I may correct one statement that you made—namely, that it has not worked and that there has been no change *et cetera*. That is patently not true. We have more and more women on boards now than we ever had. When I first went on a board, I was the only woman on the board of a FTSE 100 company. Now there are quite a few. So they are making progress. Every year, the number of women is increasing.

Professor Sylvia Walby: May I clarify my comments, where I was perhaps open to misunderstanding? I did not mean to say that the voluntary mechanisms did not have a contribution to make. They do have a contribution to make and have led to very small changes. My comment was as to whether any country had reached 40% of women on boards without quotas. It was solely that statistic that I was reporting on. At that point, only quotas have reached that.

Q89 The Chairman: Thank you. Does anyone else want to comment?

Dr Annette Lawson: You asked why, but it is a dreadful question to try to answer because it seems so self-evident. Partly, we have to talk about prejudice and a cultural shift that is seriously needed at the top of all kinds of institutions and right through the whole of society.

When we look at some of the evidence of why the Norwegian example worked, it was not just because they brought in a quota, although that was extremely important. They also did a whole lot of other things, such as getting the media on their side. I went online and watched Lord Davies talking here last Monday. He is clearly an incredibly charismatic leader who is passionate. I suspect that a good deal of the improvement that we have seen in Britain as a result recently is because of the voluntary approaches of the executive search work and so on, but it is also because of him. Great as that is, it is not sustainable to have one person with great charisma and lots of contacts who twists the arms of chairmen. We have to look for more.

Q90 The Chairman: I take your point on that. But if you looked at the whole witness session, he said—and he was very firm on this—that it was not a one-off. He did not just get his report: he is going to meetings, having conferences and addressing boards. He is doing a fantastic job, which is reaping rewards. He was very firm on this. It is not just a one-off person. He has set a group of people in train who do all this work. Am I wrong about that?

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Baroness Scott of Needham Market: No.

The Chairman: I do not want it to go down on the record that he is the only one doing anything.

Dr Annette Lawson: No, I did not mean that. I meant that he was a catalyst and that he is a charismatic leader who can get these things off the ground, but I do not know how sustainable that is over the longer term.

The Chairman: I suspect that it is pretty sustainable.

Dr Karen Jochelson: Perhaps I may add to that. I agree on some of the comments around Lord Davies and his being very charismatic, but I think that he has done some significant things as well in terms of setting specific targets for the FTSE 100. We would like to see similar targets for the FTSE 350 across the board.

We would also like to be thinking ahead to 2015 when we decide whether further targets are needed because there has been consistent progress over that time or whether the Government should consider whether they should be thinking through the quota option. As I understand it, Prime Minister Cameron has spoken about keeping that in reserve, but his focus is on ensuring that there is voluntary activity from the corporate sector.

The other issue that we feel is really important to drive change in the sector—it is part of winning hearts and minds—is the transparency of the change that is taking place. Although there has definitely been positive signs of more women taking on executive roles, as far as I am aware some of the reporting targets that were put in place have not been met quite as well. Possibly, things will change as the new corporate governance code comes into play and the Government's efforts to improve voluntary corporate reporting activities becomes more effective.

To go back to the issue around why it has been so difficult to bring in change, you are right: there has been change, but it has been slow. This issue was on the agenda in 2003 with the Higgs and Tyson reports, which also spoke about the need to improve diversity on boards. I still think that there is a lot to do about winning hearts and minds, which comes not only from charismatic individuals but also from the market. The signals that the market sends, through investors and shareholders and the corporate responsibility movement, are all parts of driving change in this area. There is a lot to do with changing perceptions and changing prejudice. There has been a lot of discussion about whether there are sufficient, competent women around. Clearly, Cranfield's research has shown that very many competent women are able to take on those kinds of roles. Our focus was looking at the barriers to accessing board appointments. We have published some research which we have submitted to the inquiry, which looks at the role of executive search firms. I know that you are going to ask a question on that later so I can hold off on explaining some of our findings, but they play a significant role, too.

Scarlet Harris: I would like to support what has already been said. The trade union movement has been supportive of some of the voluntary measures that have already been taken. For example, for a long time we have called for more transparency in the appointment and recruitment of non-executive directors, to have an open recruitment process and for those posts to be advertised with person specifications and job descriptions.

We have been very supportive of the work of Lord Davies, which we think has made some incremental changes and progress. However, as Professor Walby says, it seems that the only country which has managed to make swift and significant changes, rather than slow incremental changes, has been Norway, which has implemented quotas.

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I think the question as to why the change is so difficult to make is complex. It is about culture change. I should like to draw some comparisons, strange as it may seem, with the trade union movement. For a long time, trade unions have had some of the same accusations thrown at them as the corporate world in terms of being boys' clubs and being very white and male. The trade union movement has struggled with some of the same issues that perhaps are being grappled with here in terms of making culture change happen. We have some really good experience to draw on in terms of quotas, reserved seats and proportionality. It has not been an easy process, but some of those measures have been really effective in changing the face of trade union leadership and increasing gender diversity and equality.

Q91 Lord Clinton-Davis: I am a believer in quotas, but the Government have determined on a voluntary approach. How long do you think that should persist?

Scarlet Harris: As I have said, some of the voluntary measures are very welcome but we have seen that they have made slow progress. I think that we need to introduce a deadline and timetable for quotas by saying, for example, "In two years' time quotas will come in if sufficient progress has not been made". In a sense, I could not now give the exact timeframe that should be recommended—

Q92 Lord Clinton-Davis: Roughly, what would that be?

Scarlet Harris: Let us say two years. The threat of quotas being implemented itself may speed up the rate of change.

Professor Sylvia Walby: If we look at the precedents on this, in Norway, as Scarlet Harris has suggested, the legislation laid down that there would be a period for voluntary activity. Only if companies did not succeed in getting the 40% target through voluntary means would there be a legally binding quota. That was successful. There are 13 other countries which have been introducing legislation on the issue of the percentage of women and the gender proportion on corporate boards. They have all introduced this in stages allowing for a voluntary stage but writing into the legislation that there would be compulsion if the voluntary target was not met. Such a balanced legislation would meet the arguments for both sides. If it would be possible for voluntary means to achieve the targets, the voluntary means could function with the fall-back mechanism of implementing quotas only if these targets were not met. But if this was in the same piece of legislation, the threat would help drive change.

Q93 Lord Clinton-Davis: Do you agree that two years is appropriate?

Professor Sylvia Walby: I understand parliamentary legislative timescales might be a little slower than that, but we are talking of a period of two, three or four years. That is the usual timescale in these matters.

Q94 The Chairman: We have got our questions a bit mixed up. Can I ask whether work should be carried out at the EU level to improve the representation of women on boards? Is that something where the EU can and should play a role? If so, what should that role be? I really want snappy answers on that because we have got more meaty questions coming.

Dr Annette Lawson: The EU can definitely play a role, as I think we have seen with its road maps for equality. I am not saying that those were specific to boards, but the same kind of leadership can be shown from Europe that makes member states sit up and take notice. That would have to have some of the sanctions and some of the "what will happen if" kinds of

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arguments made in it. Of course, it would be very difficult to get agreement across the EU, but it would be really useful. As Sylvia Walby said, at the minute we are seeing a number of different efforts to find voluntary ways of dealing with the issue, whereas it might be better if we could see some kind of overarching goal that people were agreed on and which would come with a packet of measures and opportunities for meeting them.

The Chairman: I take it that all three of you agree with that, do you?

Professor Sylvia Walby: I would add that issues of equal treatment in the economy are already there within the EU legal remit, so it is appropriate for the EU to do it. But it is also appropriate for the UK to act independently.

The Chairman: I take your point. Lord Brooke?

Q95 Lord Brooke of Alverthorpe: I think that you have probably answered my question already. Will you say something about the research that you have done? We know quite a bit about what has been happening in Norway, but what has been happening elsewhere in Europe that may be of relevance to this inquiry that perhaps we might be directed towards? In turn, in the examples from elsewhere and if some good progress is being made, would it be beneficial for the UK to look at those? Is your published work coming into us?

The Chairman: Is it all published?

Professor Sylvia Walby: My report is published and is on my website. The report was done for the European Parliament and currently sits on the European Parliament website, from where there is a link to my website that I have communicated to the Committee. I am hoping that the full report will come to you. It is a 30-page report, which reviews the research evidence on voluntary mechanisms and quotas. It gives a review of all the ways in which people have described and researched the voluntary mechanisms as well as the quotas. For example, we have: at the level of individual firms, accounts of how mentoring systems work; at the level of industry, how attempts to get positive recognition for achievements is working; and an account of the various databases which have been established in order to provide information about relevantly qualified women. For example, Norway has more than one of those. The report provides an account of the repertoire of voluntary actions which have taken place, all of which are important but none of which, sadly, has led to as much or as rapid progress as most people would have wanted.

Q96 Lord Brooke of Alverthorpe: So Norway, even though it is not in Europe, has been the outstanding country.

Professor Sylvia Walby: Norway is the only country which has yet met its due date for the implementation of its legislation on quotas. Some other countries have also legislated for quotas but have not yet reached the date by which it comes into effect. So we do not yet know what will happen in the other countries. Norway is the only country to have yet met its .

Q97 The Chairman: Just to go back, could I ask the TUC and the EHRC for their views on EU action. Did you agree?

Scarlet Harris: Yes, I agree that EU action is useful. Interest in this issue that we have already seen coming from Europe has in itself renewed interest in this issue in the UK and has created the debate.

The Chairman: Does the EHRC agree?

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Dr Karen Jochelson: Yes, we would also agree. In addition to the issues mentioned by my colleagues, we also think that the EU has a role to play in monitoring, and reporting on company activity and showing best practice. The UK can evaluate its own progress against its European counterparts.

Q98 Lord Haskel: We have had a discussion about strategies that work and strategies that do not work. We have touched on the executive search code and the corporate governance code. The Government approach focuses on improvements through the executive search code and the corporate governance code. Do you think this approach has been more successful or less successful? Would it be right in other EU countries?

Dr Karen Jochelson: I shall briefly summarise some of the findings of our research. I am better qualified to talk about the role of the executive search firms than corporate governance. I think that the new requirements as regards the corporate governance code come into operation later this year. There is still some time to see what impact it has on companies and how investment firms begin to use their role as shareholders and push for change within those companies. For me that is still an open question.

We undertook some research late last year and earlier this year to look at the role of the executive search firms in recruitment, whether they were a barrier or an enabler and whether they had found the voluntary code useful. We interviewed 10 firms but those 10 firms control about 80% of the board appointment recruitment process, so I would imagine that they would give a good commentary on the state of the field. They were fairly positive about the impact of the code. They talked about the code almost giving them permission to approach the chairs and to talk to them about the fact that the issue of women on boards was now on the agenda. Many of them had approached boards that had no women at all in order to raise the issue with them. They felt the focus on successful planning meant that they could have conversations that looked at the skills that a company might need in three to five years hence rather than just that someone was going and that the company needed to find like for like. That is a more thoughtful process of looking at the composition of the board. They emphasised that there was now a shift from looking for people who were "like us", the current incumbents, or looking for previous board experience, to focus on skills and competence and having quite detailed discussions about what that might mean when they were drawing up the brief. That was something they felt would open up the field to better consideration of female candidates.

Many of the search firms spoke about their efforts to broaden the pool of candidates, which ranged from anything, such as developing longer term relationships with young women whom they thought were potential contenders a couple of years from now, to networking and nurturing current senior executives. One of the things that came across to us was that it is not necessarily that there is a shortage of women but that it is the way in which talent is defined, which is far too narrow. There are a whole range of other pools of senior, very capable women who work in other sectors and who bring a range of international or executive experience that would be a welcome addition to a board. They spoke about the need for transparent recruitment.

From their own end, some of the firms had developed long lists of women. The issue they raised was that it was very easy to draw up a long list: the issue was how many women got put on the short list. There was a suggestion that they should be monitoring the progress of women from the long list to the short list to eventual appointment, which would give a real sense of whether their efforts to change the recruitment process were being effective.

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Some of our interviewees felt that the code is too lenient. We think that there is room for reviewing the code and strengthening some of the definitions around the intrinsic characteristics that boards look for. We feel that it is not sufficiently transparent about monitoring the activities of the executive search firms and the impact of what they are doing and that we needed to continue monitoring that. At the moment, we are considering whether we should do further work on that, but it is still fairly early days on that account.

The Chairman: I just want to go to Baroness Scott because she has a question about public sector experience.

Q99 Baroness Scott of Needham Market: Yes. I come from a public sector background. My personal experience has been that the private sector tends to discount experience that has been gained in the public sector, such as among chief executives of local authorities and so on. I have found a sense that it is not valued or understood. I wondered whether I was just unlucky in that or whether it is a widespread issue.

Dr Karen Jochelson: Our interviewees mentioned that. They spoke about the fact that there are very capable people in the public sector and in the voluntary sector where you have people running very large charities, which effectively are small businesses. They thought that there was a need to look across those sectors as well.

Q100 Baroness Buscombe: I want to ask Dr Karen Jochelson whether she feels that these executive search firms were being genuine or whether they were just talking the talk. It is very easy to talk about it, is it not? It is very easy to say what should be happening. But were they giving you statistics in terms of their success rate—how many women they were getting on to boards—as individual firms?

Dr Karen Jochelson: Not from memory, but I would have to reread our research. What struck me from the report was that some of our interviewees were clearly self-critical and were looking at their performance relative to the code and feeling that the code could push them and some of their colleagues further. That seemed to suggest that more work could be done in that area.

Professor Sylvia Walby: To add to your report, which was an excellent piece of research, quite often the executive search firms blamed the chairman for the criteria which they were being asked for rather than blaming themselves.

Q101 Baroness Buscombe: It is an interesting dichotomy: when you talk to the executive search firm, it says that it is working for the company and not for the candidates. That is something of which we have to be aware. Perhaps there is an issue there in terms of the ability of the executive search firms to have a stronger influence with the chairmen of boards *et cetera* to encourage them to have a mind shift.

Dr Karen Jochelson: That issue certainly came across. We had one interviewee saying that she or he felt that their role was to help to back up the chairman when he faced a conservative board. Therefore, if it came down to a short list that included women, there may be a tendency, if a board was conservative, to go back to what they were used to. Sometimes it was useful for them to have an executive search firm to remind them about their objective.

Q102 Baroness Valentine: I perhaps should know the answer to this question, but does the executive search code strongly recommend a diverse short list? It seems absolutely critical in this that, when you have got down to the last three or whatever, there is not only

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a woman but someone who is not a white male on the short list? Is that recommended by the executive search code?

The Chairman: We have a copy of that, but it does not seem to be in it.

Baroness Valentine: That seems to me to be an absolutely critical issue in enforcing and confronting some of those things.

Professor Sylvia Walby: To add to that, there might be an issue of writing into this, as a code of practice, such diversity criteria. You are right that it does not yet exist in the sense of a binding commitment. On the other hand, it might be considered that not to treat these issues appropriately is already to fall foul of the equal treatment law, which treats indirect discrimination as illegal. There perhaps is an issue there which could be further looked at.

The Chairman: I do not want to create the impression that it does not mention diversity. It states: "When taking a specific brief, search firms should look at overall Board composition and, in the context of the Board's agreed aspirational goals on gender balance and diversity more broadly, explore with the Chairman if recruiting women directors is a priority on this occasion". But it is words.

Q103 Baroness Scott of Needham Market: I wonder whether, in any of the interviews that you did, there is an issue about the way in which interviews are conducted—namely, that you get the women there but the interviews are carried out in a particular way. My sense is that sometimes women answer these sorts of questions differently. Perhaps they take a more collegiate approach and sound a bit less dynamic, and it turns against them. I wondered whether that was an issue that came up.

Dr Karen Jochelson: It worked both ways. There was some commentary about potential candidates needing some training so that they were aware of the kind of questions that they would be asked, but I think that there was also training required on the other end. Some of the search firms talked about a fairly informal approach of a board when it considered applicants. Rather than holding to the brief and looking at people's competence and experience, it became quite a personal discussion, which effectively sounded like "Who do you know?" That would create the same kind of old boys' network.

Q104 Earl of Liverpool: Some people have argued that quotas are, in effect, patronising to women. I wonder whether you could perhaps say whether you agree or disagree with that.

Dr Annette Lawson: I profoundly disagree with that. I do not think that it is patronising to women. I know that a lot of the research argues that perhaps some 99%—I do not know exactly how many—of women do not want quotas, but I do not think that it is in the least patronising to take effective steps to address the current bias in favour of men. We have had exactly that. We have had an assumption that the right people for these kinds of jobs are male. The problem is that we do not have a level playing field. It is not cricket. A lot of women feel, as I have experienced myself, that somehow they are being treated as second-class citizens if someone else says, "At least 40% of this board"—or 25% in the case of the current targets—"should be female": but why? I think that it is rather a female thing; I wonder if men would feel like that if it was always the other way around and we had in place largely female boards. If someone said, "This is wrong. We need to change the system so that we tap the talent of all those brilliant men out there and create a more equal situation where we get different perspectives being drawn in to make seriously good decisions at the

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Prof. top", would anyone say that that was patronising? I do not believe so. I am totally opposed to that.

Perhaps I may give a small personal story. My background is academic and I was the only woman and non-professor asked to sit on the board to implement the cuts at my university. I knew that I was there as a token, as it did not have a woman or a non-professor. I went to the room for the first meeting and I was completely ignored. They handed out the chapters that were going to be written in this report—we had not had a single discussion about how to do the cuts—and they gave nothing to me. I said, "Excuse me, what chapter am I writing?" "Oh, we didn't think you'd want to be bothered". I said, "I certainly want to be bothered and the chapter I want to write is about how you have voluntary redundancy before we decide on compulsory redundancy". This was in order to get rid of the so-called "dead wood". I went off to see the accountants and we had a chapter which eventually became the policy of my university and was praised for having been the first to decide on how it was going to do it. I am not saying that to talk myself up; I am saying that that is a common experience. That might lead people to say, "That is because I am only a token woman and I do not like being patronised", but once you are there, you are there. In my belief, the talent of the women is such that they will make sure that people do not see them as tokens or feel that they should not be there. I think that that is the experience of women.

Q105 The Chairman: Does anyone have anything to add?

Dr Karen Jochelson: My feeling is that it is not the quota that is patronising; what is patronising is the fear that there are insufficient capable women out there to take on these posts or the views of companies when women want to change their pattern of work during the period when they may have young children. I think it is patronising to regard that as not being a fair player in the workplace. For me, there are a range of other attitudes towards women that are quite patronising that hold them back in their careers, rather than the issue of quotas.

Scarlet Harris: I agree. I do not think that it is patronising. As has already been said, we do not have a level playing field. It would be patronising if we were suggesting that there are not competent women and we need somehow to create a special advantage for incompetent women to gain access, but we are saying that there are lots of competent women who are being blocked from reaching these most senior levels in the corporate world. Something has to be done in order to level that playing field. I do not believe that that is patronising.

Q106 The Chairman: Lord Brooke wants to come in, but before that I am conscious that Professor Walby has not commented on this. Would you like to comment?

Professor Sylvia Walby: I do not think that it is patronising. It is a matter of public interest that we should have appropriate gender balance on bodies that are engaged in economic governance.

The Chairman: Lord Brooke, you wanted to ask a question.

Q107 Lord Brooke of Alverthorpe: Back in my union days, I spent a lot of time trying to get more equality and I came up against the allegation all the time that I was a patroniser. Consistently when surveys are done, women tend to share the view that they do not want quotas because it would be patronising. Has any research been done into the reasons why women produce these results, which in turn are then held against them?

Dr Karen Jochelson: I am not sure that I understood your question.

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The Chairman: It was a statement from his own experience.

Lord Brooke of Alverthorpe: Has any research been done on the survey work done on women and whether they want quotas and why they come up with the view that they do not want quotas? Has any deeper survey work been done on why they produce those results, which conflict entirely with what women are saying today?

Dr Karen Jochelson: I am personally not aware of it. The only information I am aware of is totting up answers to various consultations that have occurred in the past few years. I also have a research background and I would not call that representative of women's opinion. We have looked at the field.

Professor Sylvia Walby: I think the question is most often raised in anecdotal form rather than on the basis of solid, substantial research that this is what women think.

Lord Brooke of Alverthorpe: Lord Davies pointed to evidence on those lines—whether it was anecdotal or not. I thought that it was.

Q108 The Chairman: I thought that it was research too. Talking about Lord Davies, in his report he recommended 25% as an initial target for women on boards. The Commission has recommended 40%. What do you believe should be the aim at the EU and national level, and what does success look like? I want quick answers. Are we just juggling with figures, or do you think that it might be a good idea to try to get 25% quickly and thoroughly and then build on it from there, which would give much more confidence to the women out there that they have the right to be on the board?

Dr Annette Lawson: I think that that is a perfectly okay target on the way to something better. The danger is if we say that that becomes where we want to get to. Why? We are 51% of the population. Now, we are better educated than most men. We are getting much more experience because much higher proportions of women are employed. They may not always be full time but they are in employment in society as a whole. What is happening is this constant stepping down rather than stepping up as women get more senior posts. Given that we are 51% of the population, I cannot see any reason why the target should not be 50:50. But there is something to be said for the EU's, "Let us go to 40%". I would like it expressed as 40% at least of each of men and women. Then it would not matter if one was 60% and the other 40%.

Scarlet Harris: There is a strong argument for targets to be achievable, but for them to be meaningful they also have to stretch and challenge. The TUC and the European TUC responded to the EC consultation on this, calling for 40% to 60%—so, 50% with a 10% margin either way. The reason for this is that we are not telling you to do something that we are not telling ourselves. This was based on the European TUC's policy of promoting gender equality within our own ranks, which is what we are looking to. As has been said, we are 51% of the population, so why should we not be aiming for more?

The Chairman: For 60%?

Scarlet Harris: For 40% to 60%. That is not necessarily 60% women. It means 40% to 60% gender balance.

Dr Karen Jochelson: I think that we would also see 25% as a starting point and we would be looking to seek parity and a phased approach towards doing that.

I should like to add one other issue about what we would term success. We are focusing just on women appointed to boards. In effect, that is the aspirational end-point in many

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Professors women's careers, but we should be looking for parity all the way through people's career progression. We need to look at women in executive positions in senior management as well as at the graduate intake and how women progress. When you have parity across all those levels, we will know that we have success.

Professor Sylvia Walby: Like my colleagues, I think that 25% is a good stepping stone towards a target of 40%. I would not use the word "women"; I would use "minority gender".

The Chairman: Excuse me. We are not a minority gender.

Professor Sylvia Walby: The point of the 60% was simply to make sure that it did not go the other way. If we are going to write this into legislation in an appropriate way, that is simply the terminology and why the TUC ends up with the 60% figure. The academic literature behind it concerns the concept of critical mass. It points to the difficulty faced when you put only one or two women on to an otherwise all-male body and the difficulty that those women have, often but not always, in expressing their opinions in ways which get taken seriously. There is a question in the literature as to at what point you tip into a percentage where it becomes normal. The percentage is usually higher than 25%. Some people have said that it is 30%. This is work by Rosabeth Moss Kanter, who is a management expert at Harvard. The originating figure is based on her work. It certainly was higher than 25%, which is why people are reaching for 40%.

Q109 Baroness Valentine: I was going to ask a question along those lines. There is a point at which, allegedly, people are no longer regarded as a minority, which is typically around one-third, which seems to be a target for one point. So, if it is true that there is currently prejudice and if once you get to 32% there is no longer prejudice—I understand that that is a big "if"—there is a different point to a target of 50% or 51%, which is just proportionate to the people out there. Presumably, the first step therefore is to get over the cultural prejudice, which would suggest the logic that you are all saying is closer to 30% than 25%, if there is the number that you are talking about where the minority is no longer regarded as a minority.

Professor Sylvia Walby: The figure is certainly higher than 25%. Since the EU has produced a figure of 40%, I think that it is appropriate to go with that.

Baroness Valentine: And you regard that as the point where a minority is no longer regarded as a minority—40% rather than 30%?

Professor Sylvia Walby: Yes. I think that the research is not quite so conclusive that I would want to pin myself to either 30% or 40%, but I certainly would say that it is more than 25%.

The Chairman: Would you go for 35%?

Professor Sylvia Walby: I am a pragmatist.

Dr Annette Lawson: Can I come back on why that is important? We have not talked about the fact that people come and go on boards as they do everywhere else. The career pattern of women, if they want to have children, has to take account of gaps and changes in the need for flexible and part-time working and whatever way in which these problems can be solved. Those are the other measures I talked about right at the beginning. Therefore, you need to have strategies that will embed the proportions that you are trying to reach. Within the board, you need to allow for women to leave and to come back in the way that men do.

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Having a very low level is very difficult because what are you going to do when you lose just one or two on, say, a 10-man board?

Q110 Baroness Valentine: To which boards should measures to increase the representation of women apply? Should measures apply to both executive and non-executive positions?

Dr Karen Jochelson: We would like to see some of the targets applied across the board to all the FTSE 350 rather than the initial targets focusing on the FTSE 100. We would also like to see targets and reporting on the proportion of women at executive and senior management level.

Professor Sylvia Walby: While the focus of this Committee is on corporate boards, I wonder whether it might be appropriate to add economic and financial governance committees, given the current developments in the economy, and whether these targets might be applied more broadly to financial governance and to the committees which the Government set up in order to regulate finance and the economy. My first point would be to broaden it.

Secondly, I would make a distinction between the executive and the non-executive. The non-executive positions have a duty to consider the wider public duties, which provides a greater entitlement for the public to insist on a rapid achievement of 40% or so of women on these boards. The executive positions are more individual career positions. I think that one might have anticipated a slower progressing towards the targets there. I would make a slight difference here based on the extent to which one category—non-executive directors—bears more of this public duty.

Scarlet Harris: I would agree that these measures should be applied across the board. I would also say that more of the TUC's work has been around non-executive directors—that is, as I said, transparent recruitment processes and producing person specifications and job descriptions. It is important that these targets are also applied to executive boards but there are perhaps slightly different issues at play that need to be considered in terms of progression within companies.

Dr Annette Lawson: I agree with that. It goes right back to the beginning when I said, "Yes, we are in favour of quotas but there has to be another set of measures that are taken at the same time". That particularly applies to the question of executives and executive boards. That is where you might not have the pool of women that you want because they are not in the CEO positions or they are not in the senior management positions that would be considered capable of going straight into executive roles on the main board. In my opinion, that should not apply because there are many pools in many other kinds of organisations, like the public sector and the NGO world, where you could get all the talent that you could possibly want for better decision-making. After all, we are talking about better decision-making. That is where we want to get to.

I would love to see it across the board. As I said at the beginning, I think that this whole business of getting more women on boards has to be seen in the context of women's absence in many, many areas of decision-making. Someone made a point earlier about transparency in the recruitment process, proper training for the way that CVs are presented, the specification for the job and the ways that the interviews are conducted and so on. That is incredibly important. It is not only about the board. It is about seeing women rising in every sphere of decision-making and some of the same rules apply. We are seeing a big improvement among, for instance, the police. It is partly because a lot of training has

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gone into trying to change the way in which the police are recruiting and interviewing, not just for women but for diversity as a whole. Of course, if you have more women, you can have many different kinds of diversities represented too.

The Chairman: Thank you very much. Are there any other questions before I go to the final question?

Q111 Earl of Liverpool: I was thinking that I might come in after the final question but shall I ask my question now? This is not directly related to the previous question. I just want to ask Professor Walby if she could help me on something. I quickly read the report in which she participated for the European Parliament. I just skimmed through it quickly before this meeting. In the conclusion, it says, "The use of voluntary measures as an accompaniment to legal instruments is widely supported." I wondered whether you are one of those who agree with that.

Professor Sylvia Walby: Absolutely. The combination is the most effective way forward. Even if there were quotas, it would be most appropriate to have the full range of voluntary measures to assist the process of effectively putting the best qualified women on the boards.

Q112 Baroness Buscombe: I am going to ask the final question, which in large part has probably already been answered so perhaps I may add a little twist to it. A lot of attention is drawn to issues of "supply". Do you believe that 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?

Perhaps I may add to that. I was told something some time ago, which I have often thought about—namely, that there is an issue with the whole interview process. Let us take it as read that there is the supply. However, a few years ago a woman with great experience in this sphere told me that one of the key issues is that women fall at the last or the penultimate fence. Women are there in supply, which let us take as read means absolutely brilliant quality, experience and sagacity and they have a real contribution to make to whichever board they are applying. One of the problems is that when they are being asked questions about their commitment, they, for example, start to self-question. Where a man would say, "Absolutely, can do—no question", women sometimes just think, "Do you know what, am I good enough for this?" I think that that is something we should not lose sight of. Do you agree?

Dr Karen Jochelson: Absolutely. Quite a lot has been written about that particular issue. For me, that is eminently solvable through training, mentoring and networking. It is another skill you learn. Some of the recruiters to whom we spoke in our research mentioned that as an issue and were trying to develop programmes where they worked with prospective candidates, which seems to me to be a good way of solving that problem. It is a matter of self-presentation.

Professor Sylvia Walby: I think that there are three components of why we do not currently see so many women on corporate boards. There is human capital, discrimination and networks. The qualifications of the women currently coming on boards exceeds that of men coming on to boards. We know that women are extremely well qualified in terms of formal education. There is a question as to whether they are deemed to have as much experience on boards as men simply because they have not been on boards before.

The discrimination question has also been raised. One of the further questions on supply is that of networks. Women are less likely to be in the networks and to know the people who

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would lead to them being invited to apply for these jobs. That is where quotas come in. Quotas push people, recruiters, to actively seek people where they could easily have previously filled a position out of people they already know. Quotas address the question of the issue of the network problem. One of the voluntary mechanisms which has made an important contribution, both where there are quotas and where there are not, has been the building of the databases of qualified women. Norway has got at least three examples. The EU could contribute there as well. The building of the databases, which serves to ensure that there is information about the qualified women, is an appropriate additional mechanism to help deal with the problem of closed networks. In terms of basic qualifications, I do not think that women today, especially young women, have those problems.

The Chairman: On that positive note, I thank you all very much. It has been a very useful session and you will certainly contribute to our thought processes when we draw up the report. Thank you.

Examination of Witnesses

Liz Murrall, Director, Corporate Governance and Reporting, Investment Management Association; **Joanne Segars**, Chief Executive, National Association of Pension Funds; and **Otto Thoresen**, Director General, Association of British Insurers.

Q113 The Chairman: Good afternoon. I thank all three of you for coming. I just want to make a couple of opening statements. Members of the Committee should provide data on any relevant interests before they speak—although I do not think that they necessarily have any. The session is being webcast live and a transcript will be produced, which will be sent to witnesses and put on the website.

Perhaps our witnesses could introduce themselves briefly. If they want to make a short statement—of no more than two minutes, because we are under time pressure—that is fine, too.

Liz Murrall: I am Director of corporate governance and reporting at the Investment Management Association, which is the trade association that represents the UK fund management industry. Our members have £4.2 trillion of assets under management and basically have an interest in 40% of the UK market.

As major investors in companies, our members have an interest in boards and the diversity of boards. What I would say at the outset is that the most important thing for our members is that a board is effective: a board needs to be the best fit for a company, and a cross-section of ideas, skills and experience can bring an awful lot of benefit to a company to ensure its future growth and profitability. That can ensure challenge and less groupthink so that the board can embrace new ideas easily and deal more readily with the interests of a variety of stakeholders. There is also evidence that diversity has a positive impact on performance. However, I do not think that diversity is just a gender issue; diversity goes wider than gender, and other issues—such as having people from different countries and with different skill sets—are also important to the effective functioning of boards.

Joanne Segars: I am the Chief Executive of the National Association of Pension Funds. The NAPF is also a trade association, which represents workplace pension providers in the UK,

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including employers and trustees who provide occupational pensions or workplace pensions for their employees. The NAPF represents 1,200 pension schemes, which provide pensions for 15 million people, with assets of £900 billion under management.

Like the IMA, as major institutional investors we have a very significant interest in the effectiveness of boards and we believe that there are a number of benefits associated with board diversity. As Liz Murrall has mentioned, one of those is cutting through groupthink; another is that, we believe, the evidence is very compelling to show that more diverse boards are also better-performing boards. Better-performing boards are exactly what we are looking for to deliver better-performing companies and to deliver returns to pension funds and onwards to pension scheme members. We also agree that it is very important that that diversity does not come at the expense of skills and experience. We are also very clear that this is not a matter to be regulated. We also agree that it is important that the issue of diversity is not confined just to gender, as there are wider considerations to be taken into account.

Otto Thoresen: I am Director General at the Association of British Insurers. I could cover more or less the same ground that you have heard twice over, so I will choose not to do so in the interests of time. Clearly, I am here primarily as DG of the ABI, but I have been a CEO in the commercial sector for 30-odd years and have operated both under the unitary boards system in the UK and under the two-tier supervisory boards system in Europe. Some of that experience may be relevant to the discussion as we move on.

The Chairman: I am sure that it will. In view of your name, can I just ask whether you would happen to come from Norway?

Otto Thoresen: My father was Norwegian and my mother Scottish. Clearly, I know that in certain parts of this agenda—

The Chairman: Norway keeps coming up all the time, so I just thought that we might be able to kill two birds with one stone—I do not really mean kill—but obviously not. Your experience is not actually in running boards in Norway.

Otto Thoresen: I am afraid that I am a UK man through and through.

Q114 Lord Kakkar: We have heard that a more diverse board is a better-performing board, and there appears to be a consensus with regard to that. Does it make a substantial difference to investors looking at an investment opportunity that there is a diverse board present? If so, do they look purely at the performance in terms of better returns from investing in that particular company, or do they look at other aspects with regard to a diversity agenda?

Otto Thoresen: I will kick off and I will try to keep my answer brief. The way that we look at it is that we put a lot of emphasis on the effectiveness of the chairman in chairing the board, and part of the responsibility of the chairman is to ensure that the resource that he can call upon to provide that oversight to executive management is as broadly experienced as possible and operates in a way that, as has already been said, minimises the risk of groupthink. So there is a significant element to this that is about risk management.

The agenda on this has somewhat been dominated by the financial sector over recent years, for obvious reasons. I have to say that that has potentially not been entirely helpful because the other side of the issue is, if you like, how well our businesses can compete globally, their understanding of global market requirements and how well they can work across different cultures—a significant issue here is the culture of the business—and with their customers.

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Clearly, customers of firms are not all men of a certain age with a certain background. Around that whole agenda there is value in having diversity for an effective board.

Joanne Segars: I very much agree with that. Pension fund investors are looking for high-quality boards and, as Otto Thoresen has said, the role of the chair is absolutely critical in that. When we are looking at companies in which to invest, we want high-quality, high-performing boards, because we know that those are likely to deliver the better long-term returns and, as long-term investors, that is important to us. They will deliver the longer-term returns for pension scheme members.

Q115 Lord Kakkar: When you are looking at those investment opportunities and you have these discussions with the chairmen of boards, if there is not diversity on the board do you say to them, "Look, we do not think that this is appropriate. If we are going to invest in your business, we would like to see more diversity"?

Liz Murrall: I think that the main thing is whether or not a board is operating effectively. It may be that the best fit for a particular board, depending on the industry, may be an all-male board; in others, to match the customer base—say, for Marks & Spencer—it will make sense to have a more diverse board. What is important is that the board is effective.

Q116 Lord Kakkar: Would you support the concept of quotas, which is being suggested at the moment? If so, is the way in which the quota is reached important? Should there be a role for investors to demand that, or should the matter be left primarily on the basis that boards are constructed to deliver the best value for the company and for investors?

Liz Murrall: On the issue of quotas, I would say that the one good thing about them is that the Norwegian experience showed that they work, but I think that there are too many downsides to quotas. The important thing is that you develop people in the pipeline; you cannot go and just say, "We are going to have 40% of the football team from ethnic minorities" and then wonder why the performance fails. You need to develop people so that they can fulfil those roles. Quotas do not do that.

Quotas can also mean that the people who are appointed are treated as token appointees, which can make it difficult for them to be effective. They can also be a deterrent for females wanting to follow the executive route, from which the majority of non-executives are recruited, because they could just go into these non-executive director roles. In Norway, what happened was quite often that some very effective directors had to leave in order to fulfil the quota, and the women quickly became known as the "golden skirts". People also became "overboarded"—you would get a woman who would sit on seven or eight boards. That was not really an experience that we think should be repeated.

Joanne Segars: From our perspective, we share the view that quotas are not the right route to take. They are a very blunt instrument that, from our perspective, address only the symptoms of the problem rather than the cause. For us, it is about ensuring that there is a pipeline of female talent coming up through corporates and coming up through senior executive roles. I think that the Norwegian experience is very telling, in that we saw lots of women coming on as board directors but we have seen very little movement in Norway in terms of women fulfilling roles at corporate executive level, which I think is really very important. If we are to crack through this problem, ensuring that we can develop female talent coming through companies at higher levels—where actually, compared to some European countries, we are doing rather well—is going to be absolutely critical.

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Q117 The Chairman: Can I just ask for clarification on that? Do you have any evidence that shows that women are suffering at the executive director level? Is there evidence that women in Norway are not going there but straight to the non-executive positions on boards?

Joanne Segars: I have some figures, but I am not sure that I can quite find them now.

The Chairman: Do not worry about it now. They could be in the submission that you gave us.

Joanne Segars: The figure that I have is that women make up only 2% of CEOs in Norway and 10% of executive committee members. That is really rather low in comparison with the non-executives.

The Chairman: By comparison, they make up 30% or 40% of the non-execs.

Lord Brooke of Alverthorpe: What was the quota?

Joanne Segars: The quota was 40%.

Q118 Lord Brooke of Alverthorpe: Is this an issue of the quota being 40% or 30% or 35%, or is it due to other factors? You mentioned the downsides of having such quotas.

Joanne Segars: I do not have the information for that.

The Chairman: An interesting aside is that, if we are so insistent on getting women at the non-executive level on the corporate boards, we are not doing much for women if they are not being encouraged to come to that position by progressing through the management boards of companies.

Otto Thoresen: For me, that is exactly the challenge. One of the issues about progress in the UK towards the targets is about the supply-side issue, whereas there is an acceptance that this is something positive and beneficial to the effectiveness of the boards.

Q119 Lord Kakkar: Perhaps I may come back on this very important point. We have heard what I think is a consensus that these quotas may not be a good idea from the point of view of investors, who are looking primarily for boards that have the skill and capacity to deliver the effective governance of the company and the appropriate returns. Do investors have a role, though, in having this sort of conversation with the boards of companies to encourage diversity and to help them identify the routes by which they might achieve that?

Joanne Segars: Absolutely, and I think that those discussions are happening. As we made clear in our evidence to the Committee, we see an important role for institutional investors in starting to effect some of that change, but I think that all of us here agree that the targets that have been set by Lord Davies are very new and need time to bed in and bed down. Against those targets, we are making some very rapid progress.

Liz Murrall: You will have heard of the 30% Club, which is a group that brings together women and investors with the aim of ensuring that women make up 30% of the membership of boards in the UK. Last November, the 30% Club launched a separate investor sub-group, which contains 11 of the largest investors. We have 180 members who have £4.2 trillion of assets under management, and this sub-group has £1.3 trillion. They are very much involved in promoting this in their engagement policies and in their engagement with companies: they will ask companies what they are doing about diversity and, in particular, gender.

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Otto Thoresen: Perhaps I could add one thing that is helpful. We provide a voting information service to institutional investors, which leads to the famous blue, amber and red tops that come out of the ABI. Following on from that, as part of the analysis, we look at the reporting, at the evidence on succession planning and succession management in firms and at the progress that is being made towards creating diversity. Our early analysis for 2012 suggests that, whereas in 2011 only around 20% of FTSE 100 companies talked about what they were doing with the diversity agenda, in 2012 that number has gone up to nearly 80%. You could say that that is only a piece of reporting, but it is definitely a sign that more people are taking this seriously. That also gives us something to engage around as to whether that looks like legitimate action that will lead to improvement. That is quite a good sign of movement that is not visible in terms of the numbers as yet.

Q120 Baroness Valentine: On a point of clarity, you have emphasised that you are keen on effective boards and that is part of your logic against quotas, but I could take that as a logic against targets as well. Do you support Lord Davies's targets?

Liz Murrall: We support an approach involving voluntary targets. We have seen a lot of development: the fact that the proportion of female directors in FTSE 100 companies has gone up from 12.5% to 16.7% in a very short space of time shows that those voluntary targets are having an impact and are affecting the male domination of boards, which was an issue in the past.

Q121 Lord Clinton-Davis: Member states apply different policies in relation to quotas. Does that affect investment decisions in any way?

Liz Murrall: No. Only if those quotas meant that the boards were not particularly effective would that be an issue.

Joanne Segars: I would agree with that.

The Chairman: Does Otto Thoresen agree also?

Otto Thoresen: Yes.

Q122 Baroness Valentine: The report from Lord Davies says that investors play a "critical role" in engaging with company boards. How engaged are investors with diversity at present? How do you see that this role differs across the EU?

Otto Thoresen: The second part of that is more difficult to evidence in terms of EU-wide activity, because there are quite different shareholding and board structures across the EU. My experience from the UK is that, particularly in the financial sector because of the challenges around risk management in that sector over the past three to five years, there has been significant engagement around this. Now that we are beginning to get more evidence across the population of companies, as I mentioned earlier, I think that we will have the opportunity to draw out from those trends what good practice looks like, which will help our investment members to engage more specifically around the issues that they feel uncomfortable with. However, I think that the issue of diversity comes up very quickly in any discussion with a chairman of a board of a quoted company.

Q123 Baroness Valentine: Do you see yourselves as advocates of diversity?

Otto Thoresen: Yes, very much so, I think.

Baroness Valentine: Provided that the board is effective?

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Otto Thoresen: I think that it is always linked. When I find myself talking about the subject, I talk about why it is important and I talk about what kind of diversity we look for and the role of gender within that. That is the way that we consistently talk about it, but we talk about it with some enthusiasm. I would regard us as advocates.

Joanne Segars: I very much agree with that. When pension funds engage with companies, that is one of the regular questions that we put to boards in the UK. I think that the increased reporting that we get on this, not just within the UK but across the EU, will help us to build a fuller picture and will help us to ensure that we see continued improvement where those practices differ across Europe.

Liz Murrall: As I said, our members have £4.2 trillion of assets, but they have €420 billion in European companies. Obviously, engagement is not as easy when it is not on your native shores, but they will generally seek to engage and ask questions around these issues.

The Chairman: That is interesting.

Q124 Baroness Scott of Needham Market: I am very interested and encouraged to hear about what you have just described as your advocacy role. How long have you felt yourself to be an advocate? To what extent—if I may put it challengingly—is your engagement being driven by the fact that, if they do not sort themselves out, quotas will be imposed? How much of a driver is that for you? How do we keep up the momentum on this?

Otto Thoresen: Well, I think that is a fair challenge. Over the years, an awful lot of the engagement with investors and the boards of companies has been behind the scenes and privately. A catalyst to make that change has been the focus on executive remuneration, which has clearly brought an awful lot of that more into the public domain, but I think that it is correct to say that the practice of engagement around what an effective board looks like has developed—broadly over the past three to four years perhaps—with a greater degree of science, and I think that gender and diversity is part of that. The understanding that a large source of potential talent is not being called upon—not just not going on to the boards of companies, but not moving through middle management and senior management and on to the executive committees of companies—is causing people to think again. Mostly, that is driven more by market issues and the consumer. Who controls consumption? Who is your customer? What kind of thinking do you need to be able to be effective in engaging with those customers? That is what is shaping much of this agenda, too. In recent months and years, the focus has tended to be on financial businesses and risk, but I think that we will see that broaden out.

Q125 Lord Kakkar: Might there be a fear that quotas could have a detrimental effect in undermining the governance and value of companies?

Joanne Segars: Yes, that is an issue not just with diversity but with voting and other issues as well. We are concerned that we do not revert to a tick-box mentality, whether it is on gender or the requirement to vote or many other aspects of corporate governance, at the expense of the qualitative aspect, which is much more judgmental, if you like, or value driven. That is why the NAPF has been very wary of the move to quotas and that sort of tick-box approach to governance, which has not proved to work very well elsewhere.

Liz Murrall: The whole thing about corporate governance and an effective board is really about behaviours. You cannot really legislate for good behaviours.

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Q126 The Chairman: You said that quotas affect investment only where there was an impact on board effectiveness. Is their effectiveness affected by quotas? Are French and Norwegian companies worse investment candidates than, say, British companies?

Liz Murrall: We have not any evidence to that effect, but it would be a concern in that it could drive a board not to have the best fit necessarily for that company and the operation of that board.

Q127 Lord Brooke of Alverthorpe: Is there evidence that such quotas are working detrimentally?

Liz Murrall: I do not have that evidence.

The Chairman: In Norway, for example, are quotas working detrimentally?

Otto Thoresen: It might be a stretch to suggest that this is evidence, but there is certainly hearsay that suggests that the pool of talent being used—the “golden skirts” described earlier by Liz Murrall, who would perhaps find it easier than me to use such an expression—is being put under some pressure. To be a non-executive director is not a small undertaking; it is a massive commitment and, certainly in the regulated industries, is becoming even more so.

Lord Brooke of Alverthorpe: For years, we have had men who were on scores of boards.

The Chairman: But not any longer. I was about to make the same point. At one stage, the marvellous Professor Smith was on, I think, 36 boards. There was also the chap who was on the board of Lonrho, who was on something like 28 boards.

Lord Brooke of Alverthorpe: And those boards were seen as being very effective by the pensions industry.

Q128 The Chairman: To be fair, I think that things have changed over the past 30 years and the institutional investors now have some teeth—all the better for overall performance—whereas they were previously much more laid back. I knew that Lord Brooke was going to come up with that statement, but it is no longer true.

Can you sufficiently compare the efforts made to increase diversity in companies based in different member states at present? Should there be EU-wide monitoring or reporting activities to facilitate robust comparisons? In other words, do you actually look at French, German and Swedish groups?

Joanne Segars: From our perspective, we perceive that across Europe reporting is getting better. Clearly, different countries have different approaches, and all those approaches are really quite new. In France, Italy and Belgium, for example, the quota laws are really very new, so we are really waiting to see how all this beds in. Hopefully, we will be able to make some comparisons with those data.

Otto Thoresen: It will be quite difficult, though. When you have such a difference in the structure of shareholdings and a difference in the corporate governance model that applies, it is very difficult to try to untangle what is cause, what is effect and what things are proving to be positive for outcomes for shareholders, employees and customers. Certainly from my experience, what makes the UK quite different is the unitary board structure combined with the diversity of share ownership—the fact that there are many institutional shareholders with relatively small shareholdings. The approach that you take must take that into account.

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While it is inevitable that there will be tracking—and so there should be—we need to be careful about what conclusions we draw from the evidence that is thrown up.

Joanne Segars: For that reason, we would be very wary of a one-size-fits-all approach.

The Chairman: Subsidiarity, in other words.

Liz Murrall: I think that it is very difficult to compare the position across Europe. If you look at reporting requirements, you have international accounting standards that set the requirements for the back of the accounts but national standards cover all the narrative reporting. As part of its drive to improve the narrative reports, the UK Government consulted on requiring listed companies to disclose the proportion of female directors and females in the workforce, and we are awaiting the outcome of that. There is not a uniform approach across Europe on those issues.

It is worth highlighting that in March this year the European Round Table of Industrialists launched two initiatives. First, it got three of the main search companies in the EU to list their nominated female candidates for board appointments so that people could look at those lists. Secondly, it has undertaken to publish tables every year whereby those companies that have signed up will publish their total female headcount in the workforce, the number of women in leading positions and what their targets are. Each year, those tables will be updated and they will be public information. I think that 32 companies have signed up to that, including Siemens, Total, Telefónica, BASF and Philips.

Q129 The Chairman: That is very interesting. Would you recommend that for every country in Europe?

Liz Murrall: That is a Europe-wide initiative, which I think is very much welcome.

The Chairman: Should there be an EU approach to reporting everything like that? Should it be mandatory? We do not want more regulation from the EU, but it seems like best practice.

Liz Murrall: Best practice is finding its own solution.

Q130 Lord Kakkar: In terms of making investment decisions, would it matter if we did not have a way of making these EU-wide comparisons?

Otto Thoresen: If the question is about how an institutional investor makes a decision about investing in share X or share Y, where share X is UK based and share Y is France based, the approach that the investor will take to evaluating the investment case will of course include a multitude of different dimensions but there will definitely be a piece about the approach to governance, how effective the board structure looks and how committed the non-executives are to providing that oversight in the right way. Having that oversight in place is a critical part of a business's success and, as we have already discussed, this dimension is a critical part of that working well. Anything that helps investors to make that decision against some sort of benchmark that they have in their head about what good looks like will contribute to the decision. However, as I said earlier and as has been reflected by other panel members, other factors in that corporate governance discussion are also important, so one statistic on its own does not give you enough of an answer—there is not enough richness in that.

Q131 The Chairman: May I just ask an additional question? In your experience, do boards ever say, "Well, 74% of the purchasing decisions about our products are made by women. What is the perception out there among our consumers or customers about

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whether we are female oriented or whether we regard women as sentient human beings with brains?" Does that ever come into their thought processes?

Otto Thoresen: Absolutely it does, but it varies by sector. Some of the analysis that I saw in preparation for today showed quite a different mix in terms of penetration of females at board level within the retail sector, especially when you move into fashion and related sectors. Where your business strategy has a strong retailing component and your ability to position your organisation effectively in the market is critical to success, this is already part of the conversation. In organisations where historically results have been driven more by financial performance and financial performance is more about your ability to manage a balance sheet or to manage margin, perhaps that has been less so. However, I think that that is changing, because the piece that is also being focused on now is the culture of the firm—that is particularly topical, given some of the discussions that are going on currently—and culture is something that is many-faceted and is controlled by so many elements of the way that a business is run. The tone of the board's engagement is very much a part of that. So that is becoming far more a part of the discussion, whether from the customer perspective or the cultural perspective, than would have been the case a decade ago.

The Chairman: That is very interesting.

Q132 Earl Liverpool: You may have answered this slightly already when you said that there is not a consistent approach across Europe. Given that there is not a consistent approach across Europe, how else but through EU legislation can we ensure that there is Europe-wide engagement with the diversity agenda?

Liz Murrall: The voluntary, market-led approach has worked in the UK. A number of EU member states have equivalent corporate governance codes, and I think that is something that we would prefer to see given time to take effect. All this is very new. If it does not work, perhaps in three to five years we could revisit the situation.

Joanne Segars: I very much agree with that. I think that we are seeing uptake of these issues across Europe. I have already talked about a number of countries that have introduced quotas. Other countries, such as Sweden, have a more "comply or explain" type regime similar to ours. I think that we are seeing this work its way across Europe. I very much agree with Liz Murrall that we need to let the rules that are there within member states, which have been designed around the corporate governance structures and the other corporate laws within those member states, bed down and start to have some effect before we consider such a regulatory approach.

Otto Thoresen: I think that we are all saying the same thing. Given the way that our markets operate, it is better to have the statement of intent and the clarity at European level of what is required and what we are trying to get to but then allow the individual countries, given their background history and structures, to move in the way that they see as most effective.

Q133 Baroness Scott of Needham Market: I am just curious about the reservations that have been expressed about what has happened in Norway. If similar quotas were rolled out to other countries in Europe, is there a danger that, five years down the road, we will be saying, "All this stuff about getting women on boards has been a dreadful and dismal failure", and that will just be a reason to ignore it? That is perhaps the other side of the danger of waiting five years. I do not know, but I just want to put that point to you.

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Otto Thoresen: Perhaps I could answer that from a UK perspective, because I do not feel qualified—despite my parentage—to comment very much more on the non-UK aspects of this. I have no fears of the approach that we are currently taking in the UK; I see it as massively positive. I think that it is positive at many levels, not just because the diversity issue around the board table is being given far more emphasis with some very specific areas being focused on with a view to trying to improve the mix but because the issue is also beginning to trickle down into a far clearer approach within firms on how they can bring through more of their female talent. That is now beginning to move into a broader diversity discussion around talent. For me, that is wholly positive and I see no real risk in that. If you were to apply a quotas approach, I would start to become concerned about the loss of talent that already sits around board tables and the artificiality that would be constructed around that.

Joanne Segars: I think that that is absolutely right. What we really need to focus on is how we bring up talent through the ranks, whether that is female talent rather than aspects of diversity that we have not really talked about and where the political debate has not focused either. For me, it is about how we increase the potential pool of boardroom talent through the executive directors route and to focus much more on how we build a broader diversity approach to boardroom composition.

Liz Murrall: I do not have much else to add, other than to say that member states are at differing levels in terms of the number of women in the pipeline. Scandinavian companies are much more receptive, given the planning and flexibility that they offer. I think that it would be very difficult to impose a one-size-fits-all approach.

Q134 Lord Brooke of Alverthorpe: Coming back to the Davies approach, what difference will the changes to corporate governance codes made by Lord Davies, particularly on “narrative reporting”, make to the role of institutional investors? Would you support these systems being in place throughout the EU?

Liz Murrall: The FRC has put the recommendations that Lord Davies made into the code, although they will not be effective until financial years beginning on or after October this year, so we have not yet seen what impact that will have. There are already requirements in the Code for companies to explain their nominations process and to consider gender diversity as part of the search. However, Lord Davies's recommendations have not yet been made effective.

The Chairman: But they definitely will be.

Liz Murrall: Yes.

Otto Thoresen: As I said earlier, I think that we are beginning to see signs of businesses responding even though the full weight of the law is not there yet. We have not yet had a chance to study the quality of these responses. The quality of these explanations is everything. It is one thing to put in a boiler-plate statement, but that is not really taking you very far.

Joanne Segars: I absolutely agree with that. I think that those will give us some basis on which, as institutional investors, we can really start engagement with companies going forward.

The Chairman: That is all very encouraging. This is really the voluntary approach working effectively—at least we hope.

Otto Thoresen: As I say—this is probably where we need to push things on a bit—in addition to tracking women's progress at non-executive level on boards, we also need to

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begin to see what is happening within firms with the supply side, if you like, so that they create an environment where people can prosper and break through to be the talent that will move on to boards in the future.

Q135 Baroness Scott of Needham Market: This question follows on, really. In terms of sticks and carrots, the National Association of Pension Funds raises the possibility of voting against the re-election of the chairman of the nominations committee if it looks as though gender diversity is not being taken seriously. I am curious to hear how widespread support for that sort of approach is. Should that kind of approach be formalised in any way, at either national or EU level?

Joanne Segars: Certainly, that is one of the features of our own corporate governance guidelines and corporate governance policies. Of course it is always open to institutional investors to vote against particular policies with which they are not content—we have seen that over the course of the “shareholder spring”, I suppose. As institutional investors, we hope that we will not get to that because we will have had good and meaningful engagement with companies and, as a result of what they have heard from institutional investors—whether they are pension funds, insurance companies or asset managers—will have responded to what they are hearing from their owners or shareholders. However, it is always open to institutional investors to vote against the reappointment of the nominations committee or chair or what have you. For us, that is the ultimate sanction—I suppose the other ultimate sanction is to disinvest from that company—but we would hope that we would not get to that. As long-term investors, we want to be long-term holders of assets and see long-term improvements in corporate performance, which is what will deliver good returns to pension funds and pension fund members.

Liz Murrall: Very often, the whole nominations process in companies is not necessarily as transparent to investors as some would like. Following changes to the corporate governance code, in 80% of boards in the FTSE 350 all directors stand for re-election every year so shareholders have much more say on who is on the board. As regards voting against the chair of the nominations committee, I would say that if the nominations committee has failed to put in place a board that was the best fit for the company, it would be appropriate to vote in that way.

Otto Thoresen: The discussion has been quite positive and upbeat up to this point. I sense that the way that this begins to make a difference is by providing us with better information on how things are developing and where the trends are to allow us to have an engagement with the board and with the nominations committee chair around why they are thinking the way that they are thinking and why they are perhaps not making as much progress as one would like. I think that there is quite a bit of time between now and when you will start to see significant numbers of nominations committee chairs being voted out on an issue like this because, to be honest, there is so much in the context of this and there is so much to making the right decision for the good of the board in terms of the skills available now as well as the business of the future. But I think that the basis of engagement with the board will become much richer as this process moves forward. For me, that is the most important first step.

Q136 Baroness Valentine: Talking about boards that are fit for purpose—you were talking about some of the different sectors—if you took a typically very male sector such as the transport sector, surely 50% of the customers in that sector will be female. If there is no female on the board, do you automatically think, “Maybe there is a problem here”, or are we talking about a different set of skills such as knowing how to make trains or something?

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Joanne Segars: Again, I suspect that that might vary from company to company. It is really about the quality of the board. I am sure that there are many excellent women engineers—again, that is one of the things that the country needs more of—but it is about the quality of the board.

Q137 Baroness Valentine: I am trying to differentiate between the right words to say and the reality, but it seems to me that there is quite a big question about certain types of transport companies, where more or less 50% of the customers will be female. You would have thought that, where there is an all-male board, there should be quite a big question about whether the mix is right.

Otto Thoresen: Earlier we were talking about the financial sector and we talked about risk, and risk tends to be characterised in terms of business failure or failure to meet customers' expectations in terms of promises. In the transport sector, risk might mean the accident record and the health and safety of employees, so it is not too difficult to get to a place where you can begin to see that that diversity agenda absolutely fits with the firm. That will differ from sector to sector, and the balance of what makes a well-run board will be slightly different for each of those sectors, but I think that there will be very few sectors where there will not be a very strong argument that diversity is right. Whether the number of non-executives on the board who do not fit the classic male stereotypes should be 10% or 20% or 5% is where the discussion comes in, because of the skills balance that you are trying to create within the firm.

Joanne Segars: Yes, we need to think about diversity across the piece, not just in terms of male/female.

The Chairman: Also, we are falling into the trap of looking for the board members to have the attributes that everybody accepts are more female than male. One really good way on to the board of a corporate is to have a first-class finance person, and women are pretty good at finance. We also have women engineers. We have women personnel people. Where you have these huge organisations with more than 100,000 employees and nobody on the board with any personnel experience, that is an issue. And then there is the transference of skills and knowledge across boards. You can put someone like a finance director—I know this—on to the board of an airline and suddenly this finance director becomes an expert in safety because you are conscious of safety reports and passenger complaints. We should not think of women on the boards as bringing a special woman's perspective; they are bringing skills. I think that we should not fall into that trap. That is just an observation.

Joanne Segars: I absolutely agree with you. There is a view that we will end up with women on the boards of sort of female-type companies.

Q138 The Chairman: When I was mentioning about women being responsible for 74% of purchasing decisions, I was actually thinking of male products such as motor cars. Even when there was a huge business case component in motor car sales, it was often a woman who made the final decision—the wives said, "I don't want a blue car; I want a red one." That is taking it to the ridiculous, but the reality is that the women do have this huge effect. They use things in their brains that are not necessarily female, because they are specific about what is going on. I just do not want us to fall into that trap.

Anyway, the last question now falls to me. Is there any role for an accreditation system to demonstrate easily whether a company is taking diversity seriously, along the lines of Investors in People? If so, should that be at an EU or national level?

Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women's Organisations (NAWO), National Association of Pension Funds (NAPF), Trades Union Congress (TUC), Prof

Liz Murrall: I suppose in a way that the initiative that I referred to—the European Round Table of Industrialists—is developing its own market-led solution.

Joanne Segars: I think that we would be very cautious of an Investors in People-style approach at this stage. I think that a market-led solution such as Liz Murrall mentioned will be one way to go. Of course, the FRC has started to produce some good meaningful data, on which we can really have those valuable engagements with companies.

Otto Thoresen: Certainly the first step for me would be the quality of the explanations, the clarity of intent and the clear adoption of the purpose behind this, which is a more effective board and a more successful business.

Q139 Lord Brooke of Alverthorpe: Going back to the Davies report and the initiatives that he has taken, we are now seeing—to use your phrase—very rapid progress and it looks as if the target set for 2015, certainly for the FTSE 100 companies, may be met. If in fact the target of 15% is being met and then we hear from other evidence that there is a fear that this may not be sustainable because it is done on a voluntary basis, would you raise objections to putting the target, which will have been hit, into legislation as a quota?

Otto Thoresen: From our point of view, the arguments that we have been making for the past 45 minutes would still hold. I think that it will be fantastic if we make that progress, but I suspect that it will be progress in some segments and not all. It is not necessarily the case that the progress will be easily sustained because the supply pipeline is still—

Q140 Lord Brooke of Alverthorpe: If that is the issue, is that not a case for quotas?

Otto Thoresen: I disagree. I think that makes a case for focusing far more of our attention on what is being done to improve and increase the supply side, which is what gives you sustainability. Action is already being taken in the best firms on this stuff and more of it needs to be done.

Lord Brooke of Alverthorpe: But Lord Davies tells us that the supply is phenomenal.

Joanne Segars: If that is the case, that is an excellent thing, but I very much agree with Otto Thoresen that this is about how we build sustainability. We have a very good pool of women at the moment who are on boards. I am encouraged by the data coming from the 30% Club that shows that 60% of board appointments are not from the “usual suspects” of board appointees, so we are broadening out and getting a more diverse cross-section of women on boards, which I think is excellent. We have to focus on how we build that supply chain of talent coming through. For me, that is absolutely critical.

The Chairman: Liz Murrall will have the last word.

Liz Murrall: We need diversity in boards, but we also need diversity among boards. It should not be that one size fits all.

The Chairman: I am sure that the Committee will agree that this has been a wonderful session. Thank you very much. You have been very helpful and you have certainly clarified many of the points that were outstanding in our minds. As I said, you will receive a transcript of today's session, but if you also think—I usually end up by saying this—that there was a question or questions that we should have asked but did not ask, please ask us to answer them or write to us with supplementary evidence. Every bit of information that we have—we are not going to print it all, of course—will help us. Thank you very much indeed.

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). 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) want to enhance interest of girls to take up professions not typical for women, while the “Boys Day” (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

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

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

Brook Graham—Written evidence

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

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Evidence Session No. 3.

Heard in Public.

Questions 141 - 196

MONDAY 9 JULY 2012

Members present

Baroness O’Cathain (Chairman)
Lord Brooke of Alverthorpe
Baroness Buscombe
Lord Clinton-Davis
Lord Fearn
Lord Haskel
Lord Kakkar
Earl of Liverpool
Baroness Scott of Needham Market
Baroness Valentine
Lord Wilson of Tillyorn

Examination of Witnesses

Neil Carberry, Director for Employment and Skills, Confederation of British Industry; **Sir Michael Rake**, Chair, BT Group plc; and **Simon Walker**, Director General, Institute of Directors.

Q141 The Chairman: Gentlemen, thank you very much for giving up your time to come to this meeting. We think that this is an important inquiry. It is based on the EU directive dealing with quotas for women on boards. Before we begin our questioning, I want to let you know that Members of the Committee with relevant interests will declare them. The session is on the record and is being webcast live. Subsequently it will be accessible via the parliamentary website. Witnesses will receive a transcript of the session to check and correct, and this will be put on the public record in printed form and on the parliamentary website. The session is also being televised for the parliamentary channel. Can I ask the witnesses to begin by stating for the record their names and official titles?

Simon Walker: I am Simon Walker and I am the Director General of the Institute of Directors.

Sir Michael Rake: I am Sir Michael Rake, Chairman of BT.

Neil Carberry: I am Neil Carberry, Director of Employment and Skills at the CBI.

Q142 The Chairman: Thank you very much. Does anyone want to make an opening statement, or shall we go straight to the first question? If there is a strong business case for

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

increased gender diversity on boards, why is the current proportion of women on boards so low?

Simon Walker: Shall I start off? We believe at the IoD that there is a strong business case for greater female participation on boards. We do not think it is as simplistic as a straightforward correlation between more women and better company performance, even though a number of studies have purported to show that. We would argue, I think, that the mere fact of adding women to boards will not necessarily result in an automatic improvement in performance, because the impact of female board members will depend crucially on the personal qualities of the individual director and the needs of the companies they join.

The more persuasive case for women on boards is more subtle. Gender diversity, along with other forms of diversity such as age or professional background, has the potential to provide an antidote to the groupthink mentality that can easily pervade boardrooms. There is no guarantee that a female director will necessarily provide a more independent perspective, but it seems to be the case that the typical relatively homogeneous boardroom consisting primarily of older men from a former CEO or CFO background can often struggle to generate a sufficiently critical perspective on a company's activities overall and can become remote from the concerns of wider society, with negative implications for the company's reputation.

Although some significant progress has been made over the past few years, we think that the reason for the current proportion of women on boards being low is partly a result of the low level of women progressing through the executive pipeline. That is a complex and long-term problem, and we think it will take longer to increase diversity among executive directors as compared with non-executive directors. But it also reflects the fact that, until recently, companies were less aware of the more subtle benefits of gender and other forms of diversity.

We should also note that part of the argument for more women on boards is not directly commercial. It is a reflection of society's expectation of greater sexual equality in decision-making, whether in companies, governments or other organisations, and we would argue that the corporate sector needs to respond to those expectations if it is to be seen as a good citizen and a legitimate actor in modern society.

Q143 The Chairman: Thank you. Can I pick up on something you said, Mr Walker? In your very first sentence, you said that you believe that there is a strong business case here, but then you led us to believe that there actually is not a business case. How would you define what a business case is? Most of us would consider that the business case is that the company would generate more profits, that it would have a better reputation in the City, that women would be more disposed to think positively about it and that, if there was gender diversity on the board, the women who worked in the business would think to themselves, "If they can do it, I can do it". To me it seems that you have said, "Yes, fine, there is a business case", but I would like to know what that business case is. Indeed, I think we all would.

Simon Walker: I think it relates to the absence of groupthink and the need for boards to reflect different perspectives. Often women will help in that, but appointing a woman might not by itself necessarily make a difference. It is diversity of thought that we think is most important.

Q144 The Chairman: Thank you. Sir Michael.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Sir Michael Rake: On the first question, as Simon said, I am absolutely convinced that diversity, and not just of gender, is a business issue. The reasons why we do not have enough females at board level are many and complicated. You need role models. We need to see more development of females within companies and professional partnerships so that they are given the opportunity to deal with the practicalities and to take the time necessary to develop the skills they must have. No public company board can take any person on just because of their gender, not least because that would be insulting to qualified people. So a number of issues arise in this.

I think I take a slightly different line on the question of board effectiveness. We should not think it is just about diversity. It is about how a board is chaired, not having too many people on it and the quality of information and support provided. It is about creating an environment where there is challenge. My personal experience with having diverse boards with females on them is that they can add a lot, but a chairman has to be very careful to ensure that they are different in the sense that women think—I am sure it is not that men do not think—more carefully before speaking. You get a different intuition as to what is happening. It can be seen clearly when executives come to present. It is always interesting to get different views from different people around the table on how they feel about a presentation and how and genuine it is. In many different respects you can benefit from that.

On your question around why there are so few, as I have said, a number are bringing people through. Obviously there are some practical issues at various stages whereby women have to choose in terms of family and career. Frankly, there are some situations where men are willing to step into the role of doing more at home to allow their wives to develop careers. That makes it easier. Certainly most of the major professional partnerships are now putting a lot of effort into providing more practical help by allowing for career breaks and ensuring that the working week is more flexible. All these things can help.

We at BT have been trying hard with some of our very senior and up-and-coming female executives so that an environment is created for them where they can join boards and start to get experience. But, to be honest, in today's world you have to make sure that they are going to boards that, it is hoped, are not going to get into too much trouble too quickly—which means by definition that they are not going into any financial services institutions because that just takes too much time. Trying to find the right balance between some of the very talented females we have in BT, for example, turns on balancing a demanding career with the responsibilities of family life. When starting to participate on a board, you have to be careful to choose the right one.

I think that the headhunters—I believe that the Committee is going to see them—do not fish in a sufficiently deep gene pool; there is absolutely no doubt about that. My personal experience in trying to up the number of females we have on the BT and easyJet boards has historically been more about people one knows or knows of rather than people necessarily coming through from the headhunters, although I think they are beginning to understand that the chairmen of companies who get the business case for the improved performance of the board through elements like intuition know that they should not phone you up and ask, “Who do you know?” but “Who do you know who is not at that level?” Those are all issues around the need to make this a practical proposition.

In all seriousness, there are blockages for people who for career reasons perhaps have moved out of professional partnerships or professional firms. It is necessary in financial institutions because the blockages of FSA interviews throw up practical difficulties, and not just for female candidates but for male candidates as well. However, that is beginning to change. Historically, there have been quite a lot of practical blockages in the way.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Q145 The Chairman: Thank you very much. Mr Carberry.

Neil Carberry: Broadly I am in agreement with much of what Sir Michael has said. We see the business case for improving diversity in the boardroom as resting on four critical points. One is accessing the full extent of the available talent pool from which to draw the best executives in, of course, a meritocratic selection process. Another is that the organisational behaviour literature is pretty clear on the benefits of diverse groups in decision-making. Nowhere in a business is effective decision-making more important than in the boardroom, both in terms of challenge to the executive team and in terms of innovation. That leads to the promotion of a good governance agenda, which I think we would all agree on. Thirdly, it helps to reflect the world outside the boardroom. Certainly if you are in a consumer-facing business it is relatively clear from the data that 70% of consumer spending in the global economy is done by women, and therefore there is a case to reflect your customer base. Finally—this has already been mentioned—organisational culture is shaped from the top. You would expect organisations with more diverse boards to have better diversity outcomes trickling down through them, supporting and embedding the pipeline to the top that we have already talked about.

In terms of why we have not moved fast, it is probably true to say that selection for the boardroom has lagged behind other areas of the labour market since the great increase in women's labour market participation of the past few decades. Critical issues there are challenging some of the preconceptions about how people work as they move up through the organisation. There are questions of flexible working, questions of support and preparation for the board and, picking up on what Sir Michael has said, the importance of thinking broadly in terms of the talent pool that headhunters are fishing in.

Finally, it is important to acknowledge that over the past decade there has been a shrinking of boards from the executive side. In 1999, there were around 645 executive directors in the FTSE 100, but there are now 323; non-execs have gone the other way. Perhaps some of the flattening out we have seen over the past decade has something to do with that.

The Chairman: That is a very interesting point. All of this has been very effective in setting the scene, but we have a lot of questions to go through. Could you make your responses just a little shorter? However, thank you for all you have said. I turn now to my colleagues.

Q146 Lord Clinton-Davis: I go back a long way with Simon because we were associated with each other some 40 years ago. Simon, I think that you are taking a very fundamentalist attitude to this. You spoke of there being no automaticity and no guarantees so far as women on boards are concerned, but will you acknowledge that there is the possibility of improvement if they are on boards?

Simon Walker: Yes, I would acknowledge that strong possibility. The widest possible gene pool ought to be considered.

Q147 Lord Kakkar: I should like to ask a question of Sir Michael. Have you found in your experience that investors in large public companies demand greater diversity on the board, and in particular more women members of boards?

Sir Michael Rake: Historically, I would say very little, but currently, yes, some are increasingly beginning to do that. Indeed, this morning I had a meeting with the governance for a major shareholder who was very interested in talking about the approach to diversity and gender, what we were doing in BT and what could be done more broadly within the company. It is beginning to come.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Q148 Lord Haskel: Everybody has spoken about the importance of developing the talent pool. In science, job sharing has been a way to do this. Do you think there is a future for job sharing on boards?

Sir Michael Rake: I shall try to be brief. We have to remember that one of the issues with boards is that there is collective liability and responsibility, and therefore you have to be sure that everyone who comes on to the board is capable of discharging that function. The board must work as something that is constructive but challenging, so I think it would be quite difficult at the board level. When you have the right kind of people on a board, you know that you are not often going to get every person at every meeting, but having substitutes is something that, to be honest, is quite difficult to work in practice.

The Chairman: We have come to the second question. Baroness Buscombe.

Q149 Baroness Buscombe: Should the gender diversity of boards be an issue for the EU? If there is a strong business case for increased gender diversity on boards in the UK, does it follow that there is also a strong business case for increased gender diversity on boards across the EU?

Simon Walker: We would certainly agree that it is an important issue for all EU member states. I think we would oppose strongly the view that it is for the EU institutions to regulate across borders on this. We feel that different EU member states have different governance systems. The UK practises very much through codes of practice and asking companies to behave in a particular way, and that has been a successful approach. Other countries use a much more regulatory-driven approach that would put a one-size-fits-all view on companies across the EU that does not respect local business needs or political environments, and we think that that would be wrong. We think that this is a matter for the UK Government and not for the European Union.

Neil Carberry: I think we broadly agree with that. While it is within the context of the EU's powers to regulate on this issue, any analysis of the different societal and cultural factors that govern how boards are structured across member states suggests that it would fail a test of the principle of subsidiarity.

Sir Michael Rake: I wholly agree. We have to acknowledge that the cultures in certain European countries are very different. There are different forms of boards, as well as the common feature of supervisory boards with much more engagement with workers' councils within them. They approach some of these issues in very different ways. As time evolves it will become clearer and clearer that the various points that my colleagues have made are what you have to do in order to be effective in business.

The Chairman: Does the Committee have any comments to make? Lord Clinton-Davis.

Q150 Lord Clinton-Davis: Is it your case that a voluntary approach can achieve the same or similar results as quotas? The European Commission has set a limit or a target of 40% of women on boards. Do you think that the United Kingdom could seek to achieve that either by a voluntary or by a quota-based approach? Lastly, how long do you think all this will take?

Simon Walker: A great deal of progress has been made over the past 18 months. I believe that 44% of all appointments since March 2012 in the FTSE 100 have been women, and the FTSE 250 has seen a similar level of appointment. So Britain is actually doing well and I believe it can reach the target. Diageo is an example of a company that has achieved it. So, yes, I believe it can be achieved. I am not sure that I can pick a precise date, but the progress

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

that has been made so far is more rapid than we had expected, which we welcome. I believe that it could be achieved in this country in a relatively short period—within the next few years.

Sir Michael Rake: To be honest, rather unfashionably I am quite pro-European, but I do not think that this kind of thing at the European level is going to motivate businesses. What will do so is Lord Mervyn Davies's encouragement of the 30% Club and getting leading chairmen together to exchange views and begin to get some impetus behind this. Perhaps a few companies can set an example by making a big effort at the chairman level and then demonstrate that by doing so you get some very good people you have not seen before on your board. That is what will work.

You have to keep your eyes and ears open for the right candidates, since chairmen in particular play a key role in the public company world. You also have to push for it. Certainly we have not had to do anything particularly difficult to get to 30% at BT and we have definitely benefited from that. We have to be careful, as boards have become smaller, to improve contribution and challenge, because big boards tend to have less and small boards tend to have more simply because there are fewer places. Although it will take a bit of time, I do not think that in principle it will be difficult to get to 40%. I think that going higher is going to be quite difficult, but 30% should be achievable, in my personal view within the next three to five years—and particularly among the big companies which could be quite attractive to females who would like to get involved in interesting areas.

Neil Carberry: The evidence certainly suggests that the voluntary approach is working. Admittedly we have moved from very slow progress to a decent walking pace. If it is maintained over the period to 2015, we will be moving in the right direction. It certainly could be argued that the voluntary approach has the potential to perform rather better in terms of sustainable, long-term solutions than a quotas-based approach. That is because, first, it is owned by business leaders directly. You do not get the kind of satisficing that is often associated with meeting a legal challenge. This is an opportunity to link directly with the business plan of the organisation. Secondly, it allows you to focus more on the pipeline, which we think is the long-term answer to producing sustainable diversity in both the executive and the non-executive fields. Certainly the experience in Norway, where quotas were enforced, is that while there is a great deal of diversity in the non-executive corps, there is not so much on the executive side. There has been a trend towards delisting in some cases and there is evidence that we are getting some unlooked-for consequences from a legalistic approach.

Q151 Lord Clinton-Davis: Simon, I find it rather difficult to reconcile your opening remarks with those you have just made. Can I ask Sir Michael a question? What is the current position regarding women on the board? Have the numbers visibly increased over the past few years?

Sir Michael Rake: I think that my colleague Simon will have more statistics to hand, but what is absolutely clear over the four and a half years that I have been the chairman of a public company is that there has been an increase in awareness and the need to look wider and deeper to find the kind of people who can make a difference and create the diversity of opinion we have talked about. I could not tell you what the statistics are, but when we look at the demographics, all the studies show clearly that we had too few females in management and on boards, notwithstanding the family and career break issues that can arise for women and the personal choices they may want to make. We are lucky in this country when compared with some countries I have worked with in continental Europe. Generally in the UK there has been more encouragement of business careers for women than is the case in

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

some countries in continental Europe. We should be in a better position in this country to benefit from that.

The Chairman: Lady Buscombe, I believe that you want to ask a supplementary question.

Q152 Baroness Buscombe: First, do you all accept that this is an improvement, which I think most of us recognise? How much is that down to the pressure that has been placed on boards to change mindsets? It may be pressure from the CBI, the IoD and others. I also have a question particularly for Sir Michael Rake. You now have 30% on the board at BT, which is terrific. How have you found them? Was it through headhunters who are bringing forward great women, was it on a “Who do you know?” basis, or was it a mixture of both? How are you finding that pool of women?

Sir Michael Rake: The last one I brought in was an American. We wanted somebody from the west coast who could bring in some technological expertise and knows what is going on in Silicon Valley. Karen Richardson is excellent. She was found by headhunters, actually, which we were delighted about. She has already made a tremendous contribution.

Jasmine Whitbread is someone whom I knew in the business community when she ran the Save the Children Fund. Initially, her candidacy did not get much favour, so I put her on the corporate social responsibility sub-committee where she got exposure to BT, and then six months later we brought her straight on to the board. Again, she has been terrifically successful. The other woman we have is Patricia Hewitt, who is obviously well known generally and was probably more in the cadre of people who bring with them certain issues that are familiar to headhunters.

Q153 Lord Kakkar: Do you believe that quotas would command respect when so much progress is being made through a voluntary approach? Is there a possibility that quotas could cause resentment and push the whole process back?

Sir Michael Rake: Yes, I personally think that we prefer to deal with principles and the business case. Trying to create rules would have a really negative impact. It would be unfortunate if people were seen to be on a board because they had to have someone. I do not think that that creates the right balance of the collegiate. Notwithstanding the need to challenge, you also need to have mutual respect among board members or there will be difficulties. Personally, I do not think that they would help at all.

Simon Walker: We would share that view, if I can come in on this. If there were a legislative obligation to reach a certain level, it would undermine the status of women who are on boards at the moment.

Neil Carberry: I support what Simon has just said. Certainly when we did our major work in this area in 2010, the comprehensive feedback from the women who were on FTSE 100 boards at the time was that they felt that a quota would undermine their standing.

Q154 Lord Wilson of Tillyorn: Can I try to pin down a point with Neil Carberry and then Sir Michael? You have all referred to diversity several times. Is the key point about diversity that you are considering female membership of boards or are you also considering other forms of diversity? In other words, where do you put women on boards in terms of desirable diversity?

Neil Carberry: From our perspective, we have seen this in some of the debate about executive reward over the last six months. What we should be interested in in the business community is good governance by boards, effective representation on behalf of shareholders and scrutiny of executive management. To that extent, a broad range of experience and

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good-quality challenge is important, and diversity helps with that. I think that gender is an important first strand, but it is part of a broader deepening of the types of challenge that the board brings to the company it is engaged with.

Sir Michael Rake: I feel quite strongly that diversity is a much more important issue than gender. It is about age, educational background, professional experience and, particularly in our country today, ethnic origin. All these things are very important. To an extent, some of the issues today because of governance requirements and the scandals that have occurred leading to a focus on financial probity mean that perhaps there has been too much preponderance on the need to have financially oriented people. I think that we could do with more scientists, engineers and people of different ages and backgrounds. Our educational system is going to become very split in some respects, so it is important to have people from different educational backgrounds both in terms of secondary school and university education. All of this is important and can make a real difference.

Simon Walker: We would see it only as the most obvious manifestation, but it is also about the other forms of diversity, particularly the diversity of thought and approach that I referred to earlier in response to the point made by Lord Clinton-Davis. I hope I have not seemed to be overqualifying on automaticity because it is our opposition to that which has made us worry about some of the solutions that have been proposed. We think that genuine diversity of approach is terribly important. That is why we particularly welcome, for example, Jasmine Whitbread's appointment and why we feel that scientists and a sprinkling of different varieties is good. The safe option of always going for a former chief executive or a former finance director seems to us to be counterproductive as well as discriminatory, not just because it discriminates against women, but because it will not produce the diversity of thought that is required.

Q155 Lord Haskel: I wonder if we could turn our attention to the single market and the directive from the European Union. Do you think that a more targeted approach at the EU level, a sort of carrot-and-stick approach, would work, even though there are different systems and cultures in member states? If a member state is not making enough progress, could we take action so that those who can demonstrate that they have made a successful change would be exempt from a compulsory process, and those making suitable progress would be given a pat on the back?

Simon Walker: I think we would support Neil Carberry's reference to subsidiarity as a critical principle. While we respect the right of governments such as those of France, Norway and Spain to take a particular position, we consider it a matter for member states individually to come up with policy. It is not something which should be imposed from the centre.

Sir Michael Rake: I think it should be left to the individual country. As we all know without naming them, some countries have a different attitude culturally to the involvement of females in general. You have to let those countries work out the way they should go. Personally, I do not think that this should be a Brussels-inspired initiative.

Neil Carberry: There is quite a well established protocol in employment through National Reform Programmes for the European Union. It says that an issue is important and asks member states to report on how they are dealing with it. That is a perfectly legitimate thing for the Commission to want to do, but I agree very strongly in terms of actions, particularly legislative actions. Those are best left to national parliaments which have an understanding of the social and cultural factors.

The Chairman: Yes, I am sure. Thank you for that. Lord Liverpool.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Q156 The Earl of Liverpool: First, a voluntary search code for headhunters was introduced into the UK last year. Have you noticed any positive effects as a result of this? Secondly, could a similar approach be applied at the EU level?

Simon Walker: We certainly feel it has been helpful, but the Davies report has been particularly so by acting as a catalyst for some of the noise that has been sounded consistently and for activities by groups like the 30% Club. We see that as being the key influence. Headhunters are aware of the issue, but perhaps are not thinking out of the box enough. I think that we are not convinced of the benefits of such a code at the EU level. The diversity of approach by different countries makes us wonder if it would be practical, but it is not something we feel violently about.

The Chairman: Are there any comments from colleagues on that? Lady Valentine.

Q157 Baroness Valentine: Do you believe that the threat of legislative quotas at the EU or UK level has helped to achieve change, and do you believe that the Government, as they have claimed, really would introduce quotas as a last resort?

Neil Carberry: In the face of a business community that was taking no action, the Government would feel eventually that they should seek to galvanise the debate in some form, whether by legislative quota or another system. That is clearly not the case in the business community. To a certain extent the debate facilitated by Lord Davies and his subsequent report helped to galvanise a growing sense in the business community, independent of the Government, that something needed to be done. It put some power behind the arm of a movement that was developing anyway. Without that, at some stage a Government would feel the need to take action.

Sir Michael Rake: I would hope that, given the progress which clearly is being made and the greater awareness among an increasing number of chairmen and headhunters—and from a practical point of view the priorities on the legislative front—this should not be coming up the list at this stage.

Q158 The Chairman: Can I interject at this stage? While you were answering the last question, I thought about Lord Davies’s report. We have heard really compelling evidence from Lord Davies, who was our first witness. What struck me about it was something that I was not truly aware of, which is that this is an ongoing issue. Lord Davies was asked by the Government to produce a report, but he is continuing with the work. Should companies that are looking for greater gender diversity on their boards take a leaf out of his book and follow through on what he is doing? I am sure that he will come up with the right answers and approach.

Sir Michael Rake: Lord Davies is someone who has great energy and is widely liked and respected, so what he says has great weight. Keeping this area in discussion is important.

Q159 Baroness Valentine: Can I just clarify whether the threat of quotas has had any impact? Is that threat a good or a bad thing?

Simon Walker: To be candid, I think it has speeded things up and focused attention among businesses on the issue. I think that the threat of regulatory interventions in what ought to be a voluntary area is something that politicians should use sparingly, so I would not encourage it as standard practice. But on this occasion it has speeded things up and has done no harm.

Sir Michael Rake: One cannot speak for everyone since there will be individual reactions, but I suspect that the initial reaction would be the well known one of, “Oh no, not again. It’s

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

the Government trying to tell us how to run a business. When is that going to stop?” That might be then be followed up with, “It’s a good idea so we might as well get on with it in case they do decide to do something.” That is a very British, pragmatic approach to life and it probably does not hurt.

The Chairman: And a slightly cynical as well as a pragmatic one.

Q160 Baroness Buscombe: That brings me on to this question. Do you have any ideas about what more could be done to deflect the threat of a quota?

Simon Walker: I would say that working on the pipeline and getting more female and more diverse employees board-ready is what business ought to be focusing on in a sustained way. At the Institute of Directors we do quite a lot of director development work, some of which is aimed particularly at women, and we would like to expand that. I should say that others are doing this as well, and it is something that companies ought to focus on. What makes it difficult for women to advance as employees ought also to be a proper focus.

Sir Michael Rake: I really think that is right because an area in which we have seen a lot of increase is that of the mentoring by senior business leaders of emerging females at various levels. That is extremely positive. The other practical element I want to mention briefly is that where a chairman, a board or a headhunter is concerned about experience levels or whatever, big companies can and should do more around induction and training. In other words, you can bring someone who may not have a classic business background on by having them visit locations and taking the time and trouble to brief them so that they understand the strategies, the theory and even the science and technology of the company. A lot can be done. I know that this is much more difficult for medium-sized companies, but big companies can do a lot to bring someone on. We have seen people quickly become very good contributors, certainly in BT, which is a complicated and highly regulated company.

Q161 The Chairman: I was going to point to my personal experience, which were the induction courses I took at the FTSE 100s. I went on four or five of them. It was absolutely normal, and I am talking about over 20 years ago. The big and successful companies have done this because they were conscious of the need for it before the threat of statute ever got into the ether. But it does need pushing and it needs an example, such as the work Lord Davies is doing to get more people to buy into it. However, is there a point at which, if the momentum wanes so that not enough companies make the effort to meet the 40% target, would the benefits of quotas would outweigh the risks?

Simon Walker: I think that the risks of imposing quotas are very substantial because people will point to women on boards and say, “We know why she got there.” That would also apply to candidates with other forms of diversity as well.

Neil Carberry: I want to make just one point. One of the big issues is the point at which, going through the pipeline, people fall off the board train. It appears to be when, at a certain stage in their career, they move towards senior management and we ask them to make trade-offs between their caring responsibilities and work. What is a challenge for all of us to deliver on is the job sharing and so forth that helps people through that stage and allows them to continue on the track towards the boardroom. If we fail to go on making progress, that is likely to be because we are not addressing it effectively, and the threat of quotas would not add any benefit in terms of how we tackle the problem.

The Chairman: Yes, but the threat of quotas would be different from the actual enforcement of them. Surely that would do something.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Neil Carberry: I do not see how the enforcement of a quota would help support an up-and-coming executive through the stage of their career where they are looking to balance work and caring responsibilities.

The Chairman: I was thinking not necessarily of an individual but about a company's standing in the economy.

Neil Carberry: I think you would end up driving towards the KPI¹ of appointing more female non-executives, which is exactly what has happened in Norway.

The Chairman: Yes, I see. Lord Haskel, do you want to say something?

Q162 Lord Haskel: When we are talking about what more can be done, do you think that emphasising women on boards through the combined code or making it a feature of good corporate governance would help? Can anything be done in that way?

Sir Michael Rake: I am reflecting on that because I was on the board of the Financial Reporting Council for four years until the end of December last year. If I am not wrong, I think that the chairperson, Baroness Hogg, is looking at how this form of encouragement can be built in to the combined code because of the business and governance benefits of doing so. I am pretty sure that that project has been looked at, and I think that the FRC has been asked to consider it.

The Chairman: We will follow that up.

Sir Michael Rake: I think it has, but I cannot remember exactly what was happening.

Simon Walker: My understanding is that it was likely that the requirement for the disclosure of diversity policy would be introduced later this year and that openness to and awareness of the policy seems to be a good thing. I would also say that press attention on the eight companies in the FTSE 100 that have no women directors at the moment is a good thing and will have an impact.

Q163 Lord Fearn: Sir Michael, you said in the course of one answer that you thought there would be an education split. How would that influence a board?

Sir Michael Rake: I was thinking more in the context of diversity. There is a difference, because of our system of education, between those from private schools and those who have been brought up within a different social and material background and have come through what is a very different educational system. I have noticed that ensuring that your people do not all come from one particular type of school is quite healthy because it creates greater diversity of thought and understanding of what is going on. People have different perceptions, whether from a consumer, political or whatever point of view. It is important to recognise that having people from different social and educational backgrounds is helpful.

Q164 Lord Fearn: Is that happening at the moment?

Sir Michael Rake: I think that it is. Certainly, business has had to become very meritocratic. When I ran KPMG, if you had 120 UCCA² points and a first-class honours degree from Oxford, once you came through the door that benefit lasted for about three minutes. It was what you did once you were with the firm that mattered. Most businesses have had to become extremely meritocratic. You also need to develop people to do teamwork and think

¹ Key Performance Indicators.

² Universities Central Council on Admissions, the precursor body to UCAS.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

about diversity and challenge. Those are the areas where diversity helps, particularly when people come in from outside to the board.

The Chairman: All right. Lord Fearn, it is your turn to ask the next question.

Q165 Lord Fearn: Do female candidates require more support or preparation in order to be ready for board appointments? If so, is the preparation based on boardroom culture or candidate characteristics? How can the issue of supply be tackled? Is there a role for the EU in this area?

Sir Michael Rake: In response to the last point, no. I have already covered the fact that induction training and mentoring are very important. The only thing I would add is the increasing awareness in enlightened companies that giving up-and-coming young female executives public company experience—hopefully in a company that is not going to have too many difficulties of the type I have already mentioned—is good for their development. There is a business case for doing that because a broader view of other businesses equips them for more senior roles and for eventually joining the board, perhaps at the executive level. That kind of thing is a help for both males for males and females, by the way, but focusing on the female side is the point I wanted to add.

Simon Walker: I would say that there is a case for additional support for candidates from non-traditional backgrounds generally, including women who may come from non-traditional backgrounds. The Institute of Directors, in partnership with the Government and other stakeholders, could have a role in supplying that kind of training, and I think that we would be keen to do so. The EU may have a role in encouraging and possibly even financing such support, but I certainly do not think it has any regulatory function.

Neil Carberry: My arguments are very much in line with those of the previous speakers. We need to acknowledge that we are dealing with a heterogeneous group of individuals comprising both males and females. In approaching that, rather like the headhunters' code, we need to get beyond what people have done in their previous jobs towards the skills we are looking for on the board. That means identifying those in individuals. If we then have to backfill for any candidate on aspects of company law or financial reporting, by all means that can be done, because it is the mindset and the ability to challenge that we should be looking for. That has a degree of flow-through from what is being asked for by the code for headhunters, and companies should follow up on that in the induction programmes that they deliver.

Q166 Baroness Buscombe: I am slightly disturbed by the question because I wonder if it suggests that female candidates per se are somehow inferior in the first place. I can think of men with whom I have sat on boards who could certainly have done with rather a lot of help because they were helpless, or rather hopeless. So there is that point that could be made. I am also intrigued by the issue that is clearly in your minds with regard to bringing on women at what we might call the middle-management stage—the younger executives who are finding it just too difficult to juggle homecare and a professional life. Do you think there is an opportunity here to consider some sort of solution that would help break down this barrier, one that has existed since time immemorial, perhaps in the form of tax breaks for professional childcare, for example?

Simon Walker: There are measures that could be addressed. We have not looked specifically at tax breaks for childcare, and I know that regulatory complications with regard to childminding have made it an awful lot more expensive in many parts of the United Kingdom. You actually have to be quite well-off to pay for childcare. Addressing that issue

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

would make a real difference to many people, most of whom happen to be women. I would welcome that area being looked at.

Q167 The Chairman: This has been most interesting. Perhaps I may ask a more basic question, which is not on the list. Many years ago, there used to be a cadre of women, either senior managers or on the boards of large organisations, who were encouraged to go around sixth forms and talk about getting women back into industry. They would say that industry, particularly manufacturing, is not a dirty word. They encouraged people through, for example, Women Into Science and Engineering, a group started by Baroness Platt, which was successful. Given the focus on getting women on boards and all that has been said today, are we forgetting to get women and, indeed, girls to go for toy trains rather than Barbie dolls and think in terms of making a contribution in their lives to the very important business of wealth creation—they would not understand wealth creation, but even so—and to think beyond, “Mummy does this and Daddy does that”? Why do we not do something about that? I have spoken to lots of people in the education world and they are very encouraging, but they think that the current curriculum blocks out anything like that. This is an opportunity to ask the opinion of three people who obviously know about this so, just for my own personal satisfaction, am I wrong or am I wrong?

Simon Walker: I think you are absolutely right. Nothing is more important than persuading young people that there is nothing more exciting than setting up a new business or going into a business and making it better. We should offer the best possible range of women to influence girls in that capacity. I know a number of women engineers who have had some success in this area, and the results have been reflected quite rapidly by girls taking maths and science at senior school.

Sir Michael Rake: I completely agree. On Baroness Buscombe’s earlier point, this is not just about females, because a lot can be done through businesspeople engaging with schools to explain not only that there are opportunities for females in business, but that for men engineering can be just as valuable as law, accounting, finance and other things. There is a lot to be done more broadly in the areas where our economy is unbalanced. Females should be encouraged into the workforce, while males and females should be encouraged to take up things like engineering as opposed to other areas.

Neil Carberry: It is certainly true that we do not do enough for young men and young women to help them understand what their potential in the workplace is, whether as the starters of new businesses or as scientists and technologists working their way up through some of our leading businesses. Addressing the long-standing issue of poor careers advice in the UK is exceptionally important because, if you look across the piece, it is probably true to say that at the moment girls get less of a good deal out of careers advice than boys.

The Chairman: I am sure that that is right. Lord Liverpool, you have asked to put the last question. You have two minutes.

Q168 The Earl of Liverpool: Perhaps I may say how grateful we are to you all for coming. I want to recap on a statement made by Mr Walker. You said that, since March, 44% of all the appointments made in the FTSE 100 companies have been women. Is that right or did I mishear you? If that is the case, is it not an extremely encouraging situation which represents a major step change when compared with previous periods?

Simon Walker: Yes, but in fairness that is only the last four months. Even so, it is a positive sign.

The Chairman: What is the quantum, Mr Walker? Is it 10 or is it 100?

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Simon Walker: I am sorry, but I do not know.

The Chairman: Can you get the figure for us?

Simon Walker: Yes, of course I will. The figure I know is the figure for the FTSE 100. It shows that 17% of all board directors are now women, which is up from 12.5% at the time of Lord Davies's report 18 months ago. Progress is being made, but is it fast enough? No, but it is definitely there. I think that some 91 more board seats are required to reach Lord Davies's target of 25%, which seems reasonably achievable within a two-year period.

The Chairman: I want to thank all three of you very much indeed. You have expanded my knowledge and that of everyone else on the Committee. It has been a great session. Thank you for your time and for your contributions.

Examination of Witnesses

Lesley Brook, Director, Brook Graham; **Will Dawkins**, Head of Board Services, Spencer Stuart; **Kate Grussing**, Founder and Managing Director, Sapphire Partners; and **Michael Reyner**, Partner, MWM Consulting.

Q169 The Chairman: Thank you very much for coming. We are looking forward to your evidence to the Committee. You know what we are all about—I think that some of you were sitting at the back during the last session, which I am sure you found as interesting as I did. However, you probably did not hear me say that Members of the Committee will declare any relevant interests. The session is on record and is being webcast live and will be subsequently accessible via the parliamentary website. The witnesses will receive a transcript to check and correct, which will be put on the public record in printed form and on the parliamentary website. For the record, I ask the witnesses to state their names and official titles.

Lesley Brook: I am Lesley Brook and I am a Founder and Director of Brook Graham, which is a diversity and inclusion consultancy firm.

Michael Reyner: Good afternoon. I am Michael Reyner, and I am a partner at MWM Consulting, which is a top-level headhunting firm.

Kate Grussing: I am Kate Grussing, the founding and managing director of Sapphire Partners, which is a specialist search boutique promoting diversity.

Will Dawkins: I am Will Dawkins. I am a member of the European board practice at Spencer Stuart, the executive search firm, and I am head of UK board practice.

Q170 The Chairman: Thank you all very much. I will ask the first question. Would quotas for gender diversity on boards make the job of finding the right candidates for a post more difficult, or would they result in less effective candidates being chosen?

Michael Reyner: Just as context for those who do not know MWM, we are a firm that focuses on board-level appointments—both non-executive and executive—and senior executive roles, mostly for UK-based firms but also internationally. Our focus is on FTSE 100-type organisations, here and abroad. For many years, we have been very focused on the issue of diversity in the boardroom. We have placed 15% of the women who are currently on FTSE 100 boards and 20% of the women on FTSE 50 boards. We were one of the firms

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

involved in the drafting of the headhunters code in response to recommendation 8 of the Davies report.

On the question of quotas, our focus and the focus of our clients is primarily on producing the most effective boards possible. In that context, diversity is one of the objectives and one of the ways in which boards can be made most effective, but it is obviously not the overriding objective for boards. Boards are trying to put together the right mix of skills, experience and personalities to enable them to add effective value and stewardship to the businesses that they represent. The fear that we would have with quotas is that, if they are set at the wrong level with too short a timeframe, they will lead to a search for gender diversity as the objective function or overriding objective, which could, if done too bluntly, lead to appointments being made for the wrong reasons and lead to less effective boards. We can talk more about the Davies recommendations, but we felt that those were set at the right level to ensure that people focused on gender diversity, with much greater intensity than they had done before, but not so that that forced them to compromise the effectiveness of the boards that they are trying to create.

The Chairman: That is a very interesting point.

Will Dawkins: I would agree with all that, but I would just like to add some remarks on the international dimension. If you look at the countries that have applied quotas, such as Norway, France and Spain—Norway has been running them now for seven years—you can see that quotas have certainly helped to drive up the numbers. There is no doubt about that. Therefore, those countries without them might worry whether they have a competitive disadvantage. However, if you look at countries that do not apply quotas, such as the UK—although we have very much led the way, of course—and Germany, Sweden and Poland, you have a pretty similar rise in the level of female representation on boards. In addition, in the quota countries, there are one or two practical difficulties and unintended consequences, which I think we should worry about if we were ever to consider applying quotas here—although I know that we are not going to consider that. For example, although Norway met its 40% ceiling quite quickly, it did that in part by depleting the pipeline of executive women who are suitable to take up non-executive roles, with the result that a generation of women retired from executive life earlier than they would otherwise have done. The result is that there is now a shortage in that generation such that headhunters in Norway are now trying to headhunt female non-executive directors back into executive life, which is creating a bit of a headache. One can be intellectually dead against quotas, but if you look at them on the ground they can present difficulties for boards. We are all bound by one objective here, which is to raise the levels of female representation on boards but also to raise quality at the same time. I think that needs to be done with a certain amount of sensitivity to local market conditions.

The Chairman: That is a useful point.

Kate Grussing: I would add that, as we heard from the earlier speakers and as the Committee heard from Lord Davies in his testimony, supply is not the problem. Cranfield has estimated that there are approximately 2,500 women who are board-ready, and I am sure that all our firms are aware of hundreds of women who could be added to that. I think that I am probably as well equipped to judge that as anyone in the field, given that I have been at this for over seven years meeting board-ready women and not just the women who are already there.

I also think that we perhaps overstate a little bit the challenges that quotas would pose. For example, Norway is a country that is roughly the size of Cornwall, if that was a country. The UK has a far greater critical mass of very talented women. Certainly the UK recruits board

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members regardless of passport. If you look at the proportion of board members in the UK who are non-British, it is fabulously high thanks to having the benefit of English as a common language. I think that Viviane Reding said that she may not like quotas *per se*, but she likes the result. There has been a lot of research on the issue so, although a high proportion of women seem to be opposed to quotas, I think that there is very little valid research that can be pointed to on that subject.

Lesley Brook: Connecting with and building on that, I would say that our input today is very much one of practitioners who are very busy with this issue of building the female pipeline inside companies—that is what I spend a lot of my working time doing. My view around quotas is very much informed by what senior women tell me and what women coming up the pipeline tell me is their attitude to quotas. I have to say that my honest experience is that I do not think that I have met a woman who favours quotas. Targets are a different thing, and I think that targets have a very important role to play in that regard. I very strongly support the work that Lord Davies has put into his review, which I think is having a tremendous impact. Quotas just have the risk that was mentioned in the previous session, and certainly the women who talk to me and with whom I work closely are very concerned about the implications of quotas for all the reasons that I am sure we all understand. That would be my big concern.

I absolutely agree with Kate Grussing's point, which completely aligns with our experience, that this is not a supply-side issue. There are plenty of talented women in corporate life and there are plenty of women who have come from non-traditional backgrounds—it is not just about 'corporate women'. One of the great things about the debate that is happening now is that the light is beginning to be shone also on women who have non-traditional corporate careers but who have tremendous value to add. It is interesting to see that some of the most recent appointments that have been made in the FTSE 100 have been of women with quite non-traditional careers. That is a very positive sign.

Q171 Baroness Scott of Needham Market: The business case for more diverse boards has been made for some time, yet progress is relatively recent. Is there a sudden dawning on people that this is a good thing, or is it a response to the targets that have been set out by Lord Davies, or is it the threat of quotas?

Michael Reyner: The first thing to say—I heard the tail-end of some of the statistics that were being quoted when I came in—is that real progress is being made. We can talk about why in a minute, but if you look back over the last year, in FTSE 100 39% of the board appointments have been of women. When Lord Davies set his targets to reach the 2015 target, the rate needed to be 33%, so that is actually ahead of what he hoped. Interestingly, if you look at non-executive directors specifically, 49% of the appointments over the past year have been of women. So there is a very different picture emerging between the female non-executive population and the executive picture, which remains a much more stubborn and difficult challenge.

To answer the question directly, I think that there are chairmen who were already believers—more so in the FTSE 100 than in the FTSE 250 perhaps—who have been on this programme for some time. There are undoubtedly others for whom the debate shifted their thinking, and they came to realise more strongly the value of diversity. And there is probably a third group who do not necessarily really believe it but know that they need to take action anyway. However, to some extent, people's motivations are interesting but less important than seeing the right actions in place. As I say, I think that the picture in the FTSE 100 is hugely encouraging and the same level of change is being seen in the FTSE 250, although from a much lower base, so there is a lot more to do there.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Q172 Lord Brooke of Alverthorpe: I did not have the benefit of hearing the earlier evidence, so I come to the issue afresh this afternoon. I am interested to find out what life was like in the pre-Davies era. If there is an abundance of supply now and we now see that there are plenty of women available, could you say why they were not selected previously? Was that because they were turned down by the boards that were looking at the candidates that you nominated, or did you not nominate sufficient women candidates in the first instance?

Will Dawkins: I think that this is an area where political debate and pressure have been enormously helpful. The rise in the levels of female representation on boards is not something that the market provides all on its own. The search community can certainly help with the debate, but to a large extent we listen to our clients—otherwise they would not listen to us. What we are seeing here, I think, is a generational change and a realisation that, while there is very little data to prove that a diverse board produces better financial results than what might be called a monoclonal board, a growing number of chairmen have come to accept over the years that having a monoclonal board is actually a business risk. It means that the board risks being blind to the aspirations of an important part of its clientele and, indeed, of its workforce.

So what is the driver for change? As you asked in your question, what has made the difference? I think that role modelling has an important part to play here. If you look at the international dimension, one of the best ways of encouraging boards to appoint more women as non-executives is to get female executives up to the top. If you look at the Standard & Poor 500, 16% of the directors on those boards are women. If you break that down to the 20 Standard & Poor companies that have female CEOs, the proportion doubles and you get 33%. The root of the problem is actually in the executive pipeline. The reason for the change that we have had over the past few years has been the rising number of women who have broken through that glass ceiling for various reasons in the executive suite and provided role models elsewhere.

Kate Grussing: I would certainly concur. Ten years ago, we would have been in a different place, as we did not have a critical mass of qualified, confident board-ready women. In the UK, we certainly have that today if you look at the number of women who have graduated with first-class degrees or who have taken silk or who have been in executive roles. However, I think that media pressure has been incredibly important, as has the role that Government has played in terms of having so many women in important posts, which is certainly the case in both Houses here. There are far more role models now, and I think that the corporate world has woken up to that.

Q173 Lord Brooke of Alverthorpe: So if quotas were introduced in the way that Lord Davies has introduced targets, which are now not just being hit but being exceeded, is it not conceivable that the quality of the candidates would still be maintained with quotas?

Kate Grussing: I think that the argument that quotas would torpedo quality is a very poor argument. Absolutely, there are sufficient quantities of women with the right qualifications. For our boards, we are not just going to be looking at women who work on this island of ours.

Q174 The Chairman: Surely, though, there is the point that was made at our last session that women who were appointed by quota could feel slightly inferior.

Kate Grussing: I certainly know that some women would say that, but I think that the vast majority of women would feel, “I am here on my own merits”—

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

The Chairman: They might say that, but would they actually believe it?

Kate Grussing: In my experience, women are much less likely to put themselves forward unless they have 120% of the qualifications. They really do their homework. Part of the challenge historically has been that women have not been putting their hands up. Women have said, “I have a very full executive job and I have family responsibilities so I am not going to consider putting my name up there for a non-executive role.” An enormous benefit from the Lord Davies report is that women are now saying, “Yes, I do need to do this. This is good for me in my day job as well as for the women coming up behind me.”

Will Dawkins: I would just like to say a word about the practical issue with appointing this very large number of women who, on the one hand, have all the experience—and the even larger number of women have lots of attributes or the intrinsic qualities to be great board directors—but none of the experience. Neither having all the qualities nor all the experience is enough on its own; you need both. However, if we are going to have to increase the numbers, whether by quotas or not—we all want to increase the numbers—the answer is to dig into that vast pool of talented women out there who have the intrinsic qualities to be good board directors. I am talking about attributes such as intense active listening skills, a restless mind that does not feel happy with perceived truths and the ability to stand back and listen—you know all this stuff. It is enormously helpful if we can find a way to measure those qualities for board chairmen. The other stuff, such as financial acumen and business literacy, can be learned with difficulty, but the intrinsic qualities cannot be. That is why we are trying to measure—I am sure that my colleagues are doing the same thing—those intrinsic qualities to give the chairman confidence to say to the shareholders, “We picked up this woman because of her talents, although we would not have talked to her five years ago, and she is going to be a great director”.

Lesley Brook: To pick up Kate Grussing’s point, I completely agree with her that the quality of the women who would be appointed—frankly, whether we continue with the current voluntary path or with quotas if those were imposed—is not in doubt. My concern, based on conversations that I have had, is that quotas would just create a round of questioning, doubt and noise, which, frankly, we do not need. I think that they would raise the question, “What is this all about and why are we appointing these women?” Frankly, I think that it would undermine the whole process. I think that we just have an honest disagreement among colleagues about that.

On why we are seeing so much progress only now, I think that is due to a coalition of many different things, which at long last have started to come together. One critical thing that is beginning to happen, partly through Lord Davies and partly through the actions of groups such as the 30% Club and many other stakeholder actions, is that women are beginning to be more visible—the visibility of women is critically important—and chairmen are beginning to ask, “Who are the women that I am not seeing?”, and that is a really important question.

Q175 The Chairman: Is that your experience also, Mr Reyner?

Michael Reyner: It is, but I would like to make the observation that there is a risk that we will all focus on a battle where real progress is already being made and miss out on the battle that really needs to be fought. We are doing collectively better on the targets that Lord Davies set without quotas—but with the clear threat of them in the background—and that for me is a success. When I speak to rising female executives, the issue that they talk about is not, “Can I get a non-executive seat now or at some point in the future?” but, “Can I succeed in my executive role to get to the levels that I wish to get to while balancing all the other things that I wish to do, or need to do, in my life?” The progress being made on senior executive appointments is still stubbornly low. About 7% of executive directors are female.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Even if you go to the level below and look at the executive committees, the proportion is still very low. For me, that is the real challenge and my fear is that in all of this we will focus much more on the easy, visible tip of the iceberg and not on the fundamental challenge, which will make more difference to women and more difference to UK plc.

Q176 Baroness Buscombe: I want to touch on a point made by Will Dawkins, which I think is terribly important. You said that we have to listen to our clients. Are you all now putting more pressure—“pressure” is perhaps too strong a word—but suggesting more forcefully or directly to your clients that this is an issue they should consider, perhaps by offering lists that contain more women? Is this something that you are doing consciously now?

Will Dawkins: Because of the environment, I think that we all feel that we have a licence to make the case to our clients. They say, “OK, you headhunters, that is fine. Now show us the evidence. What have you got?” The follow-through, which we all do, is to get out there and spend time looking for great female directorial talent and promoting it. At the European level, Spencer Stuart has 15 offices. Over the past four years, we have met 2,000 prospective female candidate members, none of whom was attached to a search when we met them. Of those 2,000, we have been involved in appointing 60 to boards across Europe.

You can ask my colleagues, “How did that happen?” In the UK, which accounts for about one-third of those figures, it is relatively easy. When we ring up a chairman and ask, “Why do you not have any women on your board?” we are knocking on an open door. In France, it is completely different. The cultural resistance to female representation at board level was quite strong compared with here. My colleague in Paris said last week that without the legislative quota of 40% in France, it could never have been done.³ Some of the more senior women who have obvious and demonstrable merits to be board members do not like quotas very much because it is about appointment on merit rather than fear, as we have been saying. But if you go down the ranks to divisional head or HR director level, she is quite grateful for the step up and not too ashamed about quotas. We come back to the fact that every market is different and that we have to be careful about how we apply this pressure so that we do not create distortions.

The Chairman: Thank you. We shall now move on to the second question.

Q177 Lord Wilson of Tillyorn: Perhaps I may pick up on something that Mr Dawkins said right at the beginning. He referred to the rather strange result of what has happened in Norway. Two of you in particular have a lot of experience in Europe, the other two perhaps not so much. Is it your experience that different policies on quotas in Europe have a distorting effect? In other words, does someone who is not appointed to a board in country X, which does not have quotas, decide to move to country Y because it does have quotas, and therefore they have a better chance? Whether or not that is true, do you think that the imposition of a level playing field across Europe is a good idea?

Will Dawkins: That is the central question. Although the performances between countries that have quotas and those that do not are broadly similar, there is quite a range. Among quota countries, Italy is bottom of the class with 4.5%. It legislated last year. However, France is right up there at 30%. Turning to the non-quota countries with voluntary systems, we find that the lowest at 7.5% is Austria, while Sweden knocks us into a cocked hat with 27%. Within the group, the danger is that the most appointable women—I do not mean any

³ Correction by witness: Large companies in France are required to have 20% of women on boards by 2014 and 40% by 2017.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

disrespect to those who are not so easily appointable—will tend to migrate to countries where the door is open. These will tend to be large boards because the international language at that level in Europe is English, so they go for the large global boards. The irony is those large, global boards find it disproportionately easy to attract women, but the boards that really need to attract diversity find it disproportionately hard. Some people will say that because of the competitive distortion, the pressure—the critical mass—to apply quotas across Europe is almost irreversible.

Politically, the move is in Brussels where two different versions of European legislation are already at an early stage in the European Commission. The Parliament voted in favour of quotas last year. This may be something that we will simply have to manage somehow, and the challenge for us will be to keep up the quality.

Lord Wilson of Tillyorn: Do you mean that talented Italian women are migrating to Sweden because they have more chance of getting on to a board there than they do in Italy?

Will Dawkins: I cannot think of a single case study of one who has but, theoretically, if you are a senior Italian businesswoman who speaks fluent English, you would do very well at the moment on a Swedish board.

Q178 The Chairman: May I ask you, Mr Dawkins, to supply us with those figures, because they are very interesting?

Michael Reyner: I would just say that our experience is slightly different in the sense that the vast majority of the people being appointed to French boards are French, while the vast majority of those being appointed to Swedish boards are Swedish, partly because of language issues, as a lot of these boards still operate in their native languages. The UK remains a particularly attractive location to the best international talent because of the language, but also because people perceive the role of the board to be much more engaged, active and influential than in the classic European supervisory board structure. So while undoubtedly some talent is being lost because of aggressive quotas, that loss is not massive.

My fear when thinking about this at the European level is that it ignores the fact that the role, structure, nature and composition of boards are very different across different markets. Therefore if you were to set a quota, you would not be comparing apples with apples. In particular, if you take into account the fact that the UK has a unitary board structure with a significant number of executive directors as well as non-executive, the statistics are wholly different, a point we discussed earlier. So any European solution, quotas or not, will be intellectually flawed at a fairly fundamental level.

Lesley Brook: I agree with those points.

Q179 Baroness Valentine: The UK's voluntary search code sets a 30% target for longlist candidates on a "comply or explain" basis. If you do not support quotas for the positions themselves, would you object to them being formalised at the EU or national level, and what about for shortlists?

Will Dawkins: The Association of Executive Search Consultants supports the code and is trying to encourage its member firms to apply it across Europe. Without making too many assumptions, I think that the answer from the industry would probably be that it is quite a good idea. We are all for it.

Kate Grussing: Search firms come in different sizes and shapes. Certainly, there are many markets in the EU, such as the UK, where search firms are firmly embedded and prevalent, but there are many countries in which search firms do not play a major role in board

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

appointments. The voluntary code is a great codification of best practice and the signing-up to it by firms in the UK has been strong for good reason. A wider rollout of the code across the EU would be a very good thing.

Michael Reyner: I want just to add that the “comply or explain” element is a significantly important component of what it makes it work in the UK, if only because it is consistent with the philosophy behind the combined code itself. The code as written does not mandate 30% women on longlists, but it does mean that if you do not have 30% women, there should be a clear discussion with the client about why there is not. That produces the right rigour and challenge in the debate without being inconsistent with the philosophy of the rest of the code.

Q180 The Chairman: I would just ask whether, by way of explanation, the code is relatively recent. Are all the executive search firms involved in it?

Michael Reyner: No. At the moment, as Will Dawkins has explained, the association—

The Chairman: What proportion of the total number of executive search firms have signed up to the code?

Michael Reyner: Currently, 28 firms have signed up to it, up from 21 when it was launched. It covers the vast majority of the companies involved, and thus of the volume of appointments.

Q181 Baroness Valentine: I am sorry, I understand that you were commenting on longlists. What about shortlists?

Michael Reyner: When the code was drafted, a conscious decision was made not to apply it at the shortlist level. There was debate around the table about it. It is partly to do with the law of small numbers. A shortlist may have two, three or four people on it, and therefore where would you set it? There is also a fear at that level that if people feel that they have to do it, you would get tokenism. You would have a woman being added just to put a tick in the box, which effectively would be a waste of everyone’s time and disrespectful to the female candidate. The key measures are the longlist to ensure that people are actively considered and given enough attention by both the headhunters and the client, and then to measure the output, where ultimately the key measure is that of the proportion of women who end up on boards.

Lesley Brook: I want to mention the principle behind this arrangement. It is something that our client companies are increasingly adopting for the internal development of candidate slates for internal promotions of people in the current pipeline. When we talk about developing women coming up to the more senior levels, we are seeing more instances of leading companies saying, “We want to see balanced candidate slates”, so it is effectively a “comply or explain” approach. It is working very well. The same principle is feeding the development of talent inside companies, and it is a useful tool.

Q182 Baroness Valentine: I just want to press you a little bit further. If your case is that women from slightly less obvious backgrounds are on the longlist for the slot, that might lead you, going from the longlist to the shortlist, to drop off the ones who do not so obviously fit. Are you finding that having a 30% longlist is actually translating into women getting through on to the shortlist?

Michael Reyner: Yes. I think the evidence for that lies in the proportion of women being appointed. We have already talked about that.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

The Chairman: The next question is from Lord Kakkar.

Q183 Lord Kakkar: I am interested in focusing a little more on the code. It provides for the need for properly outlined job briefs, support for candidates and an emphasis on characteristics rather than experience, all of which seems to be eminently suitable. Should there be a move to have the code widely adopted across Europe rather than going down the route of quotas?

Will Dawkins: The industry association is already moving in that direction, but we need to be very cautious indeed about how far we go in terms of exerting real, practical pressure. Does the code have to be observed to the letter in every different country? We have an extraordinary mixture of different kinds of boards across Europe. There are two-tier boards in Germany and unitary boards in the UK. It is very unusual to find executives on large German supervisory boards where perhaps there are 20 members. You have UK boards with 11 members and two executives. One will meet every month and another three times a year. How can you apply a blanket quota system to that lot? It is a rather floppy answer, but I am afraid that anything more than a light touch is likely to be pretty ineffective.

Q184 Lord Kakkar: That applies to the question of quotas, but would having a code or standard to help search firms more broadly across Europe to be effective, rather than having to go down the route of quotas? Would that be an option?

Will Dawkins: I think that disclosure would set up quite a healthy environment of positive competition between boards.

Kate Grussing: That is why the code is truly about good practice. The executive search community is not one that is easy to monitor because a lot of the work is highly confidential. Not every country can leverage it in the same way, but there is very little downside to encouraging greater transparency.

Michael Reyner: I think that the principles in the code are broadly applicable and would work well in different European countries. Indeed, the sophistication of the search markets in some parts of continental Europe is lower than that usually found in the UK, so to some extent there would be even more benefit in enshrining best practices that may be newer in those markets than they are here.

Lesley Brook: As we are not a headhunting company, I do not particularly want to comment on that. I shall leave it to my colleagues.

Q185 Lord Clinton-Davis: Do you think that the voluntary search code should be backed by sanctions or incentives? Are they in place today? Could effectiveness be improved by putting the code on a formal and enforceable basis and developing such influencing measures?

Will Dawkins: My own prejudice is that sanctions and penalties would be completely ineffective, so there is no point in trying to apply. However, I think that the public world has a really useful role to play in applying pressure—naming and shaming boards that do not meet the need for diversity, exposing weak practice and praising good practice. In the UK, we seem to have adopted a system that is a subtle mixture of slightly bullying the market and listening to it.

Q186 Lord Clinton-Davis: Has that had any effect?

Will Dawkins: Our track record in the UK is that there has been quite a steep rise in female representation since the political debate arose and I am very hopeful indeed that the arrival

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

of provisions in the code will be just as effective this time as they have been in previous reforms of the corporate code. If you go back to the original Cadbury committee provisions in 1992, I think, which required this division between the chairman and the CEO role, in a couple of years everyone had complied with that, and so on throughout history. This country has a very effective system and I think that trying to toughen it up with penalties would not have much of a result.

Kate Grussing: I think that a carrot is a far better approach. Certainly I think that we will begin to see a virtuous circle, so that companies that have more female board members, female chief executives or female CFOs will do a better job of attracting women at all levels. A lot of the media pressure in identifying who the zeros have been—that is Cranfield’s name for companies that have zero women board members and zero women non-executives—has been very helpful. No chairman wants to sit at an annual general meeting and squirm in his seat when 50%, 60% or 70% of their employees or customers are women and be asked, “Where are the women on your board?” So I think that a carrot approach is far more beneficial.

Lesley Brook: I would absolutely agree with that. In the discussions that we find ourselves involved with, people are very mindful of the public debate and all the different strands of activity that are going on to support this development now. There is so much momentum gathering around this agenda that I personally would not support anything that looks too much like a stick or a penalty. I do not think that that helps, but I think that the risk of exposure, of being the odd one out and of being the one who is left behind, is very powerful.

Michael Reyner: Just to echo that, I think that there are two problems with the stick approach. One is that it is hard to see how in practice you would police the code in that sort of way. Also, the most effective mechanism is for chairmen to feel that, if they do not make progress, they will have the heat shone on them, and then they will appropriately shine the heat on headhunting firms and work with those that they think will help them to solve the problem.

Q187 Lord Haskel: A lot of the developments proposed in the UK’s voluntary search code put the focus on influencing companies—on succession planning, diversity goals and the focus on intrinsic characteristics, which Mr Dawkins began to explain to us. How can this engagement be monitored? Do you think that we should monitor it? Should we just leave it to the market or should there be a formal role in monitoring this through the EU, perhaps?

Will Dawkins: All of us at this table believe in transparency. Clearly there could be a role there for companies to report more fulsomely on what they are now doing with future board composition and developing diversity. At the moment, companies have to mention in their annual reports when they are doing a board review. I think that under the Higgs version of the code, they had to declare if they did not appoint an adviser to help them to appoint non-executive directors, which is why search firms loved Derek Higgs.

Q188 Lord Haskel: What about the search firms themselves? Does the way in which they carry out the code need any monitoring?

Will Dawkins: I turn to my colleagues here, but I see no harm at all in us disclosing what we are up to. I think that we would be delighted to do that.

Michael Reyner: I think that the challenge again is to work out how you would monitor what is essentially just a quality measure of the nature of your relationship with your clients and your ability to work with them to help shape their agenda. In principle I have no objection to it, but in practice I think that the only way that you can ultimately judge the

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

effectiveness of this is to look at the outputs and to trust that, if the outputs are there, that means that the inputs are being appropriately managed.

Lesley Brook: I do not personally see that this would have a huge impact on what is going on inside leading employers already. Leading employers are already very busy, for all the reasons that we have touched on about the need for the best talent to succeed, with lots of different activity around building the talent pipeline and ensuring that they can identify and leverage their best talent. They are by no means perfect, but there is a huge amount of work going on there and all the different measures that we have talked about are already helping them to focus their minds even more. I do not particularly think that this one would add any great value, although it certainly would not do any harm. But the amount of ramping up of effort that I have seen in the eight years that I have been in this consultancy role has been enormous, particularly around the female talent pipeline.

Kate Grussing: I think that greater reporting and transparency would be of enormous value for the EU to promote, but not solely focused on the voluntary code. Perhaps I could use the metaphor of what the environmental lobby has accomplished with what companies need to report today in terms of their carbon footprint. It has been fantastic to get the world focused. That is not information that they even tracked previously. Cranfield wrote to all the FTSE companies last autumn to understand what they track with regard to gender. The vast majority of FTSE companies reported that they do not have good data and that they do not track this. I am a big believer that you cannot measure your progress if you cannot begin to track it. If we want to help institutional investors to promote this and to hold the magnifying glass up and ask chairmen or chief executives uncomfortable questions, I think that we need that data. That is where I think that the role of the FRC and the role of the Stock Exchange are incredibly important.

Michael Reyner: I think that the data there will be less the board-level data, which is publicly available and transparent. To go back to the comments that we were making earlier, I think we should shine a light on CEO minus 1, CEO minus 2, CEO minus 3 and the pipeline there, because that is the issue that certainly big companies are beginning to tackle, although some of the smaller companies are far less advanced than we might hope.

Q189 The Chairman: I do not want to disagree, but on the other hand when we say to business, “We need greater reporting; we have tracking and we need to do this and that,” they will say, “Well, when are we going to be able to run this business?” When I first got involved in this area, annual reports were very much smaller. It is rather like the other day when the Finance Bill was brought in to the desk of the House—I do not know whether any of you noticed—and it was huge. All I could say was, “Money for lawyers and money for accountants.” This is difficult particularly for smaller companies, which will have to have people on corporate governance reporting all the time. Then somebody will say, “How many cars are they producing?”

Michael Reyner: The issue there is less whether it is reported in the annual report, which is of little interest—I am not sure who really reads annual reports these days. But for the chairman to be asking the CEO, “What does that data look like and what are you doing?” is an absolutely critical board-level discussion.

Q190 Lord Brooke of Alverthorpe: If I may, Lord Chairman, I wanted to take this back to Europe, or the fringe of Europe and Norway. I presume that Norway has search firms for the purpose of making executive and non-executive appointments. I was wondering whether you had any contacts with them and whether you could give us the benefit of any experience that you have had through those contacts on what has been happening and the changes. Do

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

you have any idea whether, given that they are operating with quotas, the performance of Norwegian companies has gone down, stayed at the same level or improved?

Will Dawkins: There is Norwegian data, which attempts to track corporate performance and match it to female representation on boards, but it does not really tell us anything. There is no pattern. In fact, you can read it in the most depressingly negative way. The headhunting community in Norway talks about the problem of what they call “golden skirts”, by which they mean women who are so much in demand that they are on eight or nine boards. You have to wonder how much value even a superhuman Norwegian woman can give on nine boards.

Lord Brooke of Alverthorpe: Maybe they should get the Italian woman who speaks Norwegian.

Will Dawkins: The same problem exists to a certain extent in France, where it is relatively common to find women who have half a dozen board seats. I asked one of my candidates there how she dealt with it. Her answer was quite revealing. She said, “In France, we directors take the helicopter view of our companies.” I think that, if you were talking to a main board director of Lloyds Bank and she gave you the same answer, you would feel pretty worried. So it would not work here.

The Chairman: Our final question is from Lady Scott.

Q191 Baroness Scott of Needham Market: I wonder if each of you could say something about what are two sides of the same coin. On the one hand, what needs to be done, if anything, in supporting women to put their name forward if they do not meet 120% of the criteria, as Kate Grussing described? What do you do to support, encourage and prepare women? The other side of the coin is to what extent do you have to change boardroom culture in order to change the perception of what leadership or achievement might mean?

Lesley Brook: That is a very good question. Whether you are talking about women going on to boards or about women going to more senior levels within the pipeline, because you are often talking about women going into situations where they will still be very much in the minority, you are talking about women trying to make a transition into a ‘male culture’ this involves, all sorts of behaviours and ways of being that are unconscious to people. Therefore, we find that a lot of practical work needs to be done to give women the opportunity to think about that, to help calibrate their perception of themselves and to build confidence, as that is often an issue; and to give women that experience in a safe environment so that when they get there they can perform very well. On the issue of giving women exposure across companies, there are some great examples now of programmes where women are mentored by Chairmen or CEOs of other companies. That has been tremendously successful.

One other thing around the culture that we find is really important but which is often missed is that you need to work also with the senior men to educate them that maybe there are some different perceptions, skills and ways of thinking so that, when they get these diverse candidates coming on to their committee or board, they are able to work with them in a positive way. Again, we find that, for example, programmes such as reciprocal mentoring are tremendously helpful. They are very time-effective and they just change the landscape both for women and men in that situation. Those sorts of measures are really very helpful and constructive, and they make a big difference.

Michael Reyner: Just to build on that, as headhunters I think that we have two different responsibilities. The first is to identify women who we feel could make great candidates for a

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

particular role. In some cases, as Kate said, they may need to be encouraged to put themselves forward in a way that male candidates rarely are. Having got them into the frame, it is incumbent on us to help them through the process often—not always, but often—more actively than would be the case with male counterparts. That is partly because they may have less experience of what it is like to operate at boardroom level—their executive or other experience may not lead them to have seen boards in action to quite the same degree—and partly because they are going to be entering into a generally male-dominated world in which it would be incumbent on them to work out how they are going to be successful.

Specifically, we mentor women both through the interviewing process and through their first months on the board. We have a panel of 15 experienced female non-executives whom we work with, because our view is that women who have been through that process are best placed to give the advice to other women. That helps them, I think, to work out how they need to put their best foot forward in interviews and how they need to come across in a world where they may be asked questions by people who will generally be men. Specifically when they are on the board, those first few months can be quite disorienting for those who do not have that experience, in particular if they are the first woman on that board. It is critical to really help them to find their feet. Once you have one woman and, in particular, two women on the board, that is the best way of changing the culture. The best way is what a lot of chairmen would describe as the civilising effect of having a couple of women around the boardroom table. Whether they intend it or not, that changes the dynamics for the better, they would say. That is the best way of getting the men to realise that there is a different way of doing some of this.

Kate Grussing: That is where I would really commend the work of the 30% Club, because I think that it has really brought the chairmen into this discussion and encouraged them to own this challenge. I concur with Lesley and Michael. It is about all these things—better mentoring and better coaching, including during the interview process. I know one very eminent woman who was short-listed 81 times before she got on her first FTSE 100 board.

The Chairman: Did you say 81?

Kate Grussing: Yes, 81 times, so God bless her for persevering. I give that as an example to lots of women applying, because I do not want them to give up after number two or number three. Women often underestimate the importance of their networks, because women are very focused on doing their day job really well. What will often happen if a candidate is recommended to Michael Reyner or one of his colleagues is that the referencing is quite important, so, just because Lesley suggests a candidate to me, I would want to know what other people who have worked with that candidate think. Those networks are not to be underestimated. Regarding changing the culture in boardrooms, I think that the UK, with the lead we have in corporate governance, is in a very strong position. It is something that I think we should be exporting more. I look at board assessments, which were not *de rigueur* in the recent past but have become so. Those are all good things in terms of holding a mirror up to a board and looking at the subtle influences around the board table.

Will Dawkins: Very briefly on the subject of support, three things: training, pairing and making appropriate appointments. There is a thriving, very effective industry out there, which trains “newbie” board directors. We all have our own versions. We do an annual course at London Business School, which we have now rolled out in three European countries. That is a wonderful way for people to get real confidence that, when they go to their first board meeting, they will know what is going to happen and what their role is. On pairing, we often advise chairmen that, when they are appointing a relatively inexperienced

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

board director, she or just as often he should pair up with a seasoned campaigner on the board, such as the senior independent director, for the first year. It is a kind of mentoring relationship.

Making appropriate appointments is sensitive in every case, but there is a real danger of setting up bad role models by appointing people who seem to be right for the role but are not. For example, if you are looking for the chairman of a remuneration committee, an obvious place to look is the HR community. If you take somebody straight out of HR, whether male or female, and they do not have good financial and commercial acumen, they will possibly miss out on the link between the financial targets that that company is setting itself and pay, therefore setting up the remuneration committee for the kind of failure that ends up on the front page of the *Daily Mail*. We have a role to help chairmen to make those matches.

On the culture, the culture change is well under way. I would just say to boards that are making their first step towards a diversity appointment: do not make it a one-step change. Appoint two or, if you are really brave, three, so that you have a sort of core there of diverse thinking that is not going to feel isolated around the boardroom table.

Q192 Baroness Scott of Needham Market: Mr Dawkins, earlier you talked about attributes. I can see that there is a big challenge, particularly for chairmen, in moving away from looking at somebody's CV to actually thinking about the person. But it strikes me that we are slightly into Rumsfeld territory here. These are known unknowns, or unknown unknowns. If they do not know that understanding attributes and character is an issue, how do you get across to them the difference that it can make to their board to do that?

Will Dawkins: It is possible to run quite systematic tests on people that measure their attributes. We have our version: five "I"s—intellectual curiosity, inclination to engage, integrity, interpersonal skills and independent-mindedness. You can run people through various scenarios—you can just tick them off and you get a pretty accurate measure of what they have. Of course, what that does not tell you is how financially literate they are, which is the baseline. That you tend to get from the CV. If it is not there, you have to figure out what the intrinsics tell you about that person's capacity to learn those learnable financial skills and how quickly and whether the board is prepared to take that risk.

The Chairman: Any colleagues for the last last question?

Q193 Lord Haskel: Could I just follow up on that? Why, then, does diversity work? Is it that the people who come have less baggage, so that they do not have the past bearing them down, or is it that they have the characteristics that you have just described?

Will Dawkins: Diversity works because it allows the chairman to get the board to function as an open-minded group that questions assumptions. The worst corporate disasters of the past few years were committed by single-minded boards bound together by a common sense of mission. They were probably jolly places to be at the time, when you were driving over the cliff at 60 miles per hour. Diversity creates a slightly uncomfortable feeling, which is quite fun at the same time. To talk about diversity in the wider sense, the chairman can create that with some good appointments. You really reduce the risk for your shareholders. There is no guarantee—let us not look too closely at the boards of some of our banks that got into trouble, as they were quite diverse, too.

Q194 The Chairman: So you need quite a lot of grit for the oysters sitting round the boardroom table. That is a very interesting concept.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

I am going to ask my final final question, which is a question that I always ask. What questions do you think I should have asked? Would you like to answer them now? Tell me what the questions are and then answer them.

Will Dawkins: My response to that is: what about the unquoted sector? This debate has focused on FTSE 100 boards, which lead the way and establish role models. The next step is to drive their good record down the chain to quoted companies in the FTSE 350. Then what? When you have got to the bottom of the FTSE 350, you still only have a minority of boards in this country. What are we doing about the rest, especially at a time when the quoted sector is a declining minority of boards in this country?

The Chairman: That is very interesting. We certainly have not thought about that, so thank you very much, Mr Dawkins.

Kate Grussing: We have focused this discussion today very much on women. Certainly, women are the most obvious group that is underrepresented, given that they are a majority, but I am thinking of greater diversity around the boardroom table in terms of ethnicity, age and background. Gender is the easiest to measure and an obvious starting point, but I think that any EU guidelines should look at diversity in its widest sense.

The Chairman: Can I just gently point out that the directive is about gender diversity? As a scrutiny Committee, we are scrutinising the directive so that we can say to this Government, “This is the negotiating stance that you ought to take when you are dealing with Brussels on this issue.” But I take your point and I do not think that any of us would disagree with you.

Michael Reyner: I am afraid that my answer is going to be predictable and based on what I said before. I think that trying to shine a light on the question of improving diversity in the senior executive ranks rather than just on the boardroom table is the bigger and much more complex challenge.

The Chairman: That is a very helpful point. This was a good question.

Lesley Brook: That is exactly where I would be. The two go hand in glove. You have to look very carefully at what is happening in the executive pipeline, which is, frankly, where the improvement is going to come from.

Q195 Earl of Liverpool: I wonder if I might just come in with a very final point. Mr Dawkins, you said something very interesting about non-quoted companies. Your question was how we get to the non-quoted companies. I wonder whether you could try to answer that question for us.

Will Dawkins: I think that if you look at the non-quoted sector, you can broadly divide it between private equity and family-owned companies. Let us leave aside commercial boards from the so-called not-for-profit sector, which is a slightly different subject. It would be really interesting to see what the private equity industry has to say about this. If it is true, as we believe, that a diverse board reduces your risk, then there is money in it, so why are they not interested? Or are they? I do not know. It is very hard for us to ascertain because they do not have the same transparency and reporting obligations as the quoted sector. It is an unknown. To an extent, I think that family companies are in the same situation.

The Chairman: Except that I think that the gender diversity among family companies seems to be growing at a much faster pace than in some of the quoted companies that I know. It is because the women are saying, “Up with this we will not put,” and they have more influence because, of course, they have large shareholdings in the family companies.

Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Will Dawkins: Of course family companies can move faster, because they are not bound by the same rules of tenure as the quoted companies; they do not have to wait for three years before they boot somebody off.

The Chairman: Any more?

Q196 Baroness Valentine: A very quick one. On the point about executive diversity, is there any evidence that by getting the board to be more diverse you have better protection for the women coming up the executive streams? I am aware even now of problems around the time that women have children—people will not recruit them if they are about to breed and all that sort of stuff, or when they are conveniently off after childbirth and you need to make people redundant, it is easier to make the ones who are not there redundant. That is still in the system, as you are probably all aware. If you have women at the non-executive level, does it help to put in place the value systems that stop that happening? Does it also provide the imagination to deal with people in that phase?

Will Dawkins: Only if those women at the non-exec level are being seen to succeed.

Lesley Brook: I can see lots of great examples where women non-executive directors are beginning to ask some very probing questions about those sorts of issues and therefore they are being very helpful. They are also reaching out to cohorts of women coming up through the pipeline to see what they can do to help. Again, that is not everywhere, but there are some great examples of where that has been very effective.

Kate Grussing: There are many organisations that bring together women corporate directors, where they share best practice and encourage each other, saying, “I’ve made this work at my boardroom, so why don’t you try it at your boardroom?” I think that it is a little too early to say, because there has been such a big influx in the last six to 12 months, but I think that everyone is quite optimistic that it will happen.

The Chairman: I am very conscious of the fact that we have overrun our time—I am trying to be a good timekeeper—but I am sure that I speak on behalf of the whole Committee when I say that this has been a really worthwhile session. Thank you so much. I have learnt a huge amount—others have probably learnt less, because they probably knew more about this than I did in the beginning anyway. If you have any data or, if you are looking at a boring thing on television and think, “I wish I’d said that,” we would be grateful to hear about it. We want to try to make this as balanced a report as possible. Thank you again.

Department for Business, Innovation and Skills (BIS), Lord Davies of Abersoch, Government Equalities Office (GEO)—Oral evidence (QQ 1–81)

Evidence Session No. 1

Heard in Public.

Questions 1 - 81

MONDAY 25 JUNE 2012

Members present

Baroness O’Cathain (Chairman)
Lord Brooke of Alverthorpe
Lord Clinton-Davis
Lord Fearn
Lord Haskel
Baroness Scott of Needham Market
Baroness Valentine
Lord Wilson of Tillyorn

Lord Boswell of Aynho

Examination of Witnesses

Helene Reardon-Bond, Head of Gender Equality Policy and Inclusion, and **Jonathan Rees**, Director General, Government Equalities Office; **Caroline Normand**, Deputy Director for Corporate Governance, and **Helen Whitehead**, Assistant Director, Department for Business, Innovation and Skills.

Q197 The Chairman: Good afternoon, everybody. Thank you very much for attending, and at fairly short notice too. Members of the Committee with relevant interests will declare these when they ask a question. The session is on the record. It is being webcast live and will subsequently be accessible via the parliamentary website. The witnesses will receive a transcript of the session to check and correct. This will be put on the public record in printed form and on the parliamentary website.

I want to ask the witnesses individually if they could begin by stating for the record their name and official title, and does anybody want to make an opening statement before we get into the questions? So shall we go from the left?

Helene Reardon-Bond: I am Helene Reardon-Bond. I am a Deputy Director at the Government Equalities Office, based in the Home Office, and I am Head of Policy.

Department for Business, Innovation and Skills (BIS), Lord Davies of Abersoch, Government Equalities Office (GEO)—Oral evidence (QQ 1–81)

Jonathan Rees: I am Jonathan Rees. I am the Director General of the Government Equalities Office and, if it is okay with you, I will just say a few words at the beginning.

Caroline Normand: I am Caroline Normand. I am a Deputy Director at the Department for Business, Innovation and Skills and I am responsible for corporate governance.

Helen Whitehead: I am Helen Whitehead, Assistant Director at the Department for Business, and I lead on the policy for women on boards.

Q198 The Chairman: Thank you very much. We are in for a very interesting session, I am sure. Mr Rees, you wanted to make an opening statement?

Jonathan Rees: Yes. I will be relatively brief, but I thought it would be helpful just to make three key points. One, clearly the Government firmly supports the objective of increasing diversity, including on private sector boards. The coalition programme for Government states that we will look to promote gender equality on the boards of listed companies. We do that because it is good for equality but also it is good for growth, it is good for business and so on. It was very early on in this Government that Lord Davies was asked to produce his report, which he did in February 2011. We worked very closely with him. People from both BIS and the GEO acted as the secretariat, and we continue to work very closely with him, so the first point is very clearly we support the agenda.

The second point is that the Government's view is that the voluntary business-led approach is beginning to show dividends. We would be happy to talk more about that, but you will have seen that since Lord Davies' report, one in four of all appointments have been women and that the number of all-male boards in the FTSE 100 has reduced from 21 to eight and so on. There is some evidence—but clearly we need to explore that further—that the voluntary business-led approach is working.

That then brings us to the EU potential proposals. I think the Government has been very clear that it sees no need for the EU to legislate in this area, nor do we believe that quotas are necessary in order to make progress. We think it is much better that action is left to Member States to take account of the circumstances of different corporate governance structures, different companies, and we believe that we should give time for the voluntary business-led approach to show it is effective. Thank you.

The Chairman: Thank you very much indeed.

Q199 Baroness Valentine: Let me just declare an interest. I am Chief Executive of London First, a business membership organisation. I am also on the board of a quoted venture capital trust called Triple Point.

The Government has stated that businesses could be forced to comply with quotas if they do not voluntarily raise the number of women on their boards. At what stage would this legislative intervention become necessary?

Jonathan Rees: What the Government has said is that what we call the voluntary business-led approach should be given time to work. What Lord Davies said in his report, which the Government welcomed, was that we would hope to see progress by 2015, by which time we would hope to see 25%. That was his target of FTSE 100 boards having women on them. Therefore what we are doing is that we are reviewing annually what progress we are making. Therefore our line is that, until that process has finished, we continue to see no need for quotas.

Department for Business, Innovation and Skills (BIS), Lord Davies of Abersoch, Government Equalities Office (GEO)—Oral evidence (QQ 1–81)

Q200 Baroness Valentine: Can I just ask a supplementary? I believe the FTSE 250 is making less progress than the FTSE 100. Is that correct?

Jonathan Rees: That is correct. Indeed, I think there are two issues. One, although we are really pleased with the progress that is being made at overall board level, most of that is non-executive directors, so the figure for executive directors—people of the executive management team—is still very low. It is only 6.6% of FTSE 100 companies. That is one of the issues that Lord Davies has said should be a priority going forward. Secondly, you are right; there is a difference between the FTSE 100 and the FTSE 250/350, where a lot less progress has been made. But progress is still being made slowly.

Q201 The Chairman: Can I just ask a point of clarification? When you made your opening statement, Mr Rees, I thought you said that there had been a development and that only 25% of the FTSE 100 now have no women on the board, is it the other way round?

Jonathan Rees: Sorry. In a sense, since March 2011 25% of new appointments have been women. The target that Lord Davies set, which the Government is happy to go along with, is that overall 25% of boards to be women. In a sense, if you understand—

Q202 The Chairman: To have women on the board?

Jonathan Rees: Yes, that is right.

Q203 The Chairman: That is the FTSE 100?

Jonathan Rees: Yes.

Q204 The Chairman: That is a very small target, is it not?

Jonathan Rees: The actual turnover of boards is quite slow, so one of the things that Lord Davies did was a lot of work looking at how often both non-executives and executives turned over. When you look at these figures, it takes an awfully long time to get to, say, 50:50. So he worked that through and thought it was a reasonable target.

Q205 Baroness Scott of Needham Market: Also, just for clarification on your opening remarks, you talked about equality and diversity. Clearly we are focusing on the question of women on boards, but does your work go into other forms of equality and diversity, such as ethnicity and disability and so on?

Jonathan Rees: It is a really good question. The report that Lord Davies did and the Government commitment was around women, but the Government Equalities Office cover all of, in our language, the protected characteristics. We believe—and I know that Lord Davies does too—it is just as important to get that broader diversity. So it is not just about women, but the focus, both here and indeed in Europe, has been on the women end of it.

The Chairman: Lady Valentine, do you want a supplementary?

Q206 Baroness Valentine: If you like. The Government have stated they are not in favour of EU level quotas at the moment. If UK businesses do not voluntarily raise the number of women on their boards, would the Government consider supporting EU-level quotas?

Jonathan Rees: What we have said is that, for all sorts of reasons, we do not think that quotas are the right way forward. We have also said that clearly, if the voluntary business-led approach does not work, we will need to look at all options, and that includes quotas. But the Government's clear view is it believes that the voluntary approach will work.

Q207 Lord Haskel: You speak very enthusiastically about leaving it to companies to do it on their own. Has the Government given any consideration to encouraging companies to do a bit more? For instance, we have had some evidence from My Family Care about childcare vouchers, where the rules exclude nannies, elder care, informal care, maternity coaching for female leaders and so on. Are you going to encourage companies to do a bit more by making these various allowances, or are there any other ways that you can tell us the Government is going to encourage the businesses to do this voluntarily?

Jonathan Rees: I think it is a fair point. In a sense, there is a range of different policies that are designed to promote women's place in the workforce: childcare—as you know, the Government has just announced a review of the regulations around childcare—is one of them; flexible working; shared parental leave; work that we are leading around encouraging companies to voluntarily report on their gender equality performance. There is a whole range of what you might call enabling measures, which are really important in order to take forward women's position. I think it is also fair to say—

Q208 Lord Haskel: Are you going to encourage those enabling measures?

Jonathan Rees: We are indeed. Helene will be happy to say a bit more in a minute about the Women's Business Council that the Home Secretary set up, which is a time-limited group of businesswomen designed to come up with policies. Indeed, we have a meeting tomorrow with all Government departments that have an interest, because clearly there is a range of different Government departments with an interest. What I am saying is we may not do exactly what people want on childcare, but the issue is very much on the agenda. One of the reasons that women drop off the career ladder is when they have babies. All the evidence is that essentially that is the turning point, both in terms of income and their position. We need to tackle that, and childcare and shared parental leave are clearly key parts of that.

Q209 Lord Fearn: You mentioned quotas twice in your opening statement and since then. Why does the Government believe that quotas should only be considered as a last resort, and what are the benefits of a business-led approach as opposed to Government intervention?

Jonathan Rees: There are three broad areas. Firstly, if you want to make a change, you have to get people to buy into the change. By and large, an increasing number of companies buy into the need to have more diversity, not only on their boards but throughout their organisation, so we think it is better to make sure that companies believe in the change agenda rather than to impose it.

The second reason why we are not huge fans of quotas is it needs to fit the circumstances of each organisation. Some organisations are well advanced with this agenda but many of them are not, so if you had a quota that was a single figure that would cause all sorts of difficulty. Also, if you look at the European level—and we are happy to explore this further—you have a huge range of different corporate governance systems. In Germany you have supervisory boards. In the UK we do not have those; we have a single unified corporate structure.

The third reason, broadly, that we are against quotas is that when we consulted women, 89% of them said that they did not want to have quotas. So there is a whole range of reasons why we actually do not think quotas will secure the level of change that I think we all want to see, but equally, if we are wrong, that is why all the options need to be looked at again.

Department for Business, Innovation and Skills (BIS), Lord Davies of Abersoch, Government Equalities Office (GEO)—Oral evidence (QQ 1–81)

Q210 Lord Clinton-Davis: Before we come to the next question I want to ask: have the TUC been consulted and what was their response?

Jonathan Rees: The TUC have been consulted. We have engaged broadly with them. It is fair to say that they are more in favour of quotas.

Q211 Lord Clinton-Davis: Why?

Jonathan Rees: Because essentially they are not yet convinced that the business-led approach will produce results sufficiently quickly.

Q212 Lord Clinton-Davis: You do not agree with that?

Jonathan Rees: The Government of the day does not agree with it, no.

Q213 Lord Clinton-Davis: No, I asked you, whether you agree with it?

Jonathan Rees: You may not remember—

The Chairman: Lord Clinton-Davis, that is a bit unfair; we are just asking what the Government view is.

Jonathan Rees: I was just going to say I used to work for Lord Clinton-Davis when he was a Commissioner.

The Chairman: I see. I thought there must be something there.

Jonathan Rees: He has probably forgotten, but I have not.

The Chairman: So there is an old needle coming out. Lord Clinton-Davis, are you going to ask your question?

Q214 Lord Clinton-Davis: Does the Government believe that an increase in the proportion of women on boards across the EU would have an impact on the UK, and do you think this impact would be positive or negative?

Caroline Normand: The Government firmly believes that increasing the diversity of boards, and increasing the number of women on boards, is an economically positive thing to do. In a situation where 50% of the population are women, 60% of the graduate population are women and 70% of purchasing decisions are made by women, it makes sense to ensure that you have a full range of views on your board and it will help boards to make better decisions. If boards make better decisions, it follows that you are going to have better strategies and have a positive economic impact. The arguments are well known, that increasing diversity will reduce groupthink and those pitfalls that boards can fall into.

If that is the case for UK boards, it obviously follows that it is going to be—we think—positive if there is an increase in the number of women in the diversity of boards across Europe, given our trading links with Europe. Obviously it is not something we can prove with figures and statistics at this stage, but it stands to reason it is an economic argument.

Q215 Lord Clinton-Davis: Do you think that the introduction of quotas in Europe has had any effect in the UK?

Caroline Normand: Again, we have seen legislative quotas in a number of European countries, most recently I think in France but also Belgium and Italy, and there are a variety of legislative proposals close to that in Europe. It is too early to say what the impact of those quotas is. A lot of them have only recently come into force, and at this stage I think it would be hard for us to judge whether it is going to be positive or negative.

Q216 Lord Clinton-Davis: But you are optimistic about the future?

Caroline Normand: I am certainly optimistic that the number of women on boards in the UK and then around Europe will increase, and I think that is a good thing.

Q217 Baroness Scott of Needham Market: You have just outlined some very good reasons why there ought to be more women on boards. Given your very persuasive arguments, why on earth are businesses not seeing that this would be a good thing and just doing it? Why do we have such a lamentable record thus far when the reasons are so compelling?

Caroline Normand: It is an interesting and fair point. If you look at the figures of women on FTSE 100 boards, indeed it has been a slow progress. In the last 10 years the increase has gone up by a mere percentage, maybe 5% or 6%. I genuinely think there has been something of a step change in the attitude, particularly of our FTSE 100 companies. We have a very active business community now on the case for women on boards, led by the 30% Club. There we have 50 chairmen, a number of whom are in FTSE 100 companies, but also in other types of companies, who have signed up and are making a very positive case for women on boards. For example, when we were responding to the European Commission's consultation we held a round table with a number of people from the 30% Club. They were telling us, "We have made a target". I think they were trying to get 100 responses from businesses to the Commission to say, "Women on boards is a good thing, but we do not think quotas are the right approach to it", but in a very positive way. So there has been a significant change in the last year and a half, and we are seeing it just in the trajectory of how the figures for women on boards have changed.

Q218 The Chairman: Does anybody else want to contribute or to ask a question on this particular issue? I will ask a supplementary then. The fact that a lot of networking groups have been set up by women—for example, Women in Banking and Finance and Women in the City—and their sessions and lectures from chairmen of companies has stimulated a lot of demand for women from women. I wonder if you have made any assessment at all about where that push is coming. Rather than male directors on boards saying, "We have to have other women", has there become a general realisation that women themselves want to be on boards and believe that they can make a contribution, because, prior to, say, 10, 12, 15 years ago, this was not so?

Caroline Normand: It is an interesting point that came up very clearly in the discussions that we had around the time of the Davies review, where we spoke to over 300 people from all sorts of groupings. He made clear in that report that, as far as demand and supply is concerned, there are some specific issues. One of them was indeed to make sure that women made it clear that they were interested in promotion as well as being pulled up through, as well as the demand coming from chairmen and others. Obviously, it is a question of getting those things aligned. If you do not have the pull, if you do not have the demand, it is very hard and there is no space, so the demand side is extremely important. Therefore, something like the 30% Club is an important initiative. As you say, the supply—and that includes the way in which women address the issue of wanting to go on boards—is also very important.

Jonathan Rees: Can I just add to that? There has been some interesting research, which the Home Secretary helped launch the other day, around the importance of sponsorship. There is research that people sponsor in their own kind. That is, men will tend to sponsor other men looking a bit like them. One of the real challenges is to get people to sponsor—if it is a man or woman—not just a woman but a younger woman who has a totally different way of

doing things. That is part of the next step forward, and I think it begins to help answer Baroness Scott's question. It is not just about diversity in one protected characteristic, but it is about recognising that lots of different people probably lead to better decisions.

Q219 Lord Brooke of Alverthorpe: I do not hear a great deal of support for a European intervention. Does the Government believe that any work could be done at EU level, which would improve the representation of women on boards, or is it really a dead duck as I seem to be hearing? If it is not, what kind of work do you think could usefully be done that might help?

Caroline Normand: We really ought to give credit where credit is due. Vice-President Reding has done an enormous amount to raise the profile of this issue around Europe and make Member States aware of the importance of the issue. I know that she is very passionate about it and has made some very strong interventions about why it is important. As a result of that, we are seeing a lot of Member States developing their own approaches. They are different approaches in different ways. We do genuinely think that the EU has a role in shining the light on the issue and disseminating good practice. They are well positioned to do that.

However, the point is that we do not think that legislative measures should be taken forward at the EU level, and there are some very well-worn reasons for this as Jonathan has already described. Member States are very different. Their company law regimes are very different. You have countries that have two-tier boards, countries that have unitary boards, which have all evolved from the culture and the history of how commerce developed in their countries. You have different situations in relation to who is working when and how much. They are very, very different situations, and so they are all starting from a different place. So crude one-size-fits-all measures are not really likely to work as effectively as each country deciding what works for them from where they are starting, given the kind of system that they have, and then taking that forward. We think this sort of flexibility is really important. The worst thing that could happen is that you have a one-size-fits-all, which destabilises boards and brings the policy into disrepute, and you do not get the end game that you are trying to get to, which is effective boards and many more women on those boards.

Q220 Lord Brooke of Alverthorpe: If all the focus is on the FTSE 100 doing well—and we are singing praises because of the degree of success there—yet the smaller companies in the FTSE 250 fall behind, what do you do about that?

Jonathan Rees: Again, it is a fair point. What we are doing is a range of different measures. I mentioned earlier that the Government is rolling out voluntary reporting, and one of the issues we have found is lots of the smaller companies—and we are talking about companies of 150 plus—do not know what the data is about: how many women there are in senior management positions, what the pay gap is, what the talent pool is and so on. That is why we call it *Think, Act, Report*. First of all, we want them to think about it, then we want them to take some action, and then we want them to report on it. One of the things that Lord Davies' work has shown is that transparency actually does drive changes in behaviour. The fact that practically every other day you can read about this in the *Financial Times* has really driven a change in the FTSE 100. Clearly the *FT* does not cover some of the smaller companies in the same way, so we are looking at different ways of trying to reach them. But it comes back to the point that we do think it is in the businesses' interest, so the other half of it is to say it does not actually require lots of new systems. Most companies have this data. Most companies ought to know—just to take one example—how many women who go off on maternity leave return. The best companies will end up with return rates of about 99%. The worst companies are down to about 50%.

Q221 Lord Clinton-Davis: Where there is reluctance to take any action at national level, do you think in those circumstances some pressure from the EU is worth while?

Jonathan Rees: As Caroline said, certainly the threat of legislative action from the EU will make it easier to make sure that the voluntary approach works. Therefore that is why the Government—from the Prime Minister down—has been very clear that if the voluntary approach does not work then all options, including quotas, need to be considered. Having said that, we as officials can see all sorts of practical problems with how quotas would work, in terms of the company structure, in terms of, “Are you dealing with executive or non-executive?” and so on. It is not a “Yes” or “No” question, but I do think that we want to continue to work with the European Commission, as we have, about what makes sense.

Helene has just been in Norway talking about our approach. The Norwegians in some ways are the frontrunners on this, and we can learn from them, but also I think they are quite interested in learning from us.

Q222 The Chairman: On this point, Mr Rees, could I ask Helene Reardon-Bond—I cannot see properly, I am sorry—are you going to do a report on this, on your visit to Norway? If so, would it be in order that you could let us see it or even use it as evidence?

Helene Reardon-Bond: Yes, we certainly could. What I would say is that we were specifically asked to give evidence by the EU, which has the exchange of good practice programmes on gender. We were in a very good position because the UK is the envy of Europe, in terms of the fact that we have been monitoring this issue very closely for over 10 years and the Government has been supporting the Cranfield University female FTSE very actively, and I think that we should all really applaud the work that they do. So we did a two-header with them, and then we presented the voluntary case alongside Norway. Very few Member States felt that quotas were a golden bullet. They felt that it needed to be a range of packages, and it was acknowledged that the UK is really showing leadership in this area. So we would most certainly be able to submit what we learnt from that exchange of good practice, which I think goes back to the point Lord Clinton Davies made around how the EU could add value to this agenda. That exchange of good practice is an area that we would look to.

The Chairman: That would be most useful. Thank you very much indeed.

Q223 Lord Haskel: You have made the point that boards in Member States vary, and you have made the point that legislation at Member State level you really do not think would work although the threat of it might do something. But of course part of our approach in the UK is to improve corporate governance, and part of our approach is also that the executive search code should reflect what we are discussing. Do you think that these could be applied through the EU, or should these just be applied at Member State level in the first place?

Caroline Normand: The European law, the fourth company law directive, ensures that every Member State has a corporate governance code and, indeed, there is a “comply or explain” approach alongside the corporate governance code.

Q224 Lord Haskel: What if you do not stick to it?

Caroline Normand: Again, just as is the case with company law systems, these are applied slightly differently in every Member State, which has a slightly different history. Obviously in the UK we pioneered the corporate governance code approach and comply or explain, but it is pretty universally adopted in some form or other. That is reflected in the way that different countries are taking forward this agenda. For example, in Denmark, Finland, Germany, Poland and Sweden, their measures in relation to women on boards are all being

taken forward through their corporate governance codes. In other countries, for example, Belgium, France, Italy and potentially the Netherlands, they are looking at more of a legislative approach. I think the answer is that corporate governance codes are a very good thing. They are something that is absolutely at the backbone of UK corporate governance. Again, it is hard for the Commission to impose a single approach on different systems that use different tools differently. We think the corporate governance code is a good one, and that is why the changes that the FRC⁴ is bringing in this October are very much in line with our approach in this country.

If I turn to the head-hunters code, which I think is the first of its type, it is a voluntary code that now has 26 signatories. All the major search firms who do recruitment for FTSE 100 firms have signed up. This is a very good development. It is a voluntary approach, but it is one that the Association of Executive Search Consultants is looking to push out through its associated organisations in Europe, and we encourage them to do so. We think it is helpful. It has provisions around how executive search firms conduct their searches and around the nature of shortlists and longlists.

Again, though, it is not necessarily the case that every country or companies in every country use the same kind of executive search process that we do in the UK. Obviously, where you have perhaps bigger block shareholdings or a different structure for your board, it is perfectly possible that the kind of executive search that we have will not apply in the same way. We think it is a good thing and we will encourage the association to push this out and let others join with it but we also have to bear in mind, it may not be appropriate in every situation in every country.

Q225 Lord Haskel: For my benefit, could we just differentiate between the law and corporate governance? For instance, if I remember rightly, when I used to go to Sweden, in Sweden the four largest shareholders choose the non-executive directors. It is not the chair. Is that part of the law or is that part of corporate governance?

Caroline Normand: I apologise; I do not know what the answer is for the Swedish law.

Q226 Lord Haskel: No. But what I am trying to get at is, is there a line between corporate governance and the law?

Caroline Normand: In this country signing up to the corporate governance code forms part of the listing requirements, so if you have a primary listing in the UK you must sign up to the corporate governance code and you must report on how you have implemented it on a “comply or explain” basis, so—

Lord Brooke of Alverthorpe: Or breached it?

Caroline Normand: —you comply or explain, and shareholders pay attention to how you have complied and what your explanation is. It does have legislative effect, in that it is a requirement for you to do it. It is done on a “comply or explain” basis for the same reasons we have been talking about on other things. It is not the case that in every single company you are going to have exactly the same situation and, therefore, everything in the code fits automatically with those companies, so that is the degree of flexibility that is built into the code.

Q227 Lord Brooke of Alverthorpe: But is the real answer there not that the law is the law and corporate governance is on the basis of voluntary observance, if we take Marks &

⁴ Financial Reporting Council

Spencers, which had a CEO and a chairman completely in breach of the corporate governance?

Caroline Normand: Indeed. The underlying regulatory situation was a code with principles in it saying, “On principle, you should have a separate chairman and chief executive and, if you do not, you must comply or you must explain why”. They explained, but they had to run the gamut of their shareholders at the same time, who are the people who oversee what boards do, as owners of the company.

Q228 The Chairman: Yes, but it has evolved?

Caroline Normand: The code?

The Chairman: Yes, absolutely.

Caroline Normand: Indeed.

Q229 The Chairman: Also, the fact was that this was supported by the Government. It was Higgs, was it not? Derek Higgs recommended the code first and the “comply and explain” measure. As I recall, ironically, the first people to fall by the wayside were the FSA. It is flexible though. When you consider it has been going on for hundreds of years—a nod and a wink, and so and so goes on your board. The position has changed hugely. If it changes as much in the next 10 years as it has done in the last 10, I think we will probably find men saying, “Please can we have a quota for boards?”

Jonathan Rees: Yes.

The Chairman: Do we have a copy of the executive search code for executive search firms? If you could let us know where we can get it, that would be very useful.

Q230 Lord Wilson of Tillyorn: A good deal has been said about trying to create a demand for more women on boards and a certain amount said about supply. Do you think there is a role for the EU in trying to create supply and, if so, what would that role be?

Jonathan Rees: The starting point is—and we talked earlier about some of the figures—in order to get 25% of women on boards, you are only talking about 99 more women on FTSE 100 boards, so we are not talking about enormous numbers of people here, and there are clearly more than 99 really good women who could come on to boards at the moment.

One of the other things that I know Lord Davies feels very strongly is that it is also looking at the pool of people who go on to boards, because in the past the pool has tended to be rather narrow in terms of people who understand profit and loss. If you compare us, say, with the Americans where you have a lot more people interchanging between state service, Government service, academia and so on, and going on boards, we traditionally have not had that. One of the interesting things that has happened in the last year or 18 months is you have seen a broader diversity, so going back to the point that diversity of background is just as important. We think that there is an important role, in terms of trying to ensure that there is a proper supply of women, so there are quite a lot of programmes that the CBI and others are doing, mentoring, supporting, coaching and bringing people through.

I think your question was then what was the role for the EU in this, and I am not sure that we see quite so much of a role for the EU because we come back to the question that the sorts of people who serve on boards are very different in every country. If we go back to the German model, with the two-tier supervisory board, there is a set proportion of people from a trade union background and a set proportion of people from a management background. It is more difficult to see how you could do that at the EU level, but I think—as

Helene will say in her report—other countries are really interested in the work that we have set up to try to improve the supply. Very often, it is just about—and we have seen this in public appointments, too—encouraging women to put themselves forward. The old story is that if there are six things that you are looking for and a man has one, he will say, “Wing the other five”; if a woman has five, she will not put herself forward because she does not have the sixth. There is actually academic evidence to support that.

Q231 The Chairman: Before we go further with this questioning, I would like to introduce Lord Boswell, who has just entered the room; he has been appointed as the overall Chairman of the EU Select Committee. As you know, we are a Sub-Committee of EU Select, though some of us do sit on Select as well. Lord Boswell did say that he might be able to come and he just wants to sit in. Of course, he is quite at liberty to ask questions if he wants to, so thank you.

Now, are there any other comments on that answer?

Helene Reardon-Bond: I would just add that I think the Government feels very strongly that we need to do much more work around the supply chain. Women on boards or the lack of them is actually a barometer for what is going on deeper down in business. We know that if we could release the full potential of women it would really add to the growth agenda. That is why our Ministers have set up something called the Women’s Business Council, which will take forward the work programme on this. The supply pipeline will be a key factor of some of the work they are doing.

Interestingly, I should say that the Women’s Business Council is chaired by one of the few women BME⁵ CEOs from a 250 company, Ruby McGregor-Smith. We think she is absolutely going to be very good in this role to drive forward change.

Q232 Lord Wilson of Tillyorn: Could I just change tack for a moment? I think when you answered originally you said you only need 99 women for the FTSE 100, and there are far more than 99 women who are capable of doing it. Then you said that actually you need to be training people up, so much, much broader, which seemed right to me, because we are not just talking about the FTSE 100, are we?

Jonathan Rees: No.

Q233 Lord Wilson of Tillyorn: You produced a lot of rather interesting examples of the sort of things that are being done.

Jonathan Rees: Yes. It goes back to this point where we must not get over-fixated on the targets, because the targets are about the overall numbers, both non-executives and executives. As I said earlier, the challenge is much more to increase the number of women on executive management teams where the figure is very low. Therefore, that is part of the work that Helene has just mentioned. It is interesting as to why that should be—and we all have our reasons—and, indeed, childcare is one of the reasons for that, but there is quite a lot of work that can be done to get these people ready for those positions. That is why it is not going to be a quick process to get that 6.6% up to something like 25%. It is going to be a very slow process.

Q234 Baroness Scott of Needham Market: Coming back to this question of the disciplines from where you are drawing people in, it certainly strikes me that we are quite siloed in this country. People who go into academia stay there. I wonder whether you would

⁵ Black and Minority Ethnic

like to comment on something I have observed anecdotally, which is that a lot of women in senior positions have come from the public sector for various reasons, but the business sector tends to rather discount experience that has been gained in the public sector. If you have been the chief executive of a large local authority, for example, quite often businesses simply do not value that kind of experience. I wonder whether you would agree with that, and whether you have some evidence or observations.

Jonathan Rees: I think we would agree with it. It was one of the points that Lord Davies very much considered in his review.

The Chairman: May I interject a moment? Lord Davies has just joined us. Welcome!

Jonathan Rees: We did have a number of discussions—and he will be able to tell you about the discussions he had—as to why particularly the larger FTSE companies were not putting such a premium on people with different kinds of experience. We have just done some work looking at the voluntary sector where again you find that the larger the charity or the voluntary organisation, the more likely it is to have a man chair or a man chief executive. Again, I think part of that is: if we want to really crack this, we need to see women coming to the top in both the charity sector and the private sector. I have to say that the Civil Service is actually one of the better organisations. At one marvellous stage half of the Permanent Secretaries were women. I think we have just slightly gone under that, but 35% of senior civil servants are women. We have been working at it very consciously for the last 20 years.

The Chairman: Yes, for 40 years.

Jonathan Rees: Or 40 years.

Caroline Normand: Just as a supplementary to that. I think one of the other issues that is now coming more to prominence as a result of changes to the corporate governance code is around looking at the evaluation of boards and how they are actually operating, because by bringing that to the fore, it sets the skills of the board in the round as opposed to focusing so much on the skills of individuals, which tends to happen when you are looking at the nomination process. If you can shift that more clearly to “What skills does the board as a whole need?”, it is then much easier to go and think about, “What range of people could I go to, to fill those skills?” I think they work positively together. One of the changes that the corporate governance code is bringing in this October is exactly around how evaluation can play into this picture.

Q235 The Chairman: I am conscious, Ms Whitehead, that you have not made any contribution, because they have been going on hammer and tongs at it. Is there anything you would like to ask us or to say to us that we should have asked you?

Helen Whitehead: No, I do not think so.

Q236 The Chairman: I wonder if any of you have any idea—and on a different subject, the thing that struck me about this most interesting session is the word “education”—whether educating women to aspire to go on the boards is getting anywhere. Has it started? It certainly was not around when I was going through school or college. That is looking at the supply side again. You have to have people who think they are capable of doing it, want to do it and want to take on the courses during their business career that will get them to the position where they should be automatically ready for selection in that area. Has anyone thought that one through?

Helene Reardon-Bond: Yes, that will form part of the Women’s Business Council work programme, but we have an awful lot of research that we can show. If you look back, as you say, over the last 20 years women are now much better qualified; 57% of graduates in 2010-2011 were women. For instance, about 60% of most law courses are women, and likewise accountancy. We have a much bigger pool of women there. As a country, we have these highly educated women. Why would we want to waste all that talent? It does not make economic sense, let alone the fairness argument. Those women now have far more positive role models as well that they can aspire to. We definitely think that there is quite a lot of work that we can share.

Q237 The Chairman: And confidence building?

Helene Reardon-Bond: Yes. The really interesting thing about Lord Davies’ report was that all of the recommendations were not aimed at women. They were aimed at businesses. We think that that is where the focus needs to be. There is not a lack of talent. The other structures actually need to change. I would just add one thing. The Government is doing things in terms of extending flexible working to all, and we think that you need to put in place the culture and the infrastructure to facilitate that change, because women definitely feel that there is a lack of flexible working and quality part-time work.

Q238 Lord Haskel: I wonder if I might be allowed to raise something that people may find a little offensive. In American science, they are making a big effort to try to get more women into the pipeline and to introduce flexible working by appointing married couples to job shares. In fact, I can see you nodding; you have obviously come across this. I just wonder whether we could learn anything from that.

Jonathan Rees: I do not know about married couples, but one of the things that we have done in the Civil Service is, indeed, to do job shares. One of the things that the Cabinet Office set up three years ago now was a matching service because there are a lot of people—generally when they have children but also when they have other caring responsibilities—who want to work part-time. I am afraid sometimes it is still the case that people say, “It is quite difficult to do this job part-time”, so I do think that job sharing is part of the solution. One of the things that actually comes back to where we started is that the public services clearly find it much easier to do job sharing than the private sector. Is that a cultural issue? I do not know; sometimes, and this is just anecdote. We have talked to lots of financial services companies and lots of lawyers. Client-driven businesses are very much driven by the demands of the client. What they say to us is, “Job sharing/flexible work/part-time work does not work for us”. I think that is part of the cultural debate that we need to have, because we have made it work in the Civil Service really very effectively.

Lord Haskel: In America it is becoming quite popular in science where, of course—

Jonathan Rees: There are very few women in science here, as you know.

Lord Haskel: —it is the way they are trying to get more women into science.

Q239 Lord Brooke of Alverthorpe: It is not really a European issue, but you talked about the number of Permanent Secretaries now and good progress has been made there. There are also boards within Civil Service departments as well. Are the figures holding up there or doing well? Secondly, on the European angle, what is the position within the Commission?

Jonathan Rees: The answer on public boards is: the figure is about 36%. To be truthful, the figures actually fluctuated between 32% and 36% for the last 10 years, so the Government

Department for Business, Innovation and Skills (BIS), Lord Davies of Abersoch, Government Equalities Office (GEO)—Oral evidence (QQ 1–81)

has set an objective that 50% of new appointments should be women by 2015. While the public sector—

Q240 Lord Brooke of Alverthorpe: Did I hear a quota mentioned there?

Jonathan Rees: It is a target. Indeed, in a way we think targets are good because they drive behaviour, but the target is one that in the circumstances would fit the needs of public bodies. But setting a target with nothing behind it will not help. Behind that—and both Helene and I used to do a lot of work on this under the last Administration—you need to have support programmes, mentoring, all sorts of other things to help people through. I think the public sector is better, but we are not saying it is perfect.

Q241 Lord Brooke of Alverthorpe: And the Commission?

Jonathan Rees: Sorry, I do not know what the figures are for the Commission.

Helene Reardon-Bond: I have actually asked the question. I sit on something called the high level group on gender, and when they have raised this subject I have suggested actually that they probably need to look to themselves. That might be something you are—

Lord Brooke of Alverthorpe: What a surprise.

Q242 The Chairman: Do you want us to help you?

Helene Reardon-Bond: You might want to ask them the question as a part of your evidence because I think—

The Chairman: Thank you. That is a good tip.

Q243 Lord Wilson of Tillyorn: I will try to be as short as I can. The point was made a moment ago that it makes economic sense to have women on boards. You must not waste this pool of talent—totally understood, the point about fairness. But earlier it was said, in rather more general terms, it produces better decisions. Has anybody measured the decision-taking and what companies do better because they have a higher percentage of women and, if so, is there some sort of crossover point?

Jonathan Rees: The short answer is that we have research, both from McKinsey and Accenture, which says that those organisations that have more diverse boards produce better return on shareholder capital, more profit and so on. Part of the difficulty, of course, is: which is the chicken and which is the egg? What is the cause and the effect of that, because these are well-run companies? It is something that we are doing quite a lot of work on with our colleagues in BIS, in terms of the business case for equality, and we will be coming out with a report in September. Also there is much more anecdotal evidence that actually—it is a horrible term—groupthink does not help organisations, so the more diverse the background the better. Again, there is quite a lot of academic evidence on that.

Q244 Lord Wilson of Tillyorn: But you have said “more diverse” each time—

Jonathan Rees: I have.

Lord Wilson of Tillyorn: —and diversity is not simply gender diversity but throw in some sort of oddball and produce diversity?

Jonathan Rees: I think diversity is, indeed, more than gender, but actually there is quite a lot of evidence that women are much better at assessing risk than men.

Department for Business, Innovation and Skills (BIS), Lord Davies of Abersoch, Government Equalities Office (GEO)—Oral evidence (QQ 1–81)

The Chairman: I was going to say that would be a wonderful way for a woman chairman to end this session but Lord Clinton-Davis wants the last word.

Q245 Lord Clinton-Davis: All I can say, as a former member of the Commission, is that when I was on it from 1985 to 1989 the situation affecting women was appalling. Has there been any improvement in recent years?

Jonathan Rees: There has been some improvement. There are now more women Directors General and there are more women Commissioners. But I think as Helene said, it is nowhere near good enough.

Q246 The Chairman: Thank you very much indeed. It has been a great session. I have certainly learnt a lot, as I am sure has every other Member of the Committee. We thank you very much for giving up your time. If you can give us any additional information that we have not asked for—because you are the experts and we are just probing at the moment—we would be very grateful to have it.

Jonathan Rees: Thank you. We would be happy to give that, and obviously to come back if and when there are clearer signs of what the Commission are going to propose, which we would expect to be some time in—well, they claim the third quarter, but I guess it will be a bit like the Civil Service version of autumn, so it will be later on in the year.

The Chairman: Christmas Eve. Thank you very much indeed.

Examination of Witness

Lord Davies of Abersoch.

Q247 The Chairman: My Lords, first of all we want to give a big welcome to Lord Davies, our colleague, the noble Lord. I have to make a terrible admission that I have not read your report, but I will have read it by the time we have our next meeting of the Committee, which is this time next week. Of course, I have read all the comments and the press. You were not here during the whole session, but you have heard there are many references to your report, so we are looking forward very much to this session. Your report puts forward an argument for increased representation of women on boards. That goes beyond fairness and into the business case. Is there a benefit, then, in looking to accelerate progress elsewhere in Europe where efforts have been less prominent than in the UK?

Lord Davies of Abersoch: Funnily enough, I was struck by Lord Haskel's comment to start with that what I should be doing is job sharing. I am going to go home and tell my wife of 33 years that she should have been doing this. Look, I was struck by the comment at the end there that in the UK we need a culture change in the boardroom. I think it has started, and through the work of this report, together with the 30% Club, we are reaching a tipping point where boards of directors, chairmen who are in the wrong place or have the wrong attitude as regards having the right diversity on a board—well, firstly they should not be chairmen but, secondly, they will be found out.

The second bit is that I think we need a cultural change vis-à-vis flexibility of working. Out of this report has come the realisation that, look, women make up 51% of the UK population, 46% of employed people, and yet the numbers of women on the boards of the top 100 companies—the fact that there were 21 all-male boards—was a disgrace. It is not just about equality, as was mentioned before; it is about business performance. The more diverse the team is, the better the performance. As was mentioned previously, every type of research shows that if you have a diverse team with different approaches, difficult intellectual approaches and different backgrounds, the better the performance.

In summary, I think we have made great progress in the last 12 to 18 months, but we have to keep the pressure up. I am very encouraged by the fact that women now account for 16% of the FTSE 100 boards; that the number of all-male boards has fallen from 21 to eight. I know who the eight are. I am in active dialogue with the chairmen. It will not be eight by the end of the summer.

But I do think that it has highlighted a number of issues for the UK. If we are going to be competitive, there is the supply. The supply is there. It is undoubted. I have spoken at over 200 engagements. Everywhere I have gone I have just seen so much talent in the charity sector, in the health sector, in education, in all sorts of different disciplines. There was a stigma or there was a sense that there was not the supply, so the chairmen blamed the head-hunters, the head-hunters blamed the supply and everybody was blaming each other. I am trying to summarise everything, really. I do believe that self-regulation and self-correction is the right course of action. I do not believe the quotas are the right thing to do, but on the other hand if this does not work by 2015 I do believe we should have quotas. I think the signals are that the corporate sector is putting its house in order very quickly. In summary, this is about good business. I think we are making good progress. A lot of countries have this

problem, notably the US and other countries. So far so good, but we have to keep the pressure up.

Q248 The Chairman: You probably know that our Sub-Committee has the remit of the internal market, infrastructure and employment. Is there any risk of distortion of the internal market, the single market, through divergent policies on improving gender diversity in the boardroom?

Lord Davies of Abersoch: I do not think so. We obviously did not look at how this fits in within a European context, although we did go and meet Commissioner Reding. It would be very beneficial if every country were able to put its house in order in a voluntary way, but some countries are so behind the curve that they may well elect for quotas. My worry about quotas for those countries that have implemented it is that you tap into the same gene pool of women, so it is a small number of women that get on to lots of boards. What is really encouraging about what has happened in the UK is, of the over 100 women that have gone on boards of FTSE 100 companies in the last year, 50% have never sat on a board before. Very publicly in every speech I always give the example of Jasmine Whitbread, who is CEO of Save the Children. I was her mentor for a number of years. I started to take the name around to people to say, “This is a great candidate for a board. She runs a big organisation and what a great non-executive”. People would say, “She has no P&L experience—no profit and loss experience”. I would say, “Rubbish. She runs a large organisation; she is more than equipped”. One of the chairmen, Mike Rake of BT, eventually put her on the board, and he would tell you now publicly what an outstanding non-executive. This was about old-fashioned thinking. It is very narrow, looking in a very small pool. We have to get the chairmen and the head-hunters—which is why we have implemented this head-hunter code—to really think a bit more laterally, because the talent is there.

If other countries go their own way, I do not think it is a problem. What we need to do is put the UK’s house in order, and make sure that we are seen internationally as a place where women can be in the boardroom and can excel. I have been struck in the last 12 to 18 months just how many women entrepreneurs we have and how much talent we have. I think there is an issue about when you ask a man whether he can do a job, he will say “Yes”, but you have not even told him what the job is, whereas women would be a bit more reserved—as was mentioned earlier, a bit more cautious—so their CVs do not read quite as well as the male CVs. That is reality. We do need to encourage women, which was mentioned previously, and that is why I am really encouraged that the head-hunting fraternity is putting in place many, many programmes to encourage women, train and develop them, mentor them, and I think that is very encouraging.

Q249 The Chairman: Yes. But it needs to start a lot earlier than that, in the sandpit, virtually.

Lord Davies of Abersoch: Yes. I have a personal view that we need more women role models. If you go back 10-20 years, Anita Roddick was a great role model for a lot of people. She was ahead of her time in so many different respects. We need a few more British women role models, and lots of agencies are working on that as we speak.

Q250 Baroness Scott of Needham Market: This question of the business case I find intriguing, because it is so evidently there and yet it does not happen, which just keeps making one ask the question: well, why? Whose job is it to help businesses to understand that this will be good for them, that this is not just about forcing something on them in the name of equality, that it is good business?

Lord Davies of Abersoch: The 30% Club, which is really aimed at getting FTSE 100 to be at 30%, already has 50 chairmen signed up. The chairmen now, who are mainly men—obviously, 99% men—have the message. I suppose I see it as my job partly. I see it as the job of the chairmen to collectively, I suppose, sell the message. The evidence is there. When I talk to chairmen, or when the Committee talks to chairmen, and you look at the 30% Club as well, it is very obvious to everybody that you get a better return on equity and you get a better sales result. But the reality is, if you are a chief exec or a chairman and you run a company where 50% of your employees are female, and a big percentage of your clients are female, and yet you are an all-male board, how could you possibly be doing a good job? In the same way as if it was the other way round, I think this is about good business sense.

The Chairman: Absolutely right.

Q251 Lord Haskel: Could I just piggyback on that one and ask you, Lord Davies, whether you are not confusing better performance through diversity with better performance through having women. For instance, I think that many people agree that one of the reasons why many immigrants have done well in business here is because they do not have baggage to carry. They do not have the baggage of a previous generation of people being in business here. If you talk to people who have been immigrants and built up a business, often they will tell you that. Is not the same argument applying to women: that a lot of women who you have mentioned have not been on boards before so do not have the baggage of what they are meant to do? It is that diversity that improves the performance rather than the fact that they are just female.

Lord Davies of Abersoch: I fundamentally disagree. If you get a room of men, the nature of a discussion in a boardroom will change if you put one woman into the meeting.

The Chairman: Absolutely right.

Lord Davies of Abersoch: If you put one woman on her own, I think that is a bad idea. Basically, you need to put two. Therefore, I think it is about the nature of the discussion. As regards good boards—and I sit on one—I always cite Diageo as a great British company, and 44% of the board are female. It is a tiny board. It works well as a team. My experience in business is that one knows one's strengths. You know what you are good at, what you are bad at and, therefore, you will compensate for your own strengths and weaknesses in the way that you assemble the team. The idea in business that you will have an all-male team in a lot of these companies just does not make sense. I think it is about the change in the nature of the dialogue and discussion. Yes, diversity has many facets and we need to make sure that if you are running an international business you have international diversity, you have enough handicapped people in the company, and so on, but I think it is about a nature of a discussion.

Q252 Baroness Valentine: You have sort of answered this already, but you are against quotas in the UK, supporting instead a voluntary approach with targets in place. Should we pursue voluntary targets at the EU level?

Lord Davies of Abersoch: We have many more experts on the EU that I am looking at than myself. What I would say is when I took this on, the reason I took it on is because I saw in business first hand in Asia how different the role of women was. There is a different social infrastructure, but in many of the businesses I ran out there the vast majority of my direct reports were women. I found them to be great managers, and I was struck when I came back to the UK how we had not moved on. When I was the Minister for a brief time I did make a big issue on this, and after the election I was asked to lead this public inquiry.

I think that each country has its own set of issues. The European situation is quite complex, but I am struck by how Australia has put its house in order very quickly. It has done it voluntarily, and I think that is what most European countries should do. However, Commissioner Reding made the point that a number of countries are so behind on this issue that—there is just a total brick wall or reluctance—that maybe quotas will be necessary. I would like to see a situation where those countries that are showing progress, like the UK, have until maybe 2015 to put their house in order. If they do not, then something else should happen. For others that just have no initiatives and are not fixing it, maybe quotas would be a good idea.

The Chairman: Interesting. That we should set the pace in the European Union would be quite a novel thing, would it not?

Q253 Baroness Valentine: Some stakeholders want to see a “comply or explain” system where measures to improve diversity would be applied when less progress could be demonstrated. Is this idea feasible and, if so, is it desirable?

Lord Davies of Abersoch: If you go back a few years, report and accounts were very thin documents, and now they are very thick. They have a huge amount of detail on remuneration, corporate social responsibility, you name it. But the thing that is not really dealt with in depth is: why are those people on the board, and how were they selected? There is no doubt that we would like to see more transparency in the nominations committee process. Where did that chairman look to? Did they use head-hunters? Where did they look? Why were these people selected? What are their skills? Clearly, we have been working with the Financial Reporting Council, and so on. I would like to see a situation where the chairman, he or she, really puts in detail in the report and accounts why this board is suitable for this company.

In that regard, the stakeholder group that has been slow on this—as they were on pay, as they were on the banks—has been the shareholders themselves. They own these companies. Where were they in the last decade? Why were they not campaigning against one or two banks who were overstepping the mark? Why were they not talking about pay two or three years ago? Yes, they are making a lot of noise now, but I did not hear them making a lot of noise about women on boards 18 months ago. I am very critical of the shareholders as to why they did not do something, so I am hoping that with more transparency in the report and accounts, more interest from the stakeholder group, we will end up with a good mix at the board table.

Q254 The Chairman: Can I just ask you to clarify that point, Lord Davies, please? When you talk about shareholders, you are talking about institutional investors?

Lord Davies of Abersoch: Yes, institutional investors.

Q255 The Chairman: Yes, because otherwise shareholders really do not have any opinion. I think that is fairly important. In fact, it has been a complete block on progress.

Lord Davies of Abersoch: Yes, we did have a number of meetings with the shareholder groups. The chairman will quite often rightly say, “Hang on a minute, because 30% to 40% of my company is owned by hedge funds and they may only hold the shares for a short period of time”, which then links into one or two issues that the UK has to address. I know there are various taskforces looking at it. We need longer-term shareholders that are in the companies for the long term, supporting industrial and other growth, and at the same time we need a radical change in flexibility in the workplace.

If I may just lead into that, one of the surprising unintended consequences of this work has been the demands on me personally, and the team, to speak to the accounting and legal profession. Now, why? Well, because all the women are leaving. A huge percentage of women—not all, but a huge percentage—are leaving. Why are they leaving? Because, yes, it is a client business but it is about work/life balance. They have to change their working practices. We are in a very different era in terms of attitude to work. One of the challenges we have in the UK—and I know Win Bischoff and others are looking at it—is we need to be leaders in this arena, and we are not today in the UK. I think there are lots of unintended things that have come out of this piece of work.

Q256 Lord Brooke of Alverthorpe: Of course, you did bring it back to Europe; this is the point of our inquiry. If I heard you correctly, you were indicating that you do see potentially a case for quotas at European level.

Lord Davies of Abersoch: In certain countries where there is no action and no willingness on behalf of the chairmen, yes. Look, we have gone from a situation where very few women were being appointed on to the boards. Now we have a run rate of more than 25%, probably more like 30% of all new appointments are women and the number of all-male boards has dropped and so on, and we are up to 16% in the FTSE. The Cranfield trajectory is showing that we will exceed the 25% by 2015. If we were not in that position today I would be sat here saying, “I have failed; we need quotas”.

Q257 Lord Brooke of Alverthorpe: Of course, we are failing badly with the FTSE 250?

Lord Davies of Abersoch: Absolutely. You have to start somewhere. This is a journey. Fix the big companies, then move on to the FTSE 250 or 350, and then fix the executive committees. Because one level below the board in Britain we just do not have enough women on the executive committees. If you are a chairman, and you are sat with your chief executive and you do not have a sense that there is a momentum to this, then I think you are really in the wrong place and you must have been asleep for the last 12 to 18 months.

Q258 Lord Brooke of Alverthorpe: You appreciate, of course, that if you have a directive or even a regulation coming from Europe you cannot pick out a particular country or set of countries, you have to have a uniform approach that runs across the board. I come back to my point. Assuming that we had hit particular targets ourselves that were on a voluntary basis, there could be lower targets on a legislative basis across the whole of Europe with which we could live quite comfortably.

Lord Davies of Abersoch: There might be, but I truly believe the best way to fix this is voluntarily. I do accept that the FTSE 350 is our next challenge, and I think after the summer we really have to put the pressure on those companies to put their house in order. But until the top 100 are sorted, we do not want to tackle them. This has been a bit of a campaign, and now with Helena Morrissey and all these chairmen of the 50 signing up for the 30% Club I think we are going to get there on the top 100, and then after the summer we will tackle the next leg.

Q259 Lord Brooke of Alverthorpe: I was just really trying to see if you felt that a little bit of stick or the threat of the stick might produce results.

Lord Davies of Abersoch: I do not think so. Look, the reality is women do not want quotas. Of the 2,600 replies we got—I am no longer a government minister so they will pass me a piece of paper and I will get it wrong—some 89% of the respondents did not want quotas. Women did not want quotas. I did an event with five major multinationals about three weeks ago, with 250 women in the room. I said, “What would you like? How many of you

Department for Business, Innovation and Skills (BIS), Lord Davies of Abersoch, Government Equalities Office (GEO)—Oral evidence (QQ 1–81)

would like quotas?” Three hands went up out of 250. Women would much rather us fix this and get there through merit.

Q260 Lord Brooke of Alverthorpe: They think they are going to get a breakthrough in the banking industry, then?

Lord Davies of Abersoch: I am not going to cover banking.

Q261 Lord Clinton-Davis: You said, Lord Davies, that you have had discussions with the accountancy and legal professions. I know nothing about the accountancy profession, but at the Bar and among solicitors there has been a rapid increase, has there not, in women members of the Bar and the solicitors profession? How was that accomplished? What devices were utilised by the Bar Council and the Law Society?

Lord Davies of Abersoch: I am not sure, actually, but what I do know is that when I met with the partners of the main legal firms—Slaughter and May, Clifford Chance and so on—there were one or two firms who really have grabbed hold of this. That is more the big firms—the Eversheds, and so on. John Heaps, the Managing Partner of Eversheds, is a good example of somebody who is at the top of a legal firm who really gets this. They have what they describe as “leakage”. They have a lot of women partners leaving. I do not know their statistics or how they did it, but it is a very different situation at the Bar. The bigger problem is among the big legal firms and the accounting profession. What they are going to have to do is change their working practices. We have some of the world’s best and biggest, and London is very much a centre for accounting and legal, but if you are losing your talent then you are not going to have a business in 10 years. I do not think there is a managing partner in those firms where this is not a top priority. I do not know the answer to your specific one as to how they did it.

Q262 Lord Fearn: A lot of the impact of the UK approach has been attributed to your proactive engagement with this issue. How can such an engagement be incentivised or, indeed, a lack of engagement deterred elsewhere? Should such efforts that we have been taken at an EU level?

Lord Davies of Abersoch: Very rarely would I sit anywhere and thank the media, but on this occasion I will thank the media. The *FT* and a number of leading newspapers have really helped the case in naming and shaming companies that were not fixing it. I would like them to keep the pressure up. In talking to other countries, Japan—if the number is right—has less than 1% female representation on the boards, and maybe that is not a surprise. Maybe I should not have said that. But what I would say is that in Europe some countries are pretty advanced in their thinking; a lot of multinationals you see in countries get it. I am not sure if I am answering your question, but I just feel that we have real momentum. We have passed a tipping point; we are going to see a lot of women coming out of very interesting backgrounds going on to boards of major companies in the UK. That has to be good for business.

Q263 Lord Fearn: Do you think the publicity is following what you are doing?

Lord Davies of Abersoch: I have to say that I have worked very hard in educating the media and working with the media and explaining why this is good for business. It is about business performance. It is just obvious business sense. What really shocked me when I got involved is how resistant one or two of the male chairmen were. They certainly were not keen to engage with me, talk to me or meet me. My response to them was, “Well, you should not be a chairman. You just should not be a chairman”. I am not going to name them, but I would say I am very grateful to one or two chairmen who really helped me. They run great boards,

they run great companies, and they in turn really started to pass the message. I think a combination of publicity, role modelling, and also initial success has led to a bit of momentum. Cranfield has been just a huge help in this because they are able to give the fact-based data, as have McKinsey, which we can then show to chairmen and say, “This is about results”.

Q264 Baroness Scott of Needham Market: This is just a complete punt; I would just be interested in your view. Do you think that some of that agenda has been helped by what happened in the financial services market, where there is a strong sense about the masters of the universe running out of control and no women?

Lord Davies of Abersoch: It is still the case, I think.

Q265 Baroness Scott of Needham Market: Yes, I just wonder if you think that played into it and helped to make everything more receptive?

Lord Davies of Abersoch: I am not sure. Obviously, my background is in the financial services industry mainly. What I would say is that that is an industry where lots of surveys and papers have been written by universities and leading authorities about whether the boardrooms or whether the risk-taking would have been different if we had had more women. I would say I think it might have been different. It is too late now, and we will never know. It is a sweeping generalisation and maybe you will say it is not fact based, but I think women are more risk averse. They will think about risk in a different way to men. It is Venus and Mars. I think that you need lots of different backgrounds, lots of different thinking. In the financial services industry, you had a situation where a lot of trading and a lot of other businesses were totally run and occupied by men, which inherently cannot be a good thing.

Q266 The Chairman: For clarification again, I am sure that in the last set of evidence we were told that women were better at taking risk?

Lord Davies of Abersoch: Better at handling it.

The Chairman: Handling it, yes, that is right.

Lord Davies of Abersoch: Handling it.

The Chairman: That is right. Thank you for correcting me.

Q267 Lord Haskel: The question here refers to the Davies approach, which I presume is voluntary action and, if not, the threat of legal action. I think most people consider that to be the best way forward. Do you think that the drive for European action should be used as an opportunity to export that approach? Do you think your approach is best exported to Europe to speed them up?

Lord Davies of Abersoch: It is interesting that we have had a lot of demand from other countries who have said, “We would really like to see how you approached this problem and how you have made a lot of progress in a short period of time”. We have had a number of countries ask, and if I had accepted every invite to go to all these countries, I probably would have been fired from my day job.

I will tell you the example of a country and a market that really got it very quickly and that was Hong Kong. We were invited to speak in Hong Kong. All of the big companies came. The stock exchange sponsored it. Within a very short period of time, they now have a huge campaign going on because their percentages had fallen so dramatically. The chairmen got it, they understood it and now they are fixing it. I think there are other countries that have studied our approach and are now adopting it.

Q268 Lord Haskel: What about the EU countries? Do you think that your approach could be exported to them?

Lord Davies of Abersoch: I am not in a position to ever comment on whether we could export this, but I think if you have somebody who has been a chairman and maybe understands how Governments work or inquiries work, it is quite helpful. There is no doubt that it helped our cause that I had been a chairman. There is no doubt, and it was good that I was a man. I will say this: that, honestly, Helen and Caroline in BIS have done quite a stunning job. I hear so much criticism of the Civil Service and whatever, and all I would say is these two ladies have worked relentlessly and have been a fantastic inspiration to everybody on the steering committee. That is very much part of the success of this, that they have really been able to give us the ammunition that we needed to go out to the market and persuade chairmen who were very set in their ways.

Q269 Lord Wilson of Tillyorn: When we talk of whether our experience is exportable to the European Union, a lot of the emphasis here I think has been on corporate governance, search codes and so on. Is that exportable to Europe, or are there differences in the way in which they run their companies, such that the models used here do not necessarily apply across Europe?

Lord Davies of Abersoch: What I think would be a really interesting exercise is to benchmark what is good about governance and the way we do things in the UK versus other countries. You never have all the answers. We are not the best at everything. I do think our governance standards in the UK are very high. But as always is the case it evolves. I have been struck by how we have learnt from looking at other countries, and I do think that an interesting exercise for BIS would be to look at what Germany is doing well on governance and the running of boards and so on, what we are doing well and what France is doing well. Everybody has something that we can learn from each other. What they can learn from us is that generally our standards of governance in Britain have been very high, but we had a problem because it was all male and now we are fixing that aspect. That was a weak link in our make-up.

Q270 Baroness Scott of Needham Market: I have been involved in this area with regard to political parties. It seems to me one thing that political parties have in common with business is that there is not so much a demand problem now as a supply problem. I wonder if you could say something about these pipeline issues. You have already referred to the relatively poorer performance of the FTSE 250 and the problems of executive boards, so where are the women going to come from?

Lord Davies of Abersoch: They are everywhere. I think the Cranfield estimate is that there are about 2,000 eligible women in every walk of life. I always laugh with my wife because I meet all of these women, I go home and tell my wife, “I met so and so, this amazing woman”, and she does not smile anymore.

The Chairman: Are you surprised?

Lord Davies of Abersoch: Yes. They are in the entrepreneurial class. They are in every aspect of society. But the head-hunters have to be more creative in their searching. Boards of directors or chairmen have to stop saying, “That individual has to have run a big profit and loss and has to have done this and this and this”, because all you have done is you have ended up with a man like the chairman. If you run a big health authority as a CEO or a chair, you have board experience—or if you run a big charity or are a university vice-chancellor. I appreciate there are conflicts or whatever but the supply is there. But it needs more creativity from the head-hunters, from the chairmen, and it also needs the women to push

themselves forward a bit more. Look, in this climate some people are saying, “I really do not want to go anywhere near a public company board with all this fight about remuneration, and so on”. But that will pass. We have to explain to the women how they get to become board members, train and develop, mentor them, and so on. Mentoring is a big issue. If you run a big company or a small company now, you have to mentor and train and develop your talent. Britain has huge talent, and we have a very diverse economy, great strengths in all sorts of different industries, and there are women everywhere. We have to make sure that we tap into the various gene pools, not into one.

Q271 Lord Haskel: Sorry, could I just put a question to Lord Davies that we put to the previous group, and that was about—

Lord Davies of Abersoch: I hope I answer it the same way.

Lord Haskel: It is about the fact that, of course, we recognise the objectives but Government can do quite a lot to encourage these objectives. We had an example, for instance, about childcare vouchers, but the rules exclude nannies, elder care, informal care, maternity coaching for female leaders and so on. Do you think that the Government could do more to encourage the Davies system?

Lord Davies of Abersoch: We could be here for another half an hour now. I think the childcare system needs a complete overhaul in the UK. One of the unintended consequences of this work is that the allowances, tax benefits and so on for childcare are not good enough. If women make up 51% of the UK population and 46% of employed people, then childcare really needs a profound and new look at. I would advocate that we should have a public inquiry of sorts into looking at it because I do not believe that it is competitive. At a time of austerity, and so on, I realise it may not be top of everybody’s agenda, but if we are going to really be competitive, we need to make sure that at a time of recession women do not go out of the workforce. We need to make sure the childcare benefits are sound. This is a personal view, but I think it is shared by the steering committee: of the unintended consequences of this work, one was about flexibility of working—we need a radical think and cultural change—and the second is about childcare, which needs looking at.

The Chairman: I am sure a lot of people would agree with that.

Q272 Lord Brooke of Alverthorpe: What should be done about the head-hunters? You say that there should be more creativity. What do you mean by that? Secondly, finally, do you not think you have the ingredients there for a good TV show?

Lord Davies of Abersoch: I will avoid that one. Leave that one to Alan Sugar. I would say that there is no doubt that when you look at women in the workplace we can really unleash something in the UK. There is just so much talent there. What I think we have done is focused with a laser approach on an issue, and I think that if we can keep this momentum going, it will move into other strands of business. What was the second part of your question?

Lord Brooke of Alverthorpe: It was about the head-hunters.

Lord Davies of Abersoch: I was going to link into that. What I would say is that we have a very strong head-hunting fraternity in the UK. It is true to say that they were somewhat reluctant at the start, but I had an email two days ago from a firm that had not signed up to the head-hunting code but wanted to. Look, they have signed a code. We are monitoring their progress. They are telling me that the number of women approaching them is

overwhelming them. They are telling me the chairmen have got it. I think that the head-hunting fraternity is not a problem anymore.

I would still like to see the shareholders do a bit more. What I would like to see the shareholders do is once a year when they sit with the chairman I would like them to be quizzing the chairman more—particularly in the 350—as to, for example, “Why do you have an all-male board when half of the clients, the customers, are female? How could this be good for business? How could you sense and read your clients if the gender of your board does not align with your customer base or your staff base?” I would still like to see more from the shareholders, but with the head-hunters generally I think there is progress.

Q273 The Chairman: Thank you very much indeed. This has been a brilliant session.

Lord Davies of Abersoch: Thank you very much.

The Chairman: I have to say when we decided to go down this route and launch this inquiry I was slightly dubious about it and what was going to happen, but in fact it has been revelatory. Thank you so much. You were only our second witness, and the first lot you heard today. We are very grateful to you for giving up your time.

Lord Davies of Abersoch: Thank you—a pleasure.

Q274 The Chairman: I usually ask at the end of these witness sessions whether there is any question that you think I should have asked you that I did not ask, and whether you would like to answer it.

Lord Davies of Abersoch: No. It is unusual for a public inquiry for the steering committee to stay together, which we have because everybody feels so passionately about the subject. I think we felt that if we just published a report the danger is it would have died and been just another report. Very briefly, I will tell you the story of one chairman who said he got the report, put it in his briefcase, and then he said he thought that it will pass.

The Chairman: It will die.

Lord Davies of Abersoch: It will die. He took the report home and his daughter saw the report and took the report out of the briefcase and said, “I am going to read this”. Before he could say, “No, do not bother”, she came down the next morning and said, “Dad, are you one of the prehistoric monsters?” He wrote to me—and I certainly will not name him—and said, “I have changed the company’s board”. My plea to you would be that if you find good ideas for things that we should be doing so that we can keep up the momentum they would be very gratefully received.

The Chairman: That is very kind of you. Yes, I am sure after all the witnesses we will be seeing there will be quite a few.

Q275 Lord Brooke of Alverthorpe: Just following up on that, is there any suggestion you can make to us about how we might speak to anybody representative of shareholders?

Lord Davies of Abersoch: I do not know what your powers of calling them are.

The Chairman: Quite good.

Lord Davies of Abersoch: But I would have said it would be really interesting to get three or four of the big shareholder groups and the ABI in, just because I think they will have an interesting perspective.

Q276 The Chairman: Yes, I think that is very useful, Lord Davies. I remember when I was heading up a remuneration committee—one of the first actually, about 20 years ago or more—I went to see Mick Newmarch, who was head of Prudential at the time. I think he thought, “What on earth is this slip of a girl—as he referred to me; I was a slip of a girl by comparison with him—“doing here?” It was very instructive, and that actually encouraged me to go further along this route. I am very grateful to you for all you are doing and have done.

Lord Davies of Abersoch: My pleasure.

The Chairman: There is no doubt about it; in two or three years’ time it will make a huge difference to profits.

Lord Davies of Abersoch: Yes, and growth.

The Chairman: And growth. Thank you very much.

Lord Davies of Abersoch: Thank you.

Q277 The Chairman: You were not here actually when we said you will be getting a copy. I did not repeat the instructions, I know, but the session was on the record. It is being webcast live.

Lord Davies of Abersoch: I do not want to change anything I said.

The Chairman: No, I did not think you would. You will receive a transcript of the session to check and correct. This will be put on the public record in printed form and on the parliamentary website. So, thank you again.

**Department for Business, Innovation and Skills (BIS), and
Department for Culture, Media and Sport (DCMS) (Jo Swinson MP,
Minister)—Oral evidence (QQ 288–299)**

Evidence Session No. 6.

Heard in Public.

Questions 288-299

MONDAY 15 OCTOBER 2012

Members present

Lord Haskel (Acting Chairman)

Lord Brooke of Alverthorpe

Baroness Buscombe

Lord Clinton-Davis

Lord Fearn

Lord Kakkar

Earl of Liverpool

Baroness Scott of Needham Market

Baroness Valentine

Lord Wilson of Tillyorn

Examination of Witness

Jo Swinson MP, Minister for Employment Relations and Consumer Affairs, Department for Business, Innovation and Skills (BIS), and Minister for Women and Equalities, Department for Culture, Media and Sport (DCMS).

Q288 The Chairman: Welcome, Minister, and thank you for coming to help us with our inquiry into women on boards. We have interviewed quite a number of people, so we are very interested to hear what you have to say. The session is on the record, and it is being webcast. It is subsequently accessible via the parliamentary website. You will receive a transcript of the session afterwards, to check it, and it will be on the public record in printed form and on the parliamentary website. If you are ready, would you like to begin by stating for your record your name and your official title?

Jo Swinson MP: Certainly, I am Jo Swinson and I am the Minister for Employment Relations and Consumer Affairs in BIS and, jointly, Minister for Women and Equalities, which is now based in the DCMS, so this particular inquiry is a happy intersection of my responsibilities.

The Chairman: And it is very topical, as well. Is there any opening statement that you would like to make, or would you like to go straight into the questions?

Jo Swinson MP: I am happy to make a few opening comments, but then I am obviously keen to answer the questions from members of the Committee. We very much welcome the inquiry that you have been conducting. I know that earlier in your deliberations you heard

from the officials and Lord Davies himself. The Government think this an important issue; in the coalition agreement, we said that we would look to promote gender equality on the boards of listed companies. To facilitate that we asked Lord Davies to undertake his review, which I know that you have been very interested in. He looked at barriers preventing women reaching these kinds of senior positions in business and produced an excellent report, pointing out some of the problems and making recommendations for how those can be addressed, and has continued to do a power of work in encouraging, particularly within the FTSE 100, the chairmen of companies to take the issue very seriously indeed. That has been successful, as you will have noticed by the increase of women on boards, which is now at 17.3% of members of boards within the FTSE 100 and down to only eight boards within the FTSE 100 that are men-only, from 21. The evidence shows that the voluntary, business-led approach is working, so we do not believe that the right way forward would be a quota system, as has been proposed in some quarters, particularly if that was at an EU level. It is much more effective to get businesses to champion this issue and to be involved, and we have shown that that can be successful. We have more to do and we are determined that that will continue to be a success.

Q289 Lord Fearn: You will remember that the Speaker's Conference 2009-10 looked at ways in which to increase the numbers of women and black and minority-ethnic MPs. What did you find worked well and did not work well? Can we apply those lessons to gender diversity on corporate boards?

Jo Swinson MP: The premise behind the question points out that boards of companies are not the only place where this is a problem. In fact, over a whole range of different walks of life we do not see enough gender diversity, particularly at senior levels. You could equally look at the media, or other aspects such as politics. So the Speaker's Conference was very much designed to investigate the barriers that exist in politics. At our end of the building, we have had a small increase, after the last election, of the percentage of women MPs, but it is still less than one in four. There is still a great deal to be done. Some progress was made on ethnic diversity of MPs at the last election. On the question of what has worked well, clearly we still need to do a lot more. There was a variety of lessons from the Speaker's Conference that are relevant to the issue of women on boards, one of which is very straightforward. One recommendation that the Speaker's Conference put forward was that political parties need to monitor the progress that they are making in candidate selections and whether those selections are in seats that the party is likely to win, and therefore to result in a change of elected Members. We made some very strong recommendations for the parties to comply with those monitoring requirements, which I hope will be taken forward and taken seriously by political parties.

Similarly, the work that has been done at Cranfield on women on boards has helped to give a picture of where we are and what progress has been made. The figures can spur on further progress. For example, if you look at new appointments to boards in the last three years, taking the 12-month period, which finishes in October each year, up to October 2010 of new board appointments, it was 13.3% women; up to October 2011 of new board appointments, it was 22.5%; and, in this year, in October 2012, the figure has jumped to more than one-third, 34.1%. So monitoring in itself is one important lesson.

Another important lesson was that there was a real recognition in the Speaker's Conference that different political parties will solve the problem in different ways. Political parties are not one size fits all; they have different cultures and structures in place, they have different candidate selection arrangements and different approaches have been tried by different parties to varying degrees of success, but showing that different parties can achieve success in a different way. The parallel that I would draw from that is that, when looking at women

on boards, it is the case that different countries want to approach the issue in different ways. We have a lot of diversity across Europe and even just the make-up of boards and corporate governance sectors, but even within sectors and companies different approaches may be required. The final lessons are more general, and not just about politics or business or any one walk of life, but some of the things that are common barriers to women participating at more senior levels. Those can be around childcare or other caring responsibilities, or around confidence and lack of role models. Those are common to a whole range of areas, and some of the remedies to those will be similar in politics as in business.

The Chairman: Among the barriers that you looked at, did you come across prejudice? Did you find that prejudice was a barrier?

Jo Swinson MP: It has certainly been my experience that prejudice exists, and when I have gone for selections in politics I have had comments made to me that would not have been made to a man. They would say, “Well, you’re a young woman, what would happen if you want to have babies?” In the circumstances, I was standing against a man who had young children, but that was deemed to be different. But it is important not to conflate anecdotal evidence of prejudice, which undoubtedly exists, with the assumption that that is therefore an underlying trend. I can equally point to anecdotes in my political life where people have shown prejudice in my favour, when people have said that it would be great for us to have more women in politics. In terms of the evidence that I know best within my own party, while there is anecdotal evidence of people having experiences that they should not have had, women are just as likely to get selected in winnable seats. The problem is that not as many go for it. It may differ slightly in some other parties, and some parties have gone for all-women shortlists, for example, as a way in which to deal with such prejudice. So prejudice exists, but we should be careful not to extrapolate from individual bad experiences to an underlying problem. So when we ask whether women being shortlisted for board appointments are as likely as men to become appointed, that is a more interesting question than whether there are more men than women on boards per se. Can you assume from that that there is prejudice? You need to be careful with the figures.

Q290 Baroness Scott of Needham Market: You talked about the value of monitoring, which is certainly one of the tools that our witnesses have raised, along with networking, sharing best practice and so on. Having been clear about the opposition of the Government to quotas, is there a sense that there is any value in EU-level monitoring, networking and so on, or, given the point that you made about the different between member states and their corporate governance structures, is that something that is better done at member state level?

Jo Swinson MP: The EU certainly has a role to play in this agenda. I am not convinced that it is with EU-wide monitoring, because, for the reasons that I have outlined and you have referenced, there are very different circumstances in the different EU member states. That said, when nations have monitored the issue, there is a place within the EU for discussion and sharing best practice and lessons—for example, in the High-level Group on Gender Equality. I know that my officials have been to other countries to explain and talk about some of the experiences that UK has had and the success that it has had with the business-led voluntary approach. That is absolutely appropriate. Equally, there may be some great initiatives that other countries undertake that we may wish to learn from as well. The EU can certainly do that well. I pay tribute to the work that Commissioner Reding has done to get this on the agenda. It is something on which, from a UK perspective, we are pushing at an open door; it is something that this Government are very enthusiastic about, but that may not be the case across every EU member state. Sharing best practice, shining a spotlight on the issue and making sure that it is on the agenda is something of great value.

Department for Business, Innovation and Skills (BIS), and Department for Culture, Media and Sport (DCMS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

Baroness Scott of Needham Market: Are there particular countries either inside or outside the EU that you can single out as having something from which we can at least observe and learn?

Jo Swinson MP: Clearly, many of the Scandinavian countries have a better record than we do in percentages of women on boards. There are differences in corporate governance and so we do not want to have a very blunt comparison made, because there are differences in those structures. But some of those have been achieved without quotas and by encouraging more women on to boards. We can certainly learn from that, but we should be pretty proud of what we are doing in the UK in terms of our success, with 13% of new appointments being women and the figure two years later being more than one-third. That is pretty impressive. So we should be aware that we have a lot to offer other countries as well.

Q291 Lord Clinton-Davis: The Commissioner has expressed very strong views on this issue, and she is in favour of a more draconian approach towards women going on boards. Do you think that we can learn anything from her and, in turn, can she be influenced in the other direction?

Jo Swinson MP: As I say, I think that the achievement that she has of getting the issue very seriously considered in the EU is very welcome, and we should be positive about it, even though we disagree on the specific method by which we can best achieve the end results. We agree on where we would like to get to. There will obviously be ongoing discussions at a European level about how this can be taken forward. The consultation closed earlier this year and the UK Government put forward our own very strong evidence on how our approach has worked and also on the range of reasons why we think that there are significant downsides to introducing quotas as a way to solve the problem. It is much more effective if you get business to take the lead on this issue; there will not only be less resistance but there will be a greater degree of success because you do not have the accusations of tokenism. In some cases, a small number of women have been required to serve on a very large number of boards, which dilutes the effectiveness in spreading the resource more thinly. Our approach is a much broader one, which is more likely to be successful in developing a wider range of talent.

Lord Clinton-Davis: But do you see any possibility of compromise between the two views?

Jo Swinson MP: As I say, we wish to achieve the same ends, but we disagree on the means. I do not see it as straightforward to have a compromise including quotas. I mentioned discussions with the high-level group and sharing EU best practice. Would that be a compromise from the Commissioner's perspective? I am not convinced that it would. I think that those two positions are distinct and different. That said—and Lord Davies has been very clear about this—if we cannot achieve the success that we want, it is not as if the Government have for ever ruled out countenancing quotas. But very much the preference is that we do this through a business-led voluntary approach. Indeed, we believe that that is on course to work; the target set of 25% by 2015 is achievable, and we are on course to hit that target and then go on beyond it.

Lord Kakkar: Just to be clear about this, if the European Union were to ignore Her Majesty's Government's advice on this matter and proceed along the quota route, what would be the Government's position?

Jo Swinson MP: We do not believe that it is within the competence of the EU. We believe that regulation of boards is a matter for member states, so that is something that we would look to challenge. But of course we are involved in those decisions as to whether to go

Department for Business, Innovation and Skills (BIS), and Department for Culture, Media and Sport (DCMS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

ahead with that approach. As is well understood, a range of countries across Europe has significant concerns about that approach; most recently, Sweden has joined that refrain, saying that there are significant concerns and that it is against the proposal. So our first position is that we will negotiate hard within those discussions so that such a proposal does not come forward, although, if it did, we have significant concerns whether it is legally competent anyway.

The Chairman: She is quite a doughty fighter, is Commissioner Reding. She is also a vice-president of the Commission, so to persuade her that it is a matter of national competence will be quite difficult.

Jo Swinson MP: It may be the case, but the fact that there are significant numbers of countries that are not in favour of this particular approach cannot be dismissed.

Q292 Earl of Liverpool: The evidence that more women on boards results in improved performance in monetary terms is inconclusive. Should we make the case on that basis and, if not, what do you base the argument on?

Jo Swinson MP: A wide range of studies have looked at this issue. In the main, there is a great deal of correlation between the many economic advantages for companies that have a greater gender balance and diversity more generally on their boards, in terms of equity, better growth, more sales and better corporate governance. Of course, correlation is not the same as causality, and it would be almost impossible to prove causality with the appointment of a particular member of the board and the impact that that has, singled out among all the other factors that are at play. Some studies have found that it can have a negative impact, although I think that it is worth noting that some of those studies have looked at cases when it was the result of a quota system. As I say, some of the downsides of the quota system are that I do not believe you get as good a result anyway, because you do not necessarily have the same business buy-in and you have not necessarily done the same degree of creating a wide pool to draw from. That is an advantage of our approach. So there is never going to be exact evidence purely on the economic case. That said, there are a huge number of reasons why this is something helpful for business—not least because women make up about half of the workforce, consistently outperform men educationally and, most importantly, make 70% of the purchasing decisions. So for any business to dismiss or not properly involve that amount of purchasing power is not, it stands to reason, a sensible way forward. Equally, we have very many talented women in society and, if fewer than one in five members of your boards are women, you are missing out on great talent that would otherwise be able to contribute to business success. So I think that there are economic arguments, but there are wider arguments as well. If you have more diversity, there is a lot of evidence in a range of circumstances that you are less likely to get groupthink and more likely to have ideas challenged, coming to better to decisions. That is true in a team, in Parliament, and equally on a board of a business.

Earl of Liverpool: You mentioned the difficulty of proving causality, and I wondered whether you thought that further research was required to prove or disprove the link between women on boards and financial performance.

Jo Swinson MP: I would love to see the day when we decide to have a piece of research on the impact of men on boards on financial performance. You would never ask that question. To be fair, causality is probably impossible to prove one way or the other, but we are in the 21st century and there is a whole range of different advantages, which I have outlined, and good research that there is a correlation between strong performance and well functioning teams and diversity. That is good enough to be getting on with. Indeed, increasingly, if you speak to Lord Davies, as I know you have, you will know that this

Department for Business, Innovation and Skills (BIS), and Department for Culture, Media and Sport (DCMS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

argument is one that is won among the FTSE 100. Chairmen accept that this is something that needs to happen, and it is just about how we get there.

The Chairman: I am sorry to quote one of your colleagues to you, but Helen Grant is quoted in the paper: “Ms Grant told a fringe meeting on women on boards at the Conservative annual rally in Birmingham”, that, “research showed that gender-balanced boards tend to be ‘more stable, more sustainable and more profitable’”. So obviously she is convinced by the research.

Jo Swinson MP: I am convinced by the research. The specific point that I was making was that that is a correlation that you can point to and confidently say, as she has, that gender-balanced boards are more likely to be these things. The causality is the challenge. Are these companies well run and therefore have good results and, because they are well run, have more women on their board—or, because they have more women on their board, do they have these success metrics? So there is very strong evidence that there is that correlation. It is the causality that is always going to be difficult.

Baroness Scott of Needham Market: I wanted to press a bit further on this topic, because every witness that we have had has told us how marvellous women on boards are and what a great difference it all makes. It makes you wonder whether they were not always being criminally negligent in not having more women on their boards before. I am being provocative, but my fear is that it is actually the threat of quotas that is exercising the minds of some people on this issue. So if quotas disappear off the agenda, what do we do to keep the pressure on, to keep this very welcome progress going?

Jo Swinson MP: You are probably right that there is a range of motivations why people will embrace this agenda, from the more enlightened about the business benefits to the other end of the scale, which you characterise. There is this argument sometimes that says that if something is rationally sensible, it is obvious that people will do it, but there are a lot of areas where that is not quite the case. We all know that putting loft insulation in will cut our energy bills and the pay-off period is relatively small, but not everybody does it. I remember when I was on the Environmental Audit Committee in the last Parliament, and we looked at climate change agreements, which basically meant large businesses signing up to try to cut their energy bills. They were saying, “If we could do this we would do this anyway, because it would be in our economic interests”. But it needed that board-level scrutiny of the energy bills and signing up to climate change agreements to make that happen, despite the comment that they would already have been doing it if it was sensible to do it. Actually, we managed to meet the targets that were set. Very often, even when something makes perfect sense, it is not getting the high-level notice that is required to drive change. What this does is certainly, through the nudge approach, to make this higher on the agenda and therefore more likely to get attention and action taken as a result. It is a fair point to say that the threat of quotas has been a significant driver for change. That is why I said that I would not sit here and say never, but it may well be that at some future point it is impossible to get change any other way. My colleagues the Secretary of State and the Prime Minister have said on record that, if it came to it, that would be something that could be contemplated. But we strongly believe that this is the right approach. That said, you do not rule out something that might ultimately be necessary in future.

Q293 Lord Wilson of Tillyorn: That brings us nicely on to the next question. I think it is fair to say that self-regulation and light-touch regulation are not very high in public esteem at the moment. Does that affect how the Government look at this? If it does not affect it, what are the points made to the doubters who say that light-touch regulation does not really work?

Department for Business, Innovation and Skills (BIS), and Department for Culture, Media and Sport (DCMS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

Jo Swinson MP: The success of what happens can be shown through monitoring and, ultimately, it will be the results which will drive whether people think that the approach has worked. It is certainly true to say that in a range of different arenas light-touch regulation has not necessarily led to wonderful outcomes, but I do not think that you can extrapolate from that and say that therefore you should never have the voluntary approach. It is not just about the lightness of touch; it is about the buy-in from the people who are having to make it happen. I have found this experience in other work that I have done on the campaign on body confidence and body image as well. When you get companies recognising that this will have benefits for them, whether in terms of being able to appeal to consumers more effectively or whether it is through better governance and therefore greater returns to shareholders, that is going to be a more powerful driver, so it is a better way of solving the problem. It is not just a hands-off approach; it is more successful—and if this is successful, that will speak for itself.

Lord Brooke of Alverthorpe: So the Government and yourself are insisting that quotas are not required as long as the voluntary approach shows progress. As you demonstrated, we are doing particularly well with the voluntary approach with regard to the FTSE 100, exceeding Lord Davies's expectations. But the position is quite different in regard to the FTSE 250 and 350 and the executive posts, particularly CEO posts, even in the FTSE 100. Here we are looking to see whether the voluntary approach can deliver in those areas. How long do we have to wait before we feel that the voluntary approach has failed and we have to resort to doing what Lord Davies and the Prime Minister have hinted that we might have to do and introduce quotas?

Jo Swinson MP: I think that is a slightly pessimistic question, because I think that we are showing good success. But it is right to point out that the FTSE companies 101 to 350 are not showing the same success as the FTSE 100, but there has still been a significant increase in the women on boards. Of course, it was starting from a lower base with those companies. So you have to recognise that that is still progress. Indeed, since March this year in the FTSE 250, more than one-third of board appointments have been women. So again we are seeing good progress, but we are starting from further back so there is more to do. The critique about non-executive directors versus executive directors is one that is very fair, which we are aware of. If you look at Lord Davies's report, you see that he always said that the most rapid progress that could be made would be among the non-executive positions; dealing with executive positions is a more medium to long-term problem, because you have to deal with the career progression of women throughout the organisations. There is an absolutely wonderful diagram that I have here, which I can certainly give to the committee, on the pipeline to senior management. The Women's Business Council, which the Government have convened, has been looking at these issues, which will help particularly with the executive directorships. It has a pyramid, with half the pyramid made up of men and half of women, and a big section here where women are just falling out of the pyramid. So you have a lot of women at the more junior level of an organisation, reflecting the fact that we know that there are more women graduates—women doing very well through education. But then, as they are reaching their 20s, 30s and 40s, they are not progressing to those more senior levels. That is a key problem that we have to solve to deal with the issue of executive directors, and that is a more thorny and difficult issue to solve. As I say, the Women's Business Council is looking at ways to improve that pipeline.

Some of this comes down to the culture of the way that we work. If we recognise that one of the significant barriers is around the division of caring responsibilities, there are two things that we need to do in society to deal with that. One is to have more equitable division of caring responsibilities, so that it is not just a woman's job—the mum's job—to look after children, and so have a greater ability to share parental leave, for example, to enable dads to

Department for Business, Innovation and Skills (BIS), and Department for Culture, Media and Sport (DCMS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

be more involved. They very often want to have a hands-on role with their babies when they are born but find the current arrangements do not allow them to do so. The Government's plans on that are going to make a real difference.

The other thing is about this culture of presenteeism—the long-hours culture, the culture that you will get your senior credibility through working all the hours that are sent, and that if you are working part-time then you cannot be taken seriously. Actually, that does not need to be the case. A lot of good employers are recognising that job-sharing and having some senior roles in part-time positions can enable women to remain in the labour market, perhaps, after having children. As we get some of those changes through, that will help to deal with the situation about executive directors too.

Lord Brooke of Alverthorpe: Why do you think that women have greater success in achieving CEO appointments in the public services compared with the private sector? What lessons can be learnt from that and could they be applied to the private sector?

Jo Swinson MP: Clearly, appointments have been made in the public sector perhaps for a longer period of time in which diversity has been seriously considered as one of the factors that needs to be very much on the agenda. I know that, since the Davies report, the headhunters and recruitment firms have really upped their game on this, and 36 of them which cover the majority of the recruitment for the top positions in the FTSE 100 have signed up to a voluntary code, which, for example, will mean that 30% of longlists will be women. In a sense, almost by definition, that means that a few years ago that was not the case, and I suspect in the public sector that has been more of a consideration for a longer time. Also there are those cultural issues that I was referring to, around how easy it is to return to work after having children. There is a huge divergence in how organisations deal with that, and the very best organisations manage to retain 99% of women that they had working for them—they come back after they have had their children—whereas that goes down to as low as 50% for some organisations. So the culture within an organisation and the policies that they have in place has a massive impact, and very often maternity provision and flexible working arrangements in the public sector have been better. That is a generalisation—there are a lot of excellent private sector examples too—but those are a couple of factors that have meant that we have had more success in the public sector than the private sector to date.

Q294 Baroness Buscombe: In terms of carers, I would suggest that there is a real issue here. In the public sector there is a huge support system there in terms of job caring—job covering—when people are taking a year off every time they have a baby. It is much more difficult in the private sector. Security of tenure and security of jobs is much greater in the public sector, I would argue, and most jobs out there now are in small to medium-sized businesses, in which case it is very tough for businesses to contemplate somebody who takes a year off then comes back, has promotion and so on. But forgive me: I think it is really important, of course, for somebody in your position who is a spokesman for us as a country in this, and for Her Majesty's Government, and it is much easier, if you can speak from the heart. I do not really know what your business experience is. Have you sat on boards?

Jo Swinson MP: I have not sat on boards. I have worked in both a multinational company and a couple of very small businesses, one that was very much a micro-business and another that is a fast-growing start-up which, after I left it, actually listed on AIM. So it was really going places. I have had that experience as an employee in different types of business models, although I was elected to Parliament at the age of 25, so I did not have the experience of serving on a board. I feel passionately about these issues from my experience. On the point that you make about the small and medium-sized company, when you have people who are

Department for Business, Innovation and Skills (BIS), and Department for Culture, Media and Sport (DCMS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

just trying to make things happen and a team of a handful of people, or slightly larger, if one person is off sick for even a day, that will have a significant impact, because they are dealing with their particular clients and have those relationships. Other people will try to cover, but it is more difficult. That is where the changes that the Government propose to make on parental leave are actually very helpful to businesses—and we have obviously consulted on this and will bring forward our proposals. At the moment there is not a lot of flexibility from either the employees' or employers' perspective.

Let us say that you have a woman working for your company who has handled certain accounts and that, four months after the birth, you have a big account pitch coming up with the client that that employee had been dealing with. If that employee comes back for a week or two weeks and makes other childcare arrangements for that time to assist with that pitch—from her point of view keeping her hand in and maintaining her professional skills—at the moment she loses all the rest of her maternity rights, and there is nothing that can be done about it. It is frankly ridiculous that the Government are getting in the way and that we are not enabling businesses and employees to have those discussions and come up with a flexible arrangement that works for them, in the scenario with particularly small and medium-sized companies whereby there is less distance between the levels in the hierarchy of the organisation and people can have informal conversations about what might work. It is certainly the Government's intention to change that, and that will help, as will enabling fathers to take some of the leave, because that might mean that it is not a year out of the labour market but several months, which is easier for employers to manage.

Q295 The Chairman: Could I just press you on the question that Lord Brooke put? Do the Government have a deadline on this matter for women on boards? What is enough progress? Can you be a bit more precise and tell us exactly what the Government think?

Jo Swinson MP: Certainly. Lord Davies has set or recommended a challenging yet achievable target of 25% by 2015, which was very much based on an analysis of what the churn is each year, how many new appointments will be made and having to get a significant percentage of women into those appointments. As I said earlier, we are on course to hit that target, but if something very strange happened between now and then and suddenly our fantastic progress entirely stopped or went backwards, in 2015 when we looked at that target questions will be asked and we would assess how we could achieve success.

The Chairman: So 2015 is a sort of deadline?

Jo Swinson MP: We will look at the success that has been achieved when we get there. I do not think that we will be in a situation other than saying, "That's great, we have hit our 25%—now how are we going to go on from here and what are we going to do next?"

The Chairman: Do we stop at 25%?

Jo Swinson MP: No, absolutely not.

Lord Clinton-Davis: Another question that I want to ask is this. The UK may be making more progress than others. What happens to the backsliders? We are talking about 27 countries, and some are making progress and others are not. What do we do about countries who are not making satisfactory progress?

Jo Swinson MP: Starting from the premise that the regulation of boards is primarily a matter for national Governments, it is not for this Government to tell other countries in a dictatorial way what they should do. However, I certainly think that we can lead by example and point to the success that we achieve, and, in fact, the positive benefits that that gives to the UK economy, and make the business case for doing this. Some countries will, I am sure,

Department for Business, Innovation and Skills (BIS), and Department for Culture, Media and Sport (DCMS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

respond more quickly than others, as we have always found, but I expect things to go in the right general direction.

Q296 The Chairman: Minister, a number of witnesses have made a strong case to us about UK corporate governance, and that this should be looked at in the context of corporate governance. Should we encourage the Commission to do likewise? Should we encourage the Commission to indeed adopt some of our corporate governance reforms—the sort of things that we have in the standard code—and ask them to incorporate women on boards within the context of that, rather than just women on boards in isolation?

Jo Swinson MP: This issue is very strongly related to corporate governance. There are, as I have said, various studies that show benefits to corporate governance from more diverse boards. Obviously, we have largely been talking about gender, given the nature of this inquiry, but actually companies do well to look more broadly at diversity in terms of background, ethnic mix, obviously—depending on the specific company—who their customers are, and other factors as well. In the UK context, through the Financial Reporting Council, we have the new provision in the Corporate Governance Code to report on this issue, which is very welcome. It is up to nation states to do that monitoring, but I would point to that as a good example of how it can be done. Indeed, there are some other measures that the UK Government is taking—“Think, Act, Report”, for example—to encourage companies to consider the barriers within them to women progressing to equal pay, and seeing what action they can take on that. It is an issue of corporate governance, and we can encourage other countries to see it that way, but without having a dictatorial view from Europe.

The Chairman: We took evidence from some executive search companies and, of course, they now have the voluntary code. Do you think that we should adopt the same approach with that voluntary code and ask the EU whether they could not adopt something like that within this whole context?

Jo Swinson MP: Again, it is very important to note that the way that company boards are recruited for in different countries across the EU will vary greatly. In the UK, we have huge reliance on these executive search firms; that might not be the case right the way across the EU. The other thing that is important about the code is that it is, as it is called, a voluntary code. Again, it is important that Europe can look at that example, and we should certainly spread our experience of that and share it with other countries, but it would be a bit strange to say, “We’ve got this great voluntary code. We think we should impose it on everybody else as a mandatory code”. Encouraging others to follow this excellent voluntary approach is very sensible, but I would not necessarily say that it should move to a mandatory situation.

The Chairman: There are different grades between voluntary and mandatory. Do you think we should make it a bit more robust—move it towards the middle a bit?

Jo Swinson MP: In a sense, I think that the jury is out. It has only recently come into force, and it is already showing quite a good degree of success. My starting point would be that, if you do not have to increase the level of how mandatory something is—I am not sure how easy it is to find a grey area within that—and if the voluntary approach does work, then stick with that.

Q297 Baroness Valentine: We have heard that the absolute key here is sustainable change. How can we better develop the pipeline of women to fill executive and board positions, and how radical do we need to be in doing so?

Jo Swinson MP: As I mentioned in an earlier answer, to me, that pyramid is visually striking at the problem that we have. We have made progress on the non-executive director level.

Department for Business, Innovation and Skills (BIS), and Department for Culture, Media and Sport (DCMS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

Obviously, eventually, when you get to 50:50 or thereabouts, yes, you could keep increasing your women non-exec directors, but ultimately you have to address the issue of executive directors in order for this to be sustainable, and to be meaningful as well. I pointed to some of the cultural issues that I think are part of that, and the work that the Women's Business Council is doing will very much inform the Government's thinking on this. They are looking at the life stages of how we can get more women into business, and they are doing an excellent piece of work on, within the workplace, what the barriers are to women progressing, and how can we actually solve those. I will be looking forward to their report. I am meeting with them, I think, later next month, and looking at how we can take forward some of those proposed recommendations that they will come forward with.

In terms of how radical we should be, I think we should be, as a country, pretty radical in looking at the workplace and looking at whether it is made for the 21st century. We have a situation where very often positions are determined about being in the office—physically in a particular place for long periods of time—yet that was perhaps more relevant some decades ago. Now we have the wonders of technology—BlackBerrys and other devices, iPads, et cetera. People can be doing meaningful work, having communication and sharing documents and so on from different corners of the planet, and certainly from different parts of the country, and, indeed, doing so at different times of the day. So I do not think that the traditional model of the way that the workplace functions is fit for purpose in the 21st century. We do need to be quite radical in challenging and changing that culture, and part of that the Government can and is doing through the right to request flexible working, for example, which many businesses find has huge benefits as well, because they are able, for example, to have a greater degree of opening hours for their customers, and indeed retain employees who would otherwise find it difficult to juggle work and family commitments. So we should be radical—not necessarily always in a regulatory way, but in terms of how we think about the workplace. That will help to deal with that pipeline issue.

Baroness Valentine: Some of the things that you are commenting on are about intervening in the way social life works—whether the father cares, whether the mother cares, flexible working—which, if you are not careful, could be at odds with what is economically constructive. How do you strike that balance? Where do you make it mandatory and where do you make it voluntary?

Jo Swinson MP: I think that it is right that there is a balance there, and that is why, for example, on flexible working, it is important that that is not the right to flexible working; it is the right to request flexible working. We are also looking at streamlining the system. I had a look at the flow chart that businesses have to go through in terms of working out whether to accept a request to work flexibly, and it is currently far too bureaucratic and burdensome, and a much more common-sense code or guidance note would be more appropriate. So there are ways that we can improve the system. As I say, it is the right to request, and it can often have economic benefits; in fact, to the economy as a whole, the evidence from BIS is very strongly that it does have economic benefits.

On the issues around parental leave, again, it is not about the Government saying, “This is what must happen”; it is about Government getting out of the way and letting parents make their own decisions. At the moment, the Government is effectively saying that if Mum and Dad each want to take four months off after baby is born and then go back to work—if they want to take that four months off together—at the moment there is no way that they are able to do that. It is very restrictive and stops people from making choices, and many employers might find it easier to deal with having an employee not in the business for four months rather than a year, if that is what the parents choose to do.

Department for Business, Innovation and Skills (BIS), and Department for Culture, Media and Sport (DCMS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

There is a balance to be struck, but I would not make the assumption that these things are necessarily unhelpful for the economy. The bottom line is, if we have a situation where we lose economically active people who would otherwise be contributing to our economy in a very positive way, and if the structure of the way things are does not enable them to continue being economically productive and economically active, then we are losing out.

Baroness Valentine: There is just a bit of a danger of tinkering with the system versus, for instance, female champions at the top of the hierarchy, and actually what is fit for purpose for different businesses may be very different, so anything which tells them what the answer is risks being unhelpful, but I did not mean to prolong the conversation.

Q298 Baroness Buscombe: I was going to add, if I may, that I think it is quite relevant, this—talking about flexibility and so on—because it is quite clear to me, talking to people out there who are in a position to employ, that they are deeply concerned now about employing women because in so many cases now women have so much time off if they are having several children, or if they are in a carer’s situation. They do not actually have to tell the employer when they are coming back until however many weeks before they decide to come back. It is quite fraught. I have also been in a position where I have offered somebody the right to request flexible leave, and actually it is not as straightforward as it sounds. If you give someone the right to request it, when you refuse it, it is very difficult. It creates a lot of problems between yourself and that member of staff, and actually across the board, because of course there will be other people in that employment situation who never are in a position to ask for any form of leave, because they do not happen to be having children. So I think it is all quite fraught.

I hope that the Government will proceed with great care in all this—free things up, yes, but I agree with Lady Valentine that this will and does have a huge effect on the economy. We are told that this is a time of austerity, so to have at the same time a situation where we have to offer more flexibility in terms of employment is very difficult, and it creates a sense of, “It’s not fair: women have an easier time and more opportunity to opt out of the system for a while than men. Therefore, are these the right sort of people we should be promoting in terms of executive positions and in terms of boards?”

Jo Swinson MP: What I would say in answer to that is that I absolutely recognise that perceived feeling of injustice that can happen within a workplace, where some employees have a right to request flexible working and others do not. That is one of the reasons, along with other advantages, why the coalition agreement is very clear about extending the right to request flexible working to everyone. So it is not just about a particular group of employees; it is something that is an across-the-board discussion that can be had. Coupled with that is making it easier, through making it clearer and less bureaucratic, what the process is that needs to be followed. There absolutely are circumstances where it is not reasonable for that flexible working to be granted, for sound business reasons, and I appreciate that that will always be a slightly fraught issue in terms of management. But I think the benefits do overall outweigh those negatives—

Baroness Buscombe: You are assuming that that right to request is going to be accepted.

Jo Swinson MP: No, I was just saying I absolutely accept that it will not always be, where there are business reasons why it cannot be the case. But if you look at businesses themselves and what they think, particularly the ones that do flexible working, they are very positive about its impacts, particularly around the costs that they save because they have lower staff turnover; therefore, they have lower recruitment costs. So there is actually a positive benefit to the economy—the research from BIS absolutely backs this up—from

Department for Business, Innovation and Skills (BIS), and Department for Culture, Media and Sport (DCMS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

having greater flexible working. But I accept that if you are a doctor in the accident and emergency wing of a hospital, you are not necessarily always going to be able choose your exact shifts—you have got to have cover at certain times—and there is a whole range of different examples where that is the case. But again on the point that you raise around what some unscrupulous employers would do when faced with different candidates at an interview process and take the view—

Baroness Buscombe: Sorry, that is not what I suggested. I am not suggesting that they are being unscrupulous; I am suggesting that they are concerned about their bottom line.

Jo Swinson MP: Sure, but I think if businesses are discriminating on the basis of gender in the recruitment process, I would say that that is unscrupulous because that is against the law. I think that that is a fair comment. But the changes in terms of sharing parental leave will also have the knock-on that it will not just be an issue that will affect businesses when they are looking at employing women, because equally the man sitting in front of them could have a child and be making a request for more than the two weeks of paternity leave that they are currently entitled to. So that actually changes that whole dynamic. It is still difficult for businesses to manage people taking significant amounts of time off for child rearing. You cannot get away from that but, equally, as a society we are in a bit of a difficult situation if people stop having children, so we need to find a way where we can have businesses and other employers managing that process of people who are economically active also juggling and managing their family responsibilities. I believe that it is possible to find that balance that is reasonable and can be dealt with on both sides, but you cannot get away from the fact that there will be some inconvenience when people bring children into this world.

Q299 The Chairman: Childcare and maternity leave is obviously very central to this, but I think we have explored that. Is there anything else that you feel we ought to be asking you on this question of the percentage of women on boards?

Jo Swinson MP: I think that we have had a good discussion around the whole issue, so I do not feel that there is anything particular I need to add.

The Chairman: Is there anything else anybody would like to ask? If not, could I thank you very much? It has been very useful to us to have a combination of BIS and DCMS all in one person—a nice example of joined-up government, if I might say so.

Jo Swinson MP: Indeed. Thank you very much.

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

Dr Barnali Choudbury, 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

Confederation of British Industry (CBI)—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

Confederation of British Industry (CBI), Brook Graham, Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Confederation of British Industry (CBI), Brook Graham, Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Please see under [Brook Graham](#) for transcript.

Confederation of Norwegian Enterprise (NHO)—Written evidence

The Confederation of Norwegian Enterprise (NHO) hereby submits its response to the following questions as requested by the House of Lords Select Committee on the European Union, Sub-Committee B, Internal Market, Infrastructure and Employment, and furthermore to a set of questions regarding quotas on a European level (pp.5-8).

What has been the reception to the imposition of quotas, particularly amongst the business community?

Do you think that quotas are seen as patronising, or that women who are on boards are not seen as appointed on merit?

Is the business community in Norway engaged with gender diversity? Has this engagement improved or worsened since quotas were introduced?

How do you respond to claims that quotas have led to "unintended consequences", such as companies delisting to avoid complying, or the presence of so-called "golden skirts" directors on multiple boards?

In Norway, the numbers of women in non-executive posts have increased, but the numbers in executive posts are still very low - less than 3% of CEOs are women. Are quotas delivering sustainable change, or are they simply addressing the symptoms rather than the cause? What else is being done, or should be done, to deliver sustainability?

Does it matter for the Single Market that other EU Member States are taking different approaches? Does the EU have a role in rolling out a single approach - quotas - across Member States?

Do the percentages being aimed for in terms of gender diversity need to be consistent across the EU? If so, what percentage should that be?

Are there other measures that the EU should take, either alongside or instead of quotas, to ensure better gender diversity on boards, such as reporting or monitoring requirements?

REPLY from NHO regarding the specific situation in Norway:

I. The bill prompted strong protests from NHO and other players in Norwegian business and industry, as it broke with the established limits for state intervention. Quotas break with the principle of shareholder democracy and the fact that shareholders should be free to choose who should represent them on the board and manage their assets.

The Norwegian Institute for Social Research (ISF) conducted a survey of all Norwegian board members of public limited companies in autumn 2009 (ISF survey (in Norwegian)). They found the following:

- Eight out of ten men and nine out of ten women feel that the quota provision has not led to any appreciable change or even to an improvement.
- Those who feel that improvements have taken place in boardroom work point to the value of new perspectives being put forward and to the increase in discussions.
- One in ten men feels that boardroom work has become harder.
- Less than one in ten board members of unlisted public limited companies feel that re-registering as a limited company to avoid recruiting female board members is an issue.

a. According to NHO, diversity in boards is an advantage, as it promotes different viewpoints and perspectives. However, it is an important principle for the NHO that the owners are the people best equipped to choose who should sit on company boards.

Low female representation must be seen in the context of low workforce participation by women in the relevant industrial sectors and professions and on management level. To a great extent, women's professional and training choices help to determine their representation in the boardrooms of limited companies.

That being said, research indicates that the women, who do hold seats in the boardrooms of the public limited companies, are very well qualified. They are better educated than the male board members, and they are likely to be leaders or partners in their companies.

2. The Norwegian business community is strongly in favour of having more women in business and industry. This commitment has not been compromised by the introduction of the quota.

As a response to the proposed quota and to demonstrate an alternative measure to increase the number of women in boards and leadership, NHO launched the Female Future project, a programme to mobilise more women in both leadership positions and boardrooms. Businesses promote talents within their own companies and NHO provides them with leadership, boardroom, networking and rhetoric competence, with the help of the best suppliers in the market. The programme is financed via participant fees and support from Innovation Norway, county authorities and municipalities. The programme has been very successful and is still running.

3. Data shows that between 2004 and 2010, the number of public limited companies fell from 550 to 359. The Securities Trading Act was amended during this period, and this may

have influenced this development. At the same time, the number of representatives on public limited company boards rose. Data also show that while the number of women in boardrooms rose from 254 to 751 in the same period, the number of men declined, from 2,559 to 1,152. In total, the number of board representatives in this type of companies decreased from 2,813 to 1,903.

NHO does not have research evidence that either confirms or denies that companies have delisted to avoid complying. We also are not aware of companies having been dissolved for failure to comply with the quota legislation.

Of the women in boardroom positions, 66 per cent hold one boardroom position, while 20 per cent have two or three boardroom positions in public limited companies and limited companies. Women make up only 5 per cent of all those with more than 20 boardroom positions, but this group of women has grown from 14 people in 2004 to 43 in 2010. For more details on women in boardrooms, see Annex I, pp. 8-9.

4. The structural differences and challenges of a Norwegian gender-segregated labour market do not lend themselves to being resolved via quotas in boardrooms. NHO suggests that the authorities investigate measures that help to change the structural challenges of a strongly gender-segregated labour market. Women's educational and professional choices should to a greater extent be directed at professions in the private sector than they are today. The need to encourage women to set up, manage and invest in companies must be made plain. NHO supports proposals to set up public welfare schemes to promote equality; among other things, this applies to the division of parental leave (i.e. reserving a third of the total parental leave period for the father). Before we gain more equality in education, jobs and careers, the affiliation of women with working life in general and business and industry in particular must be strengthened. This demands a gender equality policy that tackles the structural challenges.

However, it is appropriate and important to focus on developing the potential competence resource that women represent in regard to boardroom work, not least because of women's high rates of higher education. The Female Future programme essentially aims to give women supplementary competence and motivation to take on boardroom and leadership positions in business and industry. For detailed statistics on women in leading positions, see Annex I, pp. 10-11.

In later years, we are pleased to have seen an increase in the percentage of female mid-level managers. One probable explanation for this development is the fact that women are now in the majority of graduates from the universities. It will be important for us to build on this development until it also applies to top executives.

5. For NHO it is important to have a level playing field, and that measures taken at local, regional, national or EU level, do not lead to distortion of competition between the

actors in the internal market. We need the same framework conditions for all participants in the market.

In NHO's opinion, it is improbable that legislative restrictions would produce company boardrooms that are proven to be better. If it is argued that board composition must be changed against the wishes of the owners in regard to business value creation, there must be very solid indications that the current composition of the board is not optimal, and that performance would be substantially better with quotas. There is certainly research that points in this direction, but there is also research that points in the opposite direction.

6 In NHO's opinion the most important measures required to ensure female representatives in the boardroom and in senior executive positions are education policy measures designed to ensure that women acquire the right qualifications and a work-life balance policy that makes it possible for women to take on or hold senior executive responsibilities and have a family at the same time.

NHO is positive to a collection of data and a monitoring of the situation in various Member States by the EU relating to female boardroom representation. We presume that this can be achieved with the help of existing data and that it does not require the establishment of new bureaucratic systems.

Call for evidence: 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?*

In our view, these issues can largely be resolved through national legislation. The governing bodies for limited companies may be different in different EEA countries. In Norwegian companies, for example, the board and management are two separate bodies, but this may be different in countries where board members and management are part of the same body. That said, the challenge this presents is of a practical/technical nature, and is not an obstacle to EEA legal regulation.

NHO is positive to a collection of data and a monitoring of the situation in various Member States by the EU relating to female boardroom representation. We presume that this can be achieved with the help of existing data and that it does not require the establishment of new bureaucratic systems.

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

In NHO's opinion the most important measures required to ensure female representatives in the boardroom and in senior executive positions are education policy measures designed to ensure that women acquire the right qualifications and a work-life balance policy that makes it possible for women to take on and hold senior executive responsibilities and have a family at the same time.

The Norwegian business community is strongly in favour of having more women in business and industry. As a response to the proposed quota NHO launched the Female Future project, a programme to mobilise more women in both leadership positions and boardrooms. Businesses promote talents within their own companies and NHO provides them with leadership, boardroom, networking and rhetoric competence, with the help of the best suppliers in the market. The programme is financed via participant fees and support from Innovation Norway, county authorities and municipalities. In total 1321 women and approx. 700 enterprises have completed the programme from 2003-2012. 83% of the participant's from the latest course reported in their course evaluations that they had been offered a position on the board or received an executive promotion or both.

NHO is committed to pursuing the Female Future programme, and places particular emphasis on increasing the proportion of female managers in companies. The Female Future label generates positive attention and strengthens the reputation of member companies. NHO also currently runs other activities and more long-term projects to improve the gender-segmented labour market, including the “Girls and Technology” project run by NHO Agder (a regional office) as part of NHO's wide-ranging work on “Trade and Industry in Schools”.

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

NHO is positive to a collection of data and a monitoring of the situation in various Member States by the EU relating to female boardroom representation. We presume that this can be achieved with the help of existing data and that it does not require the establishment of new bureaucratic systems.

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

Progress should be incentivised. Public recognition and support for self-regulatory measures and projects, such as the Female Future programme, can encourage start-up of similar projects with the aim of providing more women with the competence and qualifications needed to take on board positions. Positive attention and recognition of successful projects are more conducive to the creation of an environment where such projects will be launched and measures taken to put together well-functioning boards. Name and shame can be a means to counter a lack of progress, whereas punishment should be avoided.

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?*

In principle, NHO is of the opinion that the owners are the people best equipped to choose who should sit on company boards, and that legislating the owners' right of control on this issue was a bad idea.

The owners are the people with the greatest interest in picking the best board regardless of gender, and therefore also have the best motivation for doing so. In the long run, the market will reward those who choose well.

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?*

In NHO's opinion, it is important to have a level playing field, and that measures taken at local, regional, national or EU level, do not lead to distortion of competition between the actors in the internal market. We need the same framework conditions for all participants in the market. Surveys have shown that the increased percentage of women on Norwegian PLC boards has not had any effect with regard to their profitability for the enterprises in question, neither positive, nor negative.

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 Norwegian business community is strongly in favour of having more women in business and industry, as we believe that a higher degree of diversity will have a positive effect on the companies. The direct consequences for the UK are however difficult for us to assess.

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

Quotas create formal criteria for board composition, and are meant to create diversity in boards. This diversity would normally be an advantage, in order to promote different viewpoints and perspectives in the work of the board. However, it is an important principle for the NHO that the owners are the people best equipped to choose who should sit on company boards.

The Norwegian Institute for Social Research (ISF) conducted a survey of all Norwegian board members of public limited companies in autumn 2009 (ISF survey (in Norwegian)). The survey shows that quotas do not have much of a knock-on effect with regard to the proportion of women in boardrooms of other companies and in management positions.

The objective of the survey was to increase knowledge of how board members are recruited, the types of competences they feel that they themselves have, and how the work of the board proceeds.

- Eight out of ten men and nine out of ten women feel that the quota provision has not led to any appreciable change or even to an improvement.
- Those who feel that improvements have taken place in boardroom work point to the value of new perspectives being put forward and to the increase in discussions.
- One in ten men feels that boardroom work has become harder.
- Less than one in ten board members of unlisted public limited companies feel that re-registering as a limited company to avoid recruiting female board members is an issue.

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 NHO's opinion the most important measures required to ensure female representatives in the boardroom and in senior executive positions are education policy measures designed to ensure that women acquire the right qualifications and a work-life balance policy that makes it possible for women to take on and hold senior executive responsibilities and have a family at the same time.

Primarily, such measures fall within the nation states' area of responsibility. The role of the EU may for instance be to collect data and to monitor the situation in the different Member States as well as to present best practice examples from Member States that have been successful.

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?*

It can be claimed that higher female representation in company boardrooms would inspire more girls to make educational choices that lead them into the private sector, and encourage more women to apply for leadership positions. There may be something in this – but if so, it is an extremely long-term measure, and is unlikely to be more effective than programmes like Female Future for instance, which have brought a large number of (in particular young) women into leading positions in business and industry.

NHO suggests that the authorities investigate measures that help to change the structural challenges of a strongly gender-segregated labour market, as is the case in Norway.

Women's educational and professional choices should to a greater extent be directed at professions in the private sector than they are today. The need to encourage women to set up, manage and invest in companies must be made plain.

NHO supports proposals to set up public welfare schemes to promote equality; among other things, this applies to a division of parental leave. Before we gain more equality in education, jobs and careers, the affiliation of women with working life in general and business and industry in particular must be strengthened. This demands an equality policy that tackles the structural challenges.

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

NHO believes that a sound gender balance on all levels – boards and management – will be an advantage to the companies and to the owners, who will then have a broader candidate base. Diversity in boards is an advantage, as it promotes different viewpoints and perspectives.

31 August 2012

Department for Culture, Media and Sport (DCMS), and Department for Business, Innovation and Skills (BIS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

Department for Culture, Media and Sport (DCMS), and Department for Business, Innovation and Skills (BIS) (Jo Swinson MP, Minister)—Oral evidence (QQ 288–299)

Please see under [Department for Business, Innovation and Skills](#) for transcript.

Lord Davies of Abersoch, Department for Business, Innovation and Skills (BIS); Government Equalities Office (GEO)—Oral evidence (QQ 1–81)

Lord Davies of Abersoch, Department for Business, Innovation and Skills (BIS); Government Equalities Office (GEO)—Oral evidence (QQ 1–81)

Please see under [Department for Business, Innovation and Skills](#) for transcript.

Employment Lawyers Association (ELA)—Written evidence

Introduction

The Employment Lawyers Association ("ELA") is a non-political group of specialists in the field of employment law and includes those who represent Claimants and Respondents in the Courts and Employment Tribunals. It is therefore not ELA's role to comment on the political merits or otherwise of proposed legislation, rather to make observations from a legal standpoint. ELA's Legislative and Policy Committee is made up of both Barristers and Solicitors who meet regularly for a number of purposes including to consider and respond to proposed new legislation.

A sub-committee was set up by the Legislative and Policy Committee of the ELA under the chairmanship of Brona Reeves of Barclays Bank plc to consider and comment on the Call for Evidence EU Women on Boards Proposals. Its report is set out below. A full list of the members of the sub-committee is annexed to the report.

Summary of Response

We have set out detailed responses to the House of Lord's questions below, which we hope are useful to the subcommittee. However, in summary our response is:

1. Both the EU and national governments have a role to play in addressing gender imbalance and considering the existing structure of legislation (and other schemes) to address diversity issues. We believe that the detail of any approach to address imbalance (whether regulatory or self regulatory) will need to be addressed at national level in order to take into account variations across EU states and corporate structures and to ensure that the method of implementation is most effective for each country.
2. ELA agrees that, on the basis of other initiatives in some member states (most notably Norway and the UK), self regulation can produce significant changes. However, regulated approaches can equally give rise to clear and dramatic changes over shorter periods of time, notably in relation to attitudes and culture. Regulated approaches are not without challenge and ELA's view is that any decision on a self regulated/regulated approach will depend on the period of time over which change is to be made. Governments equally should not rule out the use of both methods, as is currently a possibility in relation to equal pay reporting in the UK.
3. Monitoring should be conducted at a national level, but co-ordinated across member states to ensure consistency and transparency.
4. It is difficult to see how "incentivisation" could be adequately and fairly imposed, given the importance of board level provisions and the fact that historic methods of

incentivisation (for example in relation to public procurement) will not apply equally across the market. However, ELA agrees that, if gender imbalance is addressed by self regulation or regulation, that some form of “sanction” is key to addressing change. This may range from the “comply or explain” approach under self regulation to financial or other penalties (or even the threat of dissolution as relied on in Norway) under a regulatory scheme.

5. Measuring what progress is acceptable depends first on how the House of Lords define “success” in relation to gender imbalance. In particular, it depends on how any scheme is embedded in or a part of any wider initiatives to address gender imbalance. However, ELA agrees that “success” should be defined at the start of any programme. Also, if regulatory methods are a later possibility, the circumstances for implementing regulatory requirements (if, say, targets are not reached) and the timescales for this should be set out at the start of any programme, to ensure maximum impact.

6. It is too early to state whether any steps taken by individual member states have had an impact on a single market. However, the fact that this is now being seen as an issue of importance by both the EU Commission and national governments suggests that there has been some impact.

7. ELA members have argued that consistency across the EU is an important way to ensure a coherent approach to diversity related issues. The strong arguments against consistency of application (which are in many ways compelling) relate more to the practical aspects of implementation.

8. ELA members have submitted that a higher level of women on boards across the EU would be advantageous to the UK, in the same way as a higher level of representation across UK boards would be advantageous. It would ensure that countries and businesses are making the best use of their talented employees.

9. There are many arguments for and against quotas, which are summarised below. However, the best evidence on this appears to come from the UK and Norway experience where both self regulation and (in the latter case) regulated quotas have been used.

10. There are equally many other steps which can be taken to support gender diversity at board level. These are likely to be most successful if implemented at national level and may be used both on their own or to support quotas.

11. ELA considers that gender imbalance at board level should be seen as part of the wider issue of gender imbalance in the workplace and diversity legislation. Whilst success can be measured by increasing the gender balance of boards, broader success can be measured by how the overall issue of gender balance and diversity is managed at both an EU and national level, regardless of the political or social policy agenda in each member state from time to time.

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?

a. ELA considered that the EU and national Governments both have a role to play in tackling issues related to the representation of women on boards. Consistent with the current structure of legislation, all core equality legislation has emanated from EU level, with specific methods of implementation left to national governments. Further consideration of this issue is also contained in our response to the “EU Commission’s Consultation on gender imbalance on corporate boards in the EU (the “Commission Consultation”)” a copy of which we enclose. Addressing the issue of gender imbalance at board level by the EU and national governments in a similar way would be consistent with this structure and would, ELA believes, have the following benefits:

i. Addressing the issue at EU level would send out a clear and consistent message on the importance of the issue on an EU wide basis;

ii. The existing framework of both EU and national level schemes and legislation works. It supports the EU and member states’ commitments to certain core rights and standards across the EU;

iii. Allowing the detail of any schemes and/or legislation to implement methods of tackling gender imbalance at a national level would allow member states to ensure that their approach was tailored to each member states particular corporate structures, and challenges in addressing diversity at board level. Further details on the potential differences between member states are set out in response to the below questions.

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

Current Achievements

a. Self-regulation has thus far achieved much towards fairer representation of women on boards, particular from a non-executive perspective. Following the Davies Women on Boards Report (2011), which recommended business-led self-regulatory solutions to gender imbalance, the update to the Report in March 2012 indicated the percentage of women board members in FTSE 100 companies was up 3.1% from 12.5% in February 2011 to 15.6% in February 2012. This is the biggest-ever reported increase in female representation on boards, and may suggest that a voluntary business-led approach can work to achieve “fairer representation”.

A fair representation?

b. The current recommended goal for UK companies is 25%, falling short of full gender parity at board level. The Cranfield School of Management Female FTSE study predicts that

on the current self-regulation trajectory an increase up to 30% of women on boards could be achieved in the next 4 years. Even the 40% quotas in Norway and other EU member states fall short of full gender parity.

c. Whether self-regulation is able to facilitate the necessary shift may depend upon the size of the desired percentage increase as well as the interval over which such an increase is sought. ELA suggest that qualitative as well as quantitative indicators of fair representation should be examined. For example, the European Women's Lobby highlights the discrepancy between executive and non-executive roles held by women. Statistics for executive roles show almost no improvement, meaning that current self-regulation mechanisms risk creating a "two-speed system".

d. Against the charge that there is barely any improvement in the numbers of female executive appointments, is the view that self-regulation achieves qualitatively fairer outcomes than quotas, such as fairness to meritorious applicants, fairness on the basis of other equality indicators such as race, and the potential for undermining the position of women on boards as the result of a quota system. Does it matter if the means of achieving parity is engineered as long as the standard remains constant?

Sustaining change

e. ELA considers that a range of initiatives may need to be utilised to ensure that change is sustained. In the UK and in other countries, cooperative approaches relying on regulatory coordination between stakeholders have proved so far quite successful. For example, a new voluntary code of conduct addressing gender diversity setting out best practice for FTSE 350 board appointments has been agreed by industry head-hunters. New changes to the Financial Reporting Council will come into force in 2013, requiring narrative reports on the proportion of women on boards and consideration of gender factors in assessing board effectiveness.

f. The European Women's Lobby emphasises that targets, deadlines and monitoring are critical to achieving lasting change. This must be accompanied by other measures, especially education, to promote a culture shift. Initiatives may include mentoring, training and the publication of lists of female board-ready candidates.

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

a. Ideally progress outcomes should be easily accessible to all stakeholders including shareholders, investors and employees through the annual report ELA consider that progress should be monitored nationally on an annual basis. We would suggest that the most appropriate way to do this would involve companies submitting information to the relevant equality body in each member state.

b. The efficacy of this proposal would largely be dependent on the relevant equality body having sufficient resources to enable them to take an active role in auditing and reporting, but we see auditing and monitoring as a key role of that authority, and that the ability to collate and report on such metrics could provide a strong basis for any such authority to take action.

c. In the UK the relevant equality body is the Equality and Human Rights Commission (EHRC). The EHRC are currently in the midst of a major consultation process in relation to their remit, and following a significant reduction in funding are in the process of making a significant reduction in their headcount. Whilst we obviously do not have first-hand information on whether they have capacity to increase their workload, we would imagine that as a result of recent events they would not have sufficient resources to expand their remit. At a time of global austerity and pressure on public sector budgets we would imagine that similar issues exist in other member states.

d. ELA considers that it would be desirable for EU grant funding to be distributed at European level to each national equality body, specifically for auditing to ensure that there is not only an adequate level of resource for compliance work, but that there is also uniformity in terms of the approach to compliance.

e. We would also recommend that companies are under a duty to make the information public, for example in their annual reports, and that this was subject to consistent standards to allow for meaningful comparisons. In the UK this could be achieved by amendments to the UK Corporate Governance Code. This would then give a wider transparency in relation to each company's progress and would mean that any burden on each country's equality authority would be reduced, as data would already be widely and publicly available. Companies could also be encouraged to provide a narrative describing the wider activities which are taking place to support a pipeline of female talent.

f. Finally, it is worth noting that, to some extent, the publication and/or monitoring of gender balance at board level is already happening through organisations like Boardwatch which tracks the appointment of women to boards.

National rather than European co-ordination

g. There are a number of reasons for devolving responsibility for monitoring and enforcement at a national level.

h. National equality bodies are likely to have existing enforcement powers if a company does not comply with their instructions. Companies will already be aware of who the national equality body is and what it does. They will therefore know to contact the equality body for support and assistance as well as from a regulatory perspective.

i. We would recommend that when companies have filed their monitoring information with their national equality body, there should be a further period in which the national body would collate the information and send this information to the EU. This would then provide the EU with the ability to benchmark corporate progress across member states. Such an approach would also incentivise the national equality body to work with the companies to assist them in increasing the number of women on boards.

j. ELA does not consider that it would be effective to have individual companies submitting information directly to the EU. Not only would this be a substantial administrative burden across the EU but if companies were non-compliant then the European body would also require enforcement powers.

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

a. We are not aware of any other equality measure where incentives have been offered not to discriminate, other than in relation to the consideration of diversity related issues in public procurement. We are aware that in Spain companies are given priority in public procurement if they have met certain diversity related targets. Given the challenges made to programmes to increase gender diversity on the basis that it undermines the meritocracy of the system, we do not believe that incentives would be an appropriate way to encourage progress. Further, given the importance of a board level appointment to any company, it is difficult to construct an incentivisation system which would be effective incentives in this context.

b. We consider that sanctions should be imposed if a company fails to comply with any reporting requirements or targets. Please see further our response to question 7 of the EU Commission Consultation. In summary, ELA's view, is that the question of whether (and, if so, what) sanctions and exceptions should be applied depends on whether legislation is introduced imposing quotas or some other binding requirement on companies.

c. If legislation is to be brought in, it is ELA's view that sanctions should be applied to companies which do not meet the objectives. The success of such an approach is evident from the situation in Norway where full compliance was ultimately achieved through the use of fines and even potential dissolution. It is also worth noting that a considerable lead in time was given to enable companies to comply voluntarily in Norway. We would recommend that a similar approach was adopted here. The 40% target which was adopted by Norway in 2003 was initially a voluntary target, but because of a failure to comply legislation was introduced in 2006. A grace period was given until January 2008 by which time 77 out of the estimated 450 public limited companies had not met the quota. The Norwegian Ministry of Trade & Industry then notified the companies that they had 4 weeks to comply under threat of dissolution. By mid-2008 all companies were compliant.

Employment Lawyers Association (ELA)—Written evidence

d. If there is no appetite to impose sanctions and a voluntary model is preferred, then there are additional levers which could be used, even as a transitional measure, before looking at full blown sanctions. One option could be the "comply or explain" model whereby companies who fail to comply with the recommendations would be required to explain in their Annual Report what steps they have taken to comply. This can include:

- i. The steps they have taken to advertise positions on the Board;
- ii. The number of women who applied for those positions;
- iii. The number of women interviewed for those positions;
- iv. Details of the interviewers;
- v. An explanation of the reasons why no women or an insufficient number of women were selected for the roles; and
- vi. Details of the successful candidates and why they were successful.

e. There is some evidence in the UK that this approach does prompt action. For instance when the Disability Equality Duty first came into force, public authorities were required to publish their equality schemes by December 2006. Those who did not do so were "named and shamed" in the press.

f. It is also worth noting that at one stage the UK Equality Act 2010 contained a provision which would require organisations to publish their gender pay gap, with the EHRC taking this type of approach for those who failed to comply.

g. Another option for compliance which falls short of the Norwegian model is the procurement option. ELA believes the approach taken in Spain would be beneficial whereby companies who comply with the recommendations (or who have good reasons for not doing so) are given priority status in the allocation of government contracts. There is already some basis in the UK for using procurement as a tool to leverage equality. Both Scotland and Wales have adopted specific equality duties relating to procurement. If a lighter touch approach to regulation is adopted then this could be one potential option to consider.

h. ELA does not believe having a set of objectives without any form of sanction would achieve the desired result. If legislation is the route which is chosen for the implementation of a quota then it would obviously require a sanction of some sort. It is self-evident that law creates rights of some nature, whether they are private or public, and that they are then capable of enforcement. Legislation without any means of enforcement would lack credibility and do wider damage to perceptions regarding equality.

i. In relation to our experience of objectives without sanction, targets or objectives will be a new concept in UK employment law. Prior to the Equality Act 2010 coming into force, the law on positive action was so limited that very few organisations embraced it. One well known example of positive action and its interplay with the public sector equality duties, was the self-imposed targets set by various police forces including West Midlands to increase their ethnic minority police officers. These were not, as far as we are aware, enforced by the EHRC or its predecessor, the CRE.

j. The only other well-known positive action measure of which we are aware relates to political party short listing, as mentioned above. The Sex Discrimination (Election Candidates) Act 2002 was introduced after a legal challenge in 1996 to the Labour party's decision to introduce All Women Shortlists (AWS). This seems to have fairly low levels of support in the UK, and all that the 2002 Act did was allow parties to set quotas and ensure that men who were unable to become candidates could not challenge this. It did not prescribe that political parties should reach any particular level of representation, unlike other countries.

k. Moving beyond equality, the obvious analogy of behavioural change following legislation relates to the use of seat belts. Attempts were made to encourage people to use them, but ultimately legislation was required to compel widespread use. Similarly, in the field of age discrimination it is possible to identify a marked shift in attitudes towards age in the workplace since regulations were first introduced in 2006. This may be contrasted against the relative lack of change brought about by the introduction of the Code of Practice in 1999.

l. In terms of exceptions, ELA believes the following should be considered:

i. If a company can demonstrate it has taken reasonable steps to comply with any recommendations, no sanction should be applied save that, where the only sanction is a "comply or explain" sanction, the company in question would still be required to set out the steps it took to achieve compliance.

ii. In order to maximise the legitimacy of the system we would recommend that sanctions should be on a sliding scale in relation to culpability with fines, before proceeding to the ultimate sanction of dissolution.

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?*

a. As above, this question requires the Government to define what success "looks like". It is crucial for the Government to determine appropriate targets, benchmarks and timetables for monitoring and measuring progress.

b. In doing so, it is suggested that the question whether or not self-regulation is “working” does not necessarily assist. It may be better to consider whether self-regulation is sufficient to meet the benchmarks of success, or whether self-regulation has a natural limit and should be supplemented by legislative measures once that limit is reached. In the UK, the self-regulatory mechanisms recommended in the Davies Report are still relatively new, having only been in place for a year and a half. In that short time they have achieved significant progress, and according to predictions they are likely to achieve more. Arguably, not enough time has elapsed to evaluate the impact and effectiveness of self-regulation.

c. In the UK, the full effect of new legislative initiatives such as shared maternity leave also cannot yet be measured. Similarly, there is not yet sufficient data from those countries that have adopted quotas to demonstrate that board performance has improved. It might be useful to gather data from companies carrying out a business-led approach to the issue of gender imbalance under the Equality Act 2010. It is not yet clear whether challenges have been made to companies undertaking positive action particularly during recruitment and promotion. A substantive review based on objective and transparent criteria to assess how much has been achieved in a particular time frame as well as the likely future achievements will help to decide whether legislative intervention should be contemplated.

d. As to whether legislative intervention should occur at the national or European level, it is submitted that the differences in gender balance at board level and the differences regulation of boards and board reporting across European member states would make Europe-wide quotas difficult to implement - this is not a “one size fits all” problem. That does not preclude Europe-wide regulation of gender diversity on boards, but any legislation would need to be expressed in broad terms.

6. Has the introduction of quotas in some Member States had any impact on the single market?

a. Quotas have only been introduced in certain member states in 2011. As detailed above and in the EU Commission Response, this has had the most impact in countries such as Norway. At this stage there is little information available detailing how their imposition has affected the single market. It appears to ELA members that on a social and political level, the progress made by some countries has put the issue of gender imbalance on boards (and gender issues more generally) squarely on the social and political agenda. This is particularly the case in relation to newer members of the EU, who have not previously been involved in diversity related initiatives or legislation.

7. *What are the arguments for and against consistency across the EU on women on boards?*

a. ELA suggests that if all Member State citizens enjoy the same rights throughout Europe this will aid the free movement of workers. This is consistent with the current EU level legislation on diversity related matters and reflects the view that if workers know they will be treated equally throughout Europe this will act as encouragement for them to pursue

opportunities in other States. It also supports the political and social view that such rights should be fundamentally available across the EU. Consistency also provides certainty for companies and workers as to what their rights and obligations are.

b. A clear argument against consistency across the EU at a more detailed level (for example by the imposition of quotas) is any conflict between existing legislation within Member States, such as the positive discrimination provisions in England under the Equality Act 2010, and any European wide legislation. However, any such conflicts will be resolved under the principle of primacy of European law. This is therefore not a strong argument against consistency throughout Europe on this basis.

c. Despite the above, ELA considers that there are a number of practical problems with a European-wide rule regarding women on boards. For example:

i. Member States have differing categories and sizes of company, therefore consideration would need to be given to what type of companies the rules applied.

ii. A number of Member States have already initiated their own mandatory (Belgium, France, Italy, the Netherlands, Spain) or voluntary (UK, Austria, Luxembourg, Sweden) measures, in differing degrees, regarding female board representation.

iii. In contrast, there are a number of countries where board diversity is very low (Hungary, Lithuania and Slovakia);

iv. Another challenge to consistency across the EU is the differences between States with regards to the regulation of boards, board level reporting and requirements placed on directors (for example in terms of qualifications and experience) as well as the period board members are in office and the frequency at which new posts arise. This will affect how quickly each Member State will be able to comply with any rule. In addition, some States (such as employee representatives in Germany) have board members that are not appointed by the company board. Any law would need to consider whether such posts are relevant to any quota or other rule created.

d. In conclusion, consistency offers greater certainty and Europe-wide protection but may be extremely difficult to achieve effectively due to the inherent differences in companies between each Member State. For this reason, ELA considers that whilst some EU level consistency may be appropriate (such as a general requirement that quotas are used, but not the level of those quotas), that progress is likely to be slower and unduly complex if absolute consistency in implementation is also required.

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?*

Employment Lawyers Association (ELA)—Written evidence

- a. There are various studies that suggest that a greater representation of women on company boards will improve the performance and governance of companies, as the EU Commission Consultation makes clear. If UK companies are performing well this will in turn benefit the UK economy.
- b. Bloomberg estimate that women control 70% of global consumer spending . Women are consequently more likely to represent the consumer and understand what they want. On that basis, women on boards could be expected to improve a company's performance. Research by Catalyst established that companies with a higher number of female directors had a 42 % higher return in sales, 66 % higher return on invested capital and 53 % higher return on equity .
- c. Other studies have suggested that decision making in general improves on a gender-balanced board due to the variety of views that are brought to the table and that a diverse board is more likely to focus on managing and controlling risk . In addition, it is said that corporate governance and the ethical behaviour of companies improve when there are more women on the board . These are all factors that will improve the health and longevity of UK companies and consequently their employees, customers and the UK economy in general will benefit.
- d. It is difficult to see what disadvantages companies could suffer by reason of a higher representation of women on boards. Any argument against the increase in female representation would in reality be an argument against quotas or other measures that encouraged female recruitment, where the issues are more complex.
- e. One study has found that the implementation of quotas in Norway resulted in two problems. On the one hand large numbers of inexperienced women were appointed to company boards due to a lack of female talent in the pipeline. In contrast, a small number of highly qualified women were recruited into too many board positions.
- f. In conclusion, it seems to ELA that gender balance can improve company performance but only if female appointees have the experience and qualifications necessary for the board positions in question. As such, the method of implementing (in particular the debate over mandatory quotas) is critical in making sure that gender balance is a success for companies and that companies are not disadvantaged by such requirements.

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

- a. The positive effects of legislative quotas might be considered to be the following:
 - i. a government level commitment to improving the representation of women on boards by objective and clearly stated means;

Employment Lawyers Association (ELA)—Written evidence

- ii. a more rapid pace of change towards increasing the number of women on boards - experience in other European jurisdictions suggests that significant progress is only made when quotas are imposed;
 - iii. to overcome the employment law difficulties companies many feel that they face in light of national level anti-discrimination legislation - a legally binding quota could and should override any such concerns;
 - iv. a greater level of pressure on companies to ensure that they put the processes in place to ensure that they have a pipeline of suitably qualified female candidates for Board positions.
- b. The negative effects of legislative quotas might be considered to be the following:
- i. a concern that the appointment of women to Boards might become a “box ticking” exercise;
 - ii. allegations of “tokenism” and a concern that women might be perceived as having achieved their appointment in order to fulfil a quota rather than on merit (although we are not aware of any studies or empirical evidence to show that this is or is not the case in those jurisdictions in which quotas are already in place); and
 - iii. a concern that there has been insufficient time for less coercive, voluntary measures to work and/or be seen to work.

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?

- a. A number of other jurisdictions have looked at tackling the under representation of women on Boards. Some of the approaches which have been or could be adopted are:
- i. a “comply or explain” led approach along the lines of the framework which already exists for UK corporate governance. Such an approach could be applied relatively easily on a Europe-wide level by the various country specific corporate regulators;
 - ii. other non-prescriptive initiatives could include training, networking and mentoring, increased level of disclosure and economic pressure, such as Board level diversity being a requirement for tendering for government contracts. It is ELA’s view these types of initiatives are probably best suited to national level implementation as they are more suited to the principle of subsidiarity and can be adapted to reflect country level factors.
 - iii. other initiatives aimed at retaining women, particularly at more senior levels, in the workplace. The focus on gender balance at board level can be seen as too narrow; in order

to achieve wider social change, a more fundamental approach to facilitating women to enter and remain in the work place should be considered. It may be the case that that family friendly employment laws and affordable child care are more likely, in the long term, to result in greater participation of women at the higher levels of working society. This should then support and sustain female board level appointments i.e. a “bottom up” rather than a “top down” approach. However, the different economic pressures in the various EU member states and the current significant variations in family friendly laws and child care costs across the EU member states would make such initiatives more difficult to enforce on a Europe-wide basis.

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?

a. Yes, ELA submits that increased support is required. Whilst ELA notes that the focus of this consultation is on board level appointments, ELA is concerned that this is part of a wider issue on gender imbalance in the workplace and the retention of women, particularly at senior levels, in the workplace.

b. Turning specifically to the issue of ensuring there are sufficient candidates for board level appointments, ELA agrees that additional support is needed in this area. It notes that it is a point of concern amongst some commentators that board level female appointments also still tend to focus on the roles that have traditionally already had high levels of female representation at less senior levels e.g. HR, Marketing and so on.

c. However, ELA is of the view that addressing such issues is a complex one and, by way of example, includes changes in approach by schools and further/higher education bodies as well as society in general.

d. As such, ELA perceives this challenge as a society wide one and not just something that requires attitude change within the higher echelons of quoted companies.

e. Given the complexities of the issue, and the variety of organisations which may be involved in providing such support, it seems that on a practical level responsibility must rest at national government level. However, the existence of European level schemes to encourage diversity at all levels of an organisation and in career choices in the forms of subsidies and support for women in designated key professions could also be considered.

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

a. Identifying success in this context is not a straightforward task. There is an argument that success in this context may be assessed by reference to the pure number of women on corporate boards. A body of research demonstrates the link between female board

representation and better governance and there are a number of research papers indicating a link between gender diversity and company profitability. Further, one might argue more broadly that a simple increase in the numbers of women on boards would equate with "success" in terms of diversity and equality within society as board composition more accurately reflects the gender balance within society as a whole.

b. If numbers alone were the best measure of success, there would be a compelling argument that quotas are a very helpful tool in achieving success quickly. It follows that the imposition of quotas and the corresponding increase in gender balance on boards, would be a "success" and a clear goal for legislators to focus on. As noted above, one might argue that they assist in achieving what should plainly be the situation in any event; namely that the best person available is appointed to the role, regardless of gender. However, there is also a risk that a gender quota could distort a merits-based appointment process. As we have noted above, the imposition of quotas, particularly across the EU and the sanctions to enforce these are complex questions

c. If companies were coerced into making appointments under threat of legal or financial sanction, then whilst the appearance of the board might be attractive in equality terms, the reality may be different. The women appointed in that fashion may not be perceived as having been appointed purely on merit. This could impact on their perceived credibility and their ability to function effectively and make a proper contribution to board governance. Many senior businesswomen do not support the introduction of legal quotas as they consider that this could give rise to a perception of token female appointments, thereby undermining the credibility of the women appointed.

d. Further, unless the workplace genuinely embraces systems to retain a balance of male/female employees at all levels, a focus on board level appointments alone may not be enough. In order to ensure the availability of female candidates for (and their interest in) board level roles, it will also be necessary to address the growing conundrum faced by many women who have children about how to advance their career and/or achieve their potential and balancing this against other aspects of their life. This may be achieved through, for example, focus on flexible working arrangements and "smart working"). In the current environment, quotas may only really assist women who are prepared to work full-time (or nearly full-time).

e. That is why it could be argued that true success should be determined not purely by the results but also the methodology adopted and its impact on the wider issue of gender balance throughout companies and the retention of talented women at all levels of seniority.

f. In our full ELA response we discuss in some detail some of the perceived barriers to advancement. These include:

i. Lack of access to flexible work - increased virtual and remote working has certainly made it easier for all employees, and in particular, women to achieve a satisfactory work/life

balance. However, there is a concern that women take less skilled and less well-paid work following a period of maternity leave. This can have a career-limiting impact.

ii. Need for an increased role of fathers in parenting - improving the ability of all employees to work flexibly should allow men wishing to be hands-on parents to redress part of the imbalance in relation to child-care on the domestic front, as well as improving female retention rates

iii. Corporate culture - this encompasses a range of issues including the workplace atmosphere, working hours expectations, business culture and corporate governance in an organisation. These can all impact on the ability of a company to attract and retain female talent.

iv. Lack of strong female networks - informal networks can be influential in recruitment and promotion decisions, particularly where any selection process lacks transparency.

v. Mirror-imaging/subconscious bias - there remains a concern that individuals are more likely to recruit candidates who are similar to them. Such an approach to recruitment may perpetuate the prevalence of male board members. This could be addressed by greater transparency in appointment process and additional emphasis on the need for a diverse board.

vi. Role models - there is a concern that more junior female employees do not see enough examples of successful women whose careers they can aspire to.

vii. Need for more female talent in the pipeline - training can play a part in developing the necessary leadership skills.

viii. Lack of state support and subsidies for childcare - childcare costs continue to have a significant impact on women in work.

g. Female choice - it is important to be realistic about the choices individual women make. Setting targets at unrealistically high levels may create an artificial situation in which women are over-promoted to satisfy quotas. ELA members were concerned that consideration should also be given to whether there is a fundamental difference in the numbers of women, as opposed to men, who wish to pursue these corporate roles. There are certainly industries where a particular gender dominates despite equality of access. One of the issues for the House of Lords to consider is the extent it is the role of the government to address such issues through social engineering with quotas and whether the focus should, instead, be on tackling the significant barriers to entry to ensure equality of access. Given the much wider context within which issues surrounding board level diversity sit, one of the key issues for the House of Lords to consider is how any initiatives sit within the overall issue of gender diversity, and how “success” can be measured in that context.

Employment Lawyers Association (ELA)—Written evidence

ELA would like to offer our thanks for the opportunity to respond to this call for evidence and set out ELA's views on this important issue. We should be happy to offer further assistance and invite the Select Committee to contact ELA using our details above if further evidence is requested.

Members of ELA sub-committee:

Brona Reeves, Barclays Bank plc (Chair)
Jemima Coleman, Herbert Smith LLP
Rachel Crasnow, Cloisters
Catrina Smith, Norton Rose LLP
Victoria von Wachter, 5 Essex Court
Eilidh Wiseman, Dundas & Wilson CS LLP
Richard Woodman, Royds LLP

10 July 2012

Equality and Human Rights Commission (EHRC)—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

Equality and Human Rights Commission, Association of British Insurers (ABI), Investment Management Association (IMA), National Alliance of Women's Organisations (NAWO), National Association of Pension Funds (NAPF), Trades Union Congress (TUC), Professor Sy

Equality and Human Rights Commission, Association of British Insurers (ABI), Investment Management Association (IMA), National Alliance of Women's Organisations (NAWO), National Association of Pension Funds (NAPF), Trades Union Congress (TUC), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140)

Please see under [Association of British Insurers](#) for transcript.

European Commission—Written evidence

Please find enclosed the European Commission's replies to the questionnaire on boardroom diversity. As you know, this important issue has been the subject of Vice- President Reding's work during her current term as Commissioner for Justice, Fundamental Rights and Citizenship. Currently the European Commission is working on a legal instrument on gender equality in boardrooms of listed companies, which is now at the final phase of internal deliberations and will be presented to the College for adoption this autumn.

I hope that these replies will be a valuable contribution to your on-going inquiry into gender balance in the boardroom.

Replies to 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?

The issue of enhancing female participation in economic decision-making has become increasingly prominent in the European arena. A particular focus has been placed on the economic dimension of gender diversity and the contribution that more balanced boards could make to a more productive and innovative working environment, to improved company performance and thus ultimately to growth and to the attainment of the objectives of the Europe 2020 Strategy. The European Commission reaffirmed its support for an increased participation of women in positions of responsibility both in its Women's Charter⁶ I and its Strategy for Equality between Women and Men 2010-2015,⁷ whilst publishing several reports in order to take stock of the situation.⁸

The European Parliament called upon the Member States to increase female representation of women in decision-making bodies and called upon the Commission to propose legislative quotas to substantially increase female representation in corporate boards.⁹ In its resolution on women and business leadership of 6 July 2011,¹⁰ it urged companies to reach the critical threshold of 30% female membership of management bodies by 2015 and 40% by 2020. It called on the European Commission, should the steps taken by companies and the Member States be found to be inadequate, to propose legislation, including quotas, by 2012 to increase female representation in the boards of publicly listed companies with a view to

⁶ COM(2010) 78 final.

⁷ COM(2010) 491 final.

⁸ See Commission report 'More women in senior positions', January 2010; Commission Staff Working Paper 'The Gender Balance in Business Leadership', March 2011 (SEC(2011) 246 final); Progress Report 'Women in economic decision-making in the EU', March 2012; Commission Staff Working Document 'Progress on equality between women and men in 2011', April 2012 (SWD(2012) 85 final).

⁹ See e.g. Resolution of 9 June 2011 on women and business leadership, Resolution of 11 May 2011 on corporate governance in financial institutions and Resolution of 8 March 2011 on equality between women and men in the European Union.

¹⁰ 2010/2115(INI).

attaining those targets, while taking account of the Member States' responsibilities and of their economic, structural (i.e. company-size related), legal and regional specificities. The European Parliament reiterated that call for legislation in its resolution of 13 March 2012 on equality between women and men in the European Union- 2011.¹¹

In the European Pact for Gender Equality 2011-2020, adopted on 7 March 2011, the Council urged action to promote the equal participation of women and men in decision-making at all levels and in all fields, in order to make full use of all talents.

The ED's right to act in issues of gender equality in employment and occupation is well established. It follows from Article 157 (3) of the Treaty on the Functioning of the European Union (TFEU).¹² This provision is the specific legal basis for any binding measures aiming at ensuring the application of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation.

Taking into account the current trends and tendencies in Member States, it may be concluded that the objectives of achieving a higher percentage of women in boards of listed companies and the inherent gender equality and economic and business benefits will not be attained if this issue is dealt with at Member State level only. The measures concerning gender equality on boards introduced by some Member States vary broadly, and a substantial number of Member States have not taken any action in this area. The absence or low number of contributions from these countries to the European Commission's stakeholder consultation points to a lack of debate on this issue in these Member States, suggesting that action to increase gender balance on company boards will not be taken in many of them.¹³

While Member States have the legal possibility to act in order to counter the under-representation of women in economic decision-making, many of them show no willingness to act on their own initiative, in particular those where the share of women among directors is particularly low. At the same time, discrepancies in terms of numbers of women on boards are growing in Member States, a situation which jeopardises the attainment of the fundamental objective of gender equality in economic decision-making across the European Union.

Furthermore, scattered and divergent regulation at national level is bound to create practical problems for a competitive level-playing field between Member States and the functioning of the internal market, as different company law rules and sanctions for not complying with a binding quota in some of them, such as exclusion from public procurement, could lead to complications in business life and have a deterrent effect on companies' cross-border investments and the establishment of subsidiaries in other Member States.

Finally, the potential for competitiveness and growth inherent in fully exploiting the talent pool of the best qualified women for board positions can better be realised, by reasons of scale, if all Member States engage into that direction, in particular those where figures are currently low and no action has been taken or even envisaged.

¹¹ 2011/2244(INI).

¹² Art. 157(4) TFEU clarifies that positive action measures can also be undertaken by Member States themselves but does not exclude the right of the EU to act. Positive action measures adopted on the basis of Article 157(3) TFEU would need to respect the relevant case-law of the Court of Justice of the European Union regarding the principle of non-discrimination on ground of sex.

¹³ Contributions to the European Commission's public consultation are available on the European Commission's website.

It can therefore be concluded that EU action would have an advantage over national initiatives of varying scope, ambition and effectiveness.

The differences in board structures in the EU should be given due consideration in devising measures addressing gender imbalance, but they do not constitute an obstacle to EU action.

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 experience with self-regulatory measures up to now shows that it has not brought sufficient progress across the EU. During the European Commission's consultation carried out in spring 2012 some stakeholders, mainly from the business community and including some Member States, argue that different non-legislative approaches have also been successful to achieve a better gender balance on company boards, including voluntary initiatives e.g. in Finland, Sweden, and no action at all in Latvia.

However, first of all, the three Member States mentioned as examples have so far only achieved a female share of about a quarter of all board seats (while three quarters are still occupied by men), and their recent progress is not remarkable or even negative. The relatively good performance of the two Nordic countries with an exceptionally good record and tradition of gender equality measures can be explained by a real debate on the issue and a credible 'threat' to legislate in case of failure of voluntary action. This 'threat' is, however, difficult to maintain over a longer period of time, and the level of current efforts cannot be realistically expected to be maintained at company level if such a credible 'threat' no longer exists. Moreover, in both countries the legal or de facto obligation to ensure gender parity on boards of state-owned companies also contributed to the good figures.

These examples confirm that Member States can sometimes improve the gender balance on corporate boards through their own non-legislative means - albeit under rather exceptional circumstances. There they cannot serve as models which other Member States can easily reproduce. Moreover, many Member States have not shown any interest so far to take action, neglecting the business and economic benefits a greater presence of women can bring to their companies and economy.

The analysis of recent developments also shows that by far the greatest boost to gender balance on boards was attained in countries having taken binding measures such as Norway and France. Almost half of the overall EU progress in the share of women on corporate boards in the period from October 2010 to January 2012 can be attributed to France, where a quota law was adopted in January 2011.

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

The European Commission established a database monitoring the numbers of men and women in key decision-making positions in order to provide reliable statistics that can be used to monitor the current situation and trends through time. The database covers positions of power and influence in politics, public administration, the judiciary, and various other key areas of the economy, including the number of women on boards of the largest publicly listed

companies.¹⁴

In case of introduction of an EU-level measure imposing a gender objective on boards of listed companies, the European Commission should monitor compliance of Member States with the EU measure and developments in companies. The administrative burden related to monitoring at EU level would be minimal, as Member States could use readily available information that listed companies are already submitting under a variety of existing reporting duties.

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

The experience so far shows that binding measures equipped with meaningful sanctions are more effective in ensuring compliance with targets. It should be left to the Member State to prescribe sanctions, which are effective, proportionate and dissuasive.

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?

Initiatives to increase female representation on boards of publicly listed companies in the EU should be able to bring about a sustainable change in business culture and truly break the glass ceiling with lasting effect. Several studies have identified the need to create a "critical mass" of women on individual company boards in order to break the glass ceiling and significantly affect company performance. Women are easily marginalised when their presence in a larger group is modest and due to their under-representation they are viewed as a token. Only if the size of the female group increases to the point that it is no longer a token minority, a fundamental and sustainable change in the boardroom can be brought about. As a result, a "critical mass" of women would enhance corporate governance, as women would no longer be seen as outsiders and would be able to influence the content and process of board discussion more substantially. These studies have concluded that the critical mass of women directors is reached when boards of directors have at least 30% women and also have pointed out that where possible the threshold in terms of absolute numbers of at least three persons should be reached.¹⁵ Several Member States and EEA countries in their national legislation have applied the target of 40% (FI, FR, IS, and NO).¹⁶ Setting a target of 40% would, on the basis of the average size of boards and thus in the majority of cases, correspond to having at least three women on boards and thus meet the critical mass both in relation to the percentage (more than 30%) and the absolute number (at least three) of women on company boards.

As for the question on when it should be determined that self-regulation is not working, the European Commission believes that sufficient time has already been given to the industry to make credible commitments to change the current situation. In this context we would like

¹⁴ http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/quoted-companies/index_en.htm

¹⁵ Joecks, J. et al (2012). 'Women on Boards and Firm Performance: What Exactly Constitutes a 'Critical Mass'?' Available at SSRN: <http://ssrn.com/abstract=2009234>; Kramer, V. et al (2007). 'Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance'. Available from <http://vkramerassociates.com/writings/NACD%20article.pdf>. Komad, M. and Kramer, V. (2006). 'How many women do boards need?', Harvard Business Review, Forethought Gender edition December 2006; Kramer, V. et al (2007). 'Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance.

¹⁶ Some Member States have chosen different targets: NL (30%), IT (33%), (BE 33%), AT (35%).

to refer to Vice-President Reding's initiative 'Women on the board Pledge for Europe'¹⁷ a call on publicly listed companies in Europe to sign a voluntary commitment to increase women's

presence on their corporate boards to 30% by 2015 and 40% by 2020. The results of this initiative were disappointing. In most Member States such credible commitments to self-regulation have not been made, and the change brought about so far by means of self-regulatory measures has been insufficient.¹⁸ That is why the European Commission launched a public consultation on the subject of possible EU measures on the subject, including legislative ones, to redress the situation, and is about to take a decision on such a legislative measure.

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 Treaty objective of equality between women and men in the EU is not directly related to the establishment of an internal market (as demonstrated by the wording of Article 3(3) of the Treaty on European Union (TEU)) and does not require any transnational or cross-border problem to establish the EU's right to act. Nor does Article 157(3) TFEU require a direct cross-border dimension to serve as a legal basis for the EU legislator. Indeed several EU legal acts have been adopted on this basis without any direct aim of promoting the internal Market.¹⁹

The Founding Treaties did, however, intend to create a competitive level-playing field between Member States by enshrining the principle of equal pay and of gender equality on the labour market, to avoid any downward competition between Member States in labour and equal treatment matters. Member States may indeed hesitate to regulate in this area on their own, as they could perceive a risk of putting their own companies at a disadvantage with companies from other Member States. This perception, reinforced by pressure from the business community, represents a major obstacle preventing Member States from taking adequate action.

Furthermore, scattered and divergent regulation at national level is bound to create practical problems in the functioning of the internal market, as different company law rules and sanctions for not complying with a binding quota, such as exclusion from public procurement, could lead to complications in business life and have a deterrent effect on companies' cross-border investments and the establishment of subsidiaries in other Member States.

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 higher level of representation of women would bring benefits to the European economy, including the UK economy and the UK companies. It would lead to a more efficient use of human capital, which constitutes the most important determinant of an economy's

¹⁷ http://ec.europa.eu/commission_2010-2014/reding/womenpledge/index_en.htm

¹⁸ See European Commission, 'Women in economic decision-making in the EU: Progress Report', available at: http://ec.europa.eu/justice/gender-equality/files/women-on-boards_en.pdf

¹⁹ E.g. most recently Directive 2006/54/EC (gender equality in employment and occupational social security) and Directive 2010/41/EU (gender equality in self-employment).

competitiveness and is a key for addressing the EU's demographic challenges, for competing successfully in a globalised economy and for ensuring a comparative advantage vis-à-vis third countries. The pool of highly trained and qualified women is constantly growing as evidenced by the fact that 60 per cent of university graduates are female. A continued failure to draw on this talent pool represents a missed economic opportunity in several respects.

There is a growing body of literature showing that companies with more gender-diverse boards have better corporate governance and are more profitable. Studies covering various countries show that companies with a higher share of women at top levels deliver strong organisational and financial performance²⁰. The existence of a business case for gender equality on boards is widely accepted and it has also been recently supported by the Lord Davies Report assessing the situation in UK. Enhancing female representation on the boards of publicly listed companies in the Union would therefore have a positive impact on the performance of companies concerned.

Labour market equality can substantially improve economic growth. Enhancing female presence in the board rooms of listed companies in the EU not only affects the women appointed to boards, but also contributes to attracting female talent to the company and ensuring a higher presence of women at all levels of management and in the workforce. Therefore, a higher share of women on company boards has a positive impact on closing both the gender employment gap and the gender pay gap. Making full use of the existing female talent pool would constitute a marked improvement in terms of return on education for both individuals and the public sector.

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

While several EU Member States and EEA countries have introduced legislation on targets for achieving gender balance on company boards, Norway is the only one where the deadline for implementing gender quotas has already expired and where information and data on the implementation process and its impact (positive and negative) are available.

As expected, the quota legislation led to major changes in the gender composition of company boards in Norway. According to figures by the Institute of Social Research in Oslo (ISF), the proportion of women on boards of PLCs gradually increased from 6% in 2002 to 18% in 2006, and finally reached 40% as from 2009²¹. According to the Commission database on women and men in decision-making²², 42% of board members of the 19 largest Norwegian companies (constituents of the main blue-chip index of the Oslo stock exchange - OBX) were women in January 2012.

However, the quota legislation has not yet led to major changes regarding the hierarchy within the boards. The proportion of women chairing boards of PLCs has only slightly risen from 3% in 2002-2007 to 5% in 2009 (ISF figures). Within the 19 largest Norwegian

²⁰ Most recently: Credit Suisse Research Institute (August 2012), "Gender diversity and corporate performance". Other important studies include: Catalyst (2004), "The Bottom Line: Connecting Corporate Performance and Gender Diversity"; McKinsey (reports of 2007, 2008 and 2010), "Women Matter"; Deutsche Bank Research (2010), "Towards gender-balanced leadership"; Ernst & Young (2012), "Mixed leadership".

²¹ Mari Teigen/Aagoth Storvik/Vibeke Heidenreich, Institutt for samfunnsforskning (ISF), 2009/2011, presented in several publications and presentations. The figures may be slightly below 40% despite the quota, since in practice the quota is only 33% for boards with three members and the rules for employee representatives are not as ambitious and allow for exceptions.

²² http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/index_en.htm

companies, women represented 2 out of 19 chairpersons in January 2012- i.e. 10.5% against an EU average of 3.2% (Commission database).

In autumn 2009, ISF conducted a representative survey of 900 board members of Norwegian PLCs, to enquire about the characteristics of male and female board members²³. The ISF survey refuted predictions that the quota legislation would create a phenomenon of 'golden skirts', i.e. a few women holding a large number of seats in Norwegian company boards. In fact according to the survey, 79% of female board members only hold one board position in public limited and private limited companies in Norway, compared to 62% of male board members, while 38% of men and only 21 of women sit on two boards or more. 2% of men are members of at least 10 boards, while none of the women responding are. Thus multiple board membership is still much more common among men than among women in Norway.

Interestingly, companies did not seem to need external help to recruit women to board positions. There were no indications that head hunters or data bases were more commonly used than before the introduction of the quota legislation. The election committees obviously managed to recruit the necessary number of female board members by their own effort.

The ISF survey of Norwegian board members also examined whether the increased presence of women directors had led to changes in the functioning of the boards. While a majority of board members believed that nothing had changed, a smaller share of board members (12% of men, 20% of women) had noticed improvements. When asked about the improvements, those board members noted new perspectives being brought to their work (57% of men, 66% of women), more discussions during meetings (33% of men, 59% of women) and the addition of new competences to the board that were lacking before (39% of men, 30% of women).

A recent survey of 201 Norwegian firms²⁴ found that the increased ratio of women directors was positively associated with the board's strategic control. The positive effects of women directors on board effectiveness could be explained through increased board development activities and through decreased levels of conflict.

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?

Experience with other measures, such as recommendations and other soft-law measures, has shown that quotas are needed to directly improve the representation of women on boards.

A variety of accompanying measures could be considered both at the EU as well as national level, for example:

- actions aimed at combating the stereotyped representation of the role of women and men in society, labour market and leadership positions;

²³ Mari Teigen/Vibeke Heidenreich, ISF, 2009, presentation available at: <http://www.boardimpact.com/PDF/MariTeigenogVibekeHeidenreich.pdf>

²⁴ Sabina Nielsen/Marten Huse, The Contribution of Women on Boards of Directors: Going Beyond the Surface, 2010, in: Corporate Governance: An International Review, 18(2): 136-148.

- further development of policies to reconcile work, private and family life, supportive of women's and men's participation in the labour market and in decision making positions;
- awareness raising activities, promotion of exchange and dissemination of experiences and good practices;
- monitoring and regular reporting on progress made in the EU Member States and wide dissemination of the results achieved by companies in Member States in enhancing gender balance on their boards;
- at the EU level: contribution to the improvement and availability of data by continuing to collect, disseminate and further develop comparable data through the Commission's database on women and men in decision making.

However, those measures as stand-alone measures are not considered suitable to directly improve the representation of women on 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?

It is the responsibility of companies to support the women in their career choices and throughout their careers in order to ensure a pool of sufficiently qualified candidates for board appointment. An objective imposed by legislation as regards the proportion of women on boards may serve as an incentive for companies to develop such a support.

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

The goal should be a balanced representation of men and women on board, i.e. at least 40% of each gender (see answer to question 5).

24 September 2012

European Women's Lobby (EWL)—Written evidence

I am Sonja Lokar, President of the largest umbrella organisation of women's associations in the EU, working to promote women's rights and equality between women and men. Our membership extends to more than 2000 organisations in all EU member states and Candidate Countries, as well as to 21 European-wide associations.

In February 2012 European Women's Lobby made a Report on Progress, Gaps and Good Practice about women on boards in Europe, based on the insight analysis of the situation in 9 EU member states and in Norway, and formulated its 6 recommendations to EU and to member states:

1. Introduce binding legislation to reach 50% of women on boards by 2020
2. Introduce measures to increase the number of female chairs and CEOs
3. Limit the number of board positions one person may hold
4. Introduce measures to support enterprises and empower women
5. Favour companies with gender equal boards in public procurement
6. Address the root causes of women under representation

Questions and answers:

1. Why do you think the current proportion of women on boards is so low? Is it a cause of demand, supply, or both?

The root causes lay in the persistent gender stereotypes and unequal access to economic, social and cultural resources between women and men, in inequalities in the share of paid and unpaid work, and in insufficient work-life balance policies for both men and women. These root causes are creating both, the lack of demand but also the lack of supply, but in a very different way. The lack of demand is based on the lack of political will, while the lack of supply is not based on the lack of capable women who might become executive managers, board members, CEOs but on the structural barriers these capable women meet in the development of their business carrier.

Gender stereotypes and “old boys’ network” attitude have been so strong that it was impossible until very recently, to create even an initial political will for gender diversity in the boards within the companies, in spite of the strong evidence of better efficiency of the gender mixed boards. Political will has started to change only when the governments, first in

Norway, then also in Spain, France, Belgium, Italy and in the Netherlands, introduced legally binding quota regulations. The initiative to improve the presence of women in company boards taken by EU commissioner finally triggered the first self regulatory initiatives in most EU member states.

At the same time the last McKinsey report entitled “Women matter: Making the Breakthrough” illustrates very clearly how to overcome the issue of the lack of supply by depicting crucial structural barriers within the companies and the possible effective strategy that the companies could apply – they call it the “ecosystem for gender diversity”, consisting of management commitment with set targets, women development programs to enable them to develop new skills and networks, and a set of enablers, such as indicators for detecting inequalities, tracking of the progress, erasing gender bias in human resource processes and policies, developing supporting mechanisms for child care and similar out of work commitments of women.

2. *Why do you believe that quotas are necessary? To which companies and positions do you believe quotas should apply?*

There is enough evidence that self regulatory measures are not efficient enough but that they were a good starting point for the introduction of binding legal positive measures. This was the case in Norway, and later on in other countries as well. EWL recommends binding legislation with strong sanctions, for 50/50 on boards by 2020 to all listed and non listed public companies with more than 50 employees and to all state owned companies. It also recommends that Corporate Governance Code should introduce co-chairing or alternate chairing of boards between women and men and similar system also for the posts of Chief Executive and Chief Financial Officers. EWL also recommend the number of board positions one person may hold.

3. *Do you believe that there are advantages to a common European approach to increasing the proportion of women on boards. If so, what are they?*

Yes, there are huge advantages. Whenever EU took a joint legally binding initiative to curb gender based discrimination or violence, the progress on this issue got an impetus and the countries lacking behind started to catch up, learning quickly from the countries with the best practice. I give you an example of combating sexual harassment at work.

The already quoted McKinsey report leaves no doubt: they have investigated 235 European mostly largest companies. Only 123 of them were able to report on their self regulatory measures, and only 20 out of them were able to report on making progress with diversity. This is less than 10%.

There is also the evidence that within the researched companies women and men are differing to a very huge extend in their views on gender diversity programs. 65 % of women and only 40% of men think that gender diversity is an important driver of company

performance, while 65 % of men and only 30% of women think that evaluation system in their company treats women and men equally. The perception of the needs for the change is much less expressed by the men who in fact are the ones to have the power of decision making. No legally binding and strongly sanctioned positive measures – no serious progress could be expected in short period of time. Even worse, there is also confirmed evidence that in number of EU countries the trend in the share of women on boards (Estonia, Cyprus, Hungary, Romania, Slovenia) as well as the number of the chairs and CEOs is falling (9 out of 27 EU member states and 15 out of 27 do not have any woman president of the highest decision making bodies of the largest publicly listed companies .

3. In the UK, Government have opted for a business-led, “voluntary approach” to increase the proportion of women on boards. The Cranfield School of Management's Female FTSE Board Report 2012 estimates that as a result of this approach, the proportion of women on boards in the UK will reach 39.6% by 2020. Do you believe that Member States making sufficient progress in increasing the proportion of women on boards without quotas should be exempt from EU - wide legislation?

Legally binding quota is not a goal, it is a tool. If one country can reach the target, which for EWL is 50%, not 40 % by 2020, legally binding quota is not necessary. What should be obligatory is to set up measurable targets in every field of gender diversity friendly ecosystem, to regularly track the progress made and then decide if the legally binding measures are needed or not after all. If the progress made in UK is like it is predicted, why should UK be exempted from the EU-wide legislation? It will make you no harm, and it might help you to keep your good results sustainable.

5. In Norway, which has introduced quotas in 2003, the numbers of women in executive posts are still very low and less than 3% of CEOs are women. Can quotas deliver sustainable change, or do they simply address the symptoms rather than the cause?

Once again, quota is not a magic wand! It is the most powerful tool to trigger the change. The changes needed are much more substantial: the commitment of management at all levels need to change, corporate culture needs to change, recruitment and evaluation systems need to get rid of gender bias, systems in support of the progress of women aspirants need to be put in place. But if the quotas are not obligatory and the sanctions not really strong, political will needed for all these changes to happen will take at least half of the century to develop. In the meantime Europe will be losing more than a half of its pool of talented business leaders! Can we afford this in global market competition?

6. *Some have argued that quotas are “patronizing” to women. How would you respond to this? Is there a risk that women appointed to boards through quotas would be seen as not having been appointed on merit?*

Structural gender inequalities which are hindering the promotion of women to the highest posts in economy in the societies with formal equality of men and women are not common

knowledge. They are not only hidden, very often they are publicly denied by those who hold power. This is why not only many men, but also many clever women think that quotas are offensive and are making them look incompetent while they are often more competent than the men with whom they compete for the post. It takes either strong expertise in gender inequalities or very bad personal experience of the glass ceiling for women to understand that quotas are necessary to remove structural barriers which have nothing to do with her personal capacity.

It is well known that newcomers in the power circles are always accepted with suspicion, and often subjected to a series of techniques of domination. The only way for the women in the boards not to be marginalized and totally overlooked is that they come there well prepared and in a group, not one by one. If they come as a result of well planned and well implemented action for change, led by the company leadership, they will be able to prove that they do not lack merit, but bring added value to the decisions of the board.

7. *Are there other measures that EU should take, either alongside or instead of quotas, to ensure better diversity on boards, such as reporting or monitoring requirements?*

Yes, of course there are. First legally binding quotas need to be enacted with sanctions strong enough to be taken seriously. It is important to apply quotas for non-executive as well as executive positions in the boards. EWL suggests the Norwegian approach: the dissolution of the company for non-compliance. The grace period needs to be given and mid-term targets, deadlines and monitoring system need to be put in place. The UK gives us a good example how the government and the self-regulating activities of the companies could be combined. Unfortunately the UK Government recommended target is too low, only at 25%. One needs to be aware that the companies will do just as much or as little they are obliged to do, this is why the targets need to be ambitious. Additional measures are also needed to ensure gender balance also between the presidents of the companies.

Setting up of the databases for the women interested to become board members also could be very useful in helping the women and the companies to overcome the feeling that there is not enough competent and willing women around.

23 July 2012

European Women’s Lobby (EWL), and 30% Club—Oral evidence (QQ 246–287)

**European Women’s Lobby (EWL), and 30% Club—Oral evidence
(QQ 246–287)**

Please see under [30% Club](#) for transcript.

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.

10 July 2012

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

Our Submission

Fawcett's submission presents key evidence in support of the introduction of boardroom quotas.

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).

Fawcett Society—Written evidence

- 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

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.

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.

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.

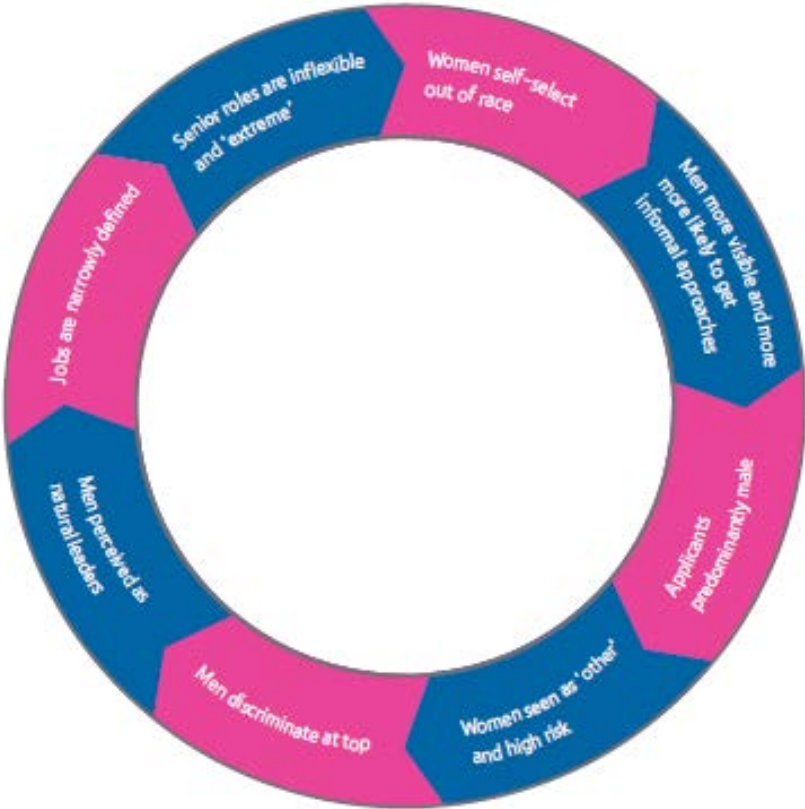


Figure 1: The “vicious circle” inhibiting female representation on boards

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.

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

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Evidence Session No. 4.

Heard in Public.

Questions 197 - 245

MONDAY 16 JULY 2012

Members present

Baroness O’Cathain (Chairman)
Lord Brooke of Alverthorpe
Baroness Buscombe
Lord Clinton-Davis
Lord Fearn
Lord Haskel
Lord Kakkar
Earl of Liverpool
Baroness Scott of Needham Market
Baroness Valentine
Lord Wilson of Tillyorn

Examination of Witnesses

Professor Susan Vinnicombe OBE, Cranfield University; and **Dr Ruth Sealy**, Cranfield University.

Q197 The Chairman: Good afternoon. Thank you very much indeed for coming. Thank you for making the time available for us. The Members, if they have relevant interests, will declare them. This question and answer session is being webcast as well as being transcribed. You will get a transcript which you can amend and return to us and it will be published on the website. Would you like to make an opening statement, Professor Vinnicombe?

Professor Susan Vinnicombe: Yes, thank you.

The Chairman: For the record, would you perhaps say your name?

Professor Susan Vinnicombe: My name is Professor Susan Vinnicombe and I am from the Cranfield School of Management. I just want to say a few words about the background to our work in this area. I set up the International Centre for Women Leaders at Cranfield in 1999 against a background of working with colleagues from other countries and being very concerned that, while girls were outperforming boys at every level of education, and indeed women were coming in in much greater numbers at graduate level, we were still not really seeing any progress at senior levels. Women were not taking up serious leadership positions across all the sectors. I therefore set up this centre, which at the time, in 1999, was unique in Europe. When setting it up 13 years ago, we decided at Cranfield that we would conduct a benchmark each year, looking at the number of women on the top FTSE 100 boards. In

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

those days, that was quite a big task because the data were not readily available, but we now look at women on all the FTSE-listed boards and executive committees.

The other point that I would like to make is that we are one of only three countries in the world to have collected such data over such a long period. The USA was the pioneer in this area, followed by Canada, followed by the UK. This is a very important point because in the UK we have these historical patterns of data going back 13 years, which is quite unusual relative to the rest of the EU.

The other point that I want to make is that, over the years in doing our work on women on boards, we have made a conscious effort to work with all stakeholders. So we have worked very closely with the Government and with chairmen, CEOs, executive search firms, journalists, support organisations such as Opportunity Now and women themselves. That is a very important point because we are the only country in the world with such a distinctive approach, and that is why—I know we will come on to this later—we have been successful in this voluntary approach.

The Chairman: Thank you very much, Professor. Dr Sealy, would you like to introduce yourself?

Dr Ruth Sealy: Yes, certainly. My name is Dr Ruth Sealy. I am the deputy director of the International Centre for Women Leaders at the Cranfield School of Management. Following on from what Susan was saying, the *Female FTSE Report* has monitored the state of women on boards since 1999, and the pace of change has been glacial. For the first decade the figures rose from just 7% to 12% and seemed to hit a plateau there. We were very supportive when the current Government wanted to set up Lord Davies's review. Indeed, Susan was on the steering committee. When Lord Davies reported in March 2011, the committee was very clear that there was a massive problem of underutilisation of female talent. It concluded that all FTSE 100 companies should aim for a minimum target of 25%, which we supported. The report showed a trajectory figure which, at the current rate of turnover, would mean that a third of all subsequent board appointments should go to women. Over the previous decade, that percentage had been around 13% or 14%, so it was going to require quite a significant increase.

We have been monitoring that over the past 18 months, and there has been a significant change in both the turnover rate and the rate of new appointments going to women, which now sits at about 25%. At the current trajectory and the current pace of change, it looks as though the number of women on boards could hit 27% by 2015 and even 37% by 2020.

Q198 The Chairman: Thank you very much. That is very encouraging. Now I shall ask the first question. Why is the current proportion of women on boards so low? Is it a case of demand, supply or indeed both?

Professor Susan Vinnicombe: We believe that it is not a supply problem, although long term I think that we have to address the sustainability of the number of women on boards. At the moment, there are a tremendous number of women in the pipeline—a point on which my colleague will speak—but we think that longer term we are going to have to look at the lack of women in executive directorships across the big FTSE companies. At the moment, the percentage of women who hold executive directorships in the FTSE 100 companies is 6.6%, and this has increased from only about 2.5% when we first started our work 13 years ago. We believe that, unless women have the opportunity of having that executive experience, we cannot sustain a significant number of women in the corporate boardroom.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

The real reason for the lack of women on corporate boards is not supply or demand. Our research has shown time and time again that the key reason is the opaque, and what we see as biased, appointment process. The posts are not advertised; it is not an open process but is subject to great bias. A claim that is often made is that it is the old boys' club. However, I should say that we have seen definite improvements recently and that has certainly improved the process.

Dr Ruth Sealy: Perhaps I could add some figures to that to illustrate how this is not a supply problem, certainly for the non-executive positions. In *The Female FTSE Board Report 2010*, we looked at the number of women at the executive committee level of the FTSE 100 companies and then all across the boards of the smaller listed corporate companies. We found a list of over 2,500 women holding those positions. If you think that in order to get the percentage of women on FTSE 100 boards up to about 30% we need only another 150 women, you can see why we believe that this is not a supply problem. There are plenty of very talented, experienced women out there who are pretty much ready to assume board positions.

The Chairman: So you are buying into Professor Vinnicombe's statement that it is the appointment process. It is neither supply nor demand; it is the appointment process.

Dr Ruth Sealy: Our evidence shows that that has been a major problem.

The Chairman: Thank you very much.

Q199 Lord Fearn: Is there a strong business case for improving the gender diversity of boards? If so, does it follow that there is also a strong business case for increased gender diversity on boards across the EU?

Professor Susan Vinnicombe: Yes. We believe that there is a very strong, compelling and comprehensive business case for gender diversity on boards, and it is a case which stands not only in the UK but across the EU and indeed globally. It sits on several broad platforms. One is talent management. In all the developing countries of the world, 60% of the graduates are now women. We have a tremendous number of women coming in at graduate level to our big corporates. So the fact that we are seeing so few women at the top on our corporate boards is a sheer waste of talent. Talent management would be our first point concerning the business case.

Secondly, if corporates are to serve their markets well, it just makes sense that they need to be able to represent those markets. In many of the markets, women are the consumers, so it makes very good business sense to have women on the corporate boards of those companies.

Thirdly, there has been quite a push in the past—indeed, we ourselves have engaged in such research—to look at the relationship between having women on corporate boards and financial performance. We do not subscribe to this research. We have shared it with chairmen and they do not think that it makes sense. We agree that it does not make sense. You cannot correlate two or three women on a massive corporate board with a return on investment, return on equity, turnover or profits. We have dropped such research in the past five years and I am pleased to say that Catalyst, which claims to have done a ground-breaking study on this in the US, officially dropped this line of argument last September. However, there are broader, non-financial performance indicators, such as corporate social responsibility, employee involvement, innovation, philanthropy and good communications, which have been seen to be connected to companies that have women on their boards.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Dr Ruth Sealy: Can I add something to that, please? I am not sure what the protocol is here.

The Chairman: Yes, certainly.

Dr Ruth Sealy: In 2009, some colleagues and I did a review of all the academic evidence that is currently available on women on boards, including the evidence around impacts. One of the challenges from an academic point of view is that it is virtually impossible to prove causality. You can prove correlation between the different variables involved in this, but you cannot prove causality because of the technique that is used called regression analysis. You are not manipulating the variables; you are just measuring. So it is impossible to prove that one way or the other, but you can look at the board's performance. You cannot add in, for example, one junior male non-executive director to the bottom line of a multimillion pound company, but you can look at the boardroom dynamic and how the board performs rather than at the company's performance. There is plenty of academic evidence that the dynamic improves: you get better decision-making and less group think; you get greater potential for creativity and innovation; and you get greater corporate governance. So there is substantial academic evidence around those areas, as well as the macro points about there being better role models and mentors for women and also the greater use of talent.

Q200 Baroness Scott of Needham Market: One thing that I have been struggling with during the course of our inquiry is why on earth, when the chairman's first interest ought to be the performance of the company, we have been failing to appoint women if the business case for doing so is so strong. I am still really struggling to understand whether it is because they do not understand the case, whether they simply do not believe what they are being told or whether the 'clubby' circumstances that you described are so all-pervasive that they just overrule everything else. I should be interested in your comments on that.

Professor Susan Vinnicombe: I think there is a combination of reasons. If you were to ask any of the top chairmen in this country, they would all intellectually be able to argue why they should be gender diverse and indeed why there should be broader diversity on corporate boards. But you are right: I think there is complacency. It is so easy to collude with what is going on right now and not to change. Having said that, I should emphasise that there is a large number of very notable chairmen in the UK who not only buy into this but have actively championed it, and I think that we should acknowledge their efforts. I think that the 30% Club now has 53 chairmen who have signed up to it and who do a considerable amount to champion this.

The Chairman: Thank you. Would you like to add to Lady Scott's question?

Dr Ruth Sealy: I think that the culture is all-pervasive. There is a history of organisations which are designed one way and have continued to run in the same way. It is very difficult to change the culture. It takes a long time.

Q201 Lord Kakkar: Just to come back to your basis of analysis, in multivariate analysis or regression analysis, you show no correlation between female board members and improved financial performance, but does that come about in univariate analysis?

Dr Ruth Sealy: I have to say that I do not conduct those types of analyses. Our paper was a review of all the evidence that has been done on this. We found that there were just as many statistical studies showing a positive correlation as those showing a negative correlation.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Q202 Baroness Buscombe: Would you therefore suggest that often women on boards change some of the focus? From my experience when I went on to a board, clearly there had been no focus on customer service whatever in a customer-facing business, and there was some surprise among the gentlemen on the board that that mattered. It now matters very much. But is it not also the case that you tend to find that men are much more pro-women on boards when they have already experienced, in their own work life, being on a board with women? The fear or whatever it is—the discomfort maybe—is taken away.

Professor Susan Vinnicombe: Yes, I think that is right. The two points I have made about the substantial contribution of women on boards is both asking questions about the marketplace and looking at the group dynamics. As is often quoted, quite frequently women are happy to challenge or clarify and often there are questions that are not otherwise asked. I do not want to stereotype women's contribution because men are quite capable of doing that. Indeed, very interestingly, research from colleagues of ours who have worked in Iceland shows that when you have mixed-gender boards, you move to a point where men's behaviour is not discernibly different from that of women. It is just that you have established the dynamic and, interestingly, it changes everyone's behaviour.

The Chairman: Professor Sealy, do you want to add to that?

Dr Ruth Sealy: It is fear of the unknown.

Q203 Lord Brooke of Alverthorpe: The fourth issue, as I understand it from some of our contacts with chairmen, is that they do not make these appointments because of the issue of risk. The women they see are not prepared to be as bold as men in taking decisions. I have heard this in relation to financial issues. I wonder whether you have endeavoured to do any research in that area, as that is often trotted out, rightly or wrongly. Secondly, I wondered whether anyone tries to use the extensive data which are available through financial service advisers, who ask people to set out categories of performance in regard to investment and risk taking. I have done it for myself and my wife, for example, and it has been quite interesting to look at the differences in the way we perform.

Professor Susan Vinnicombe: Yes, the piece on risk is interesting, and it is quite interesting that you frame it in that way. Over the last few years of the economic recession, people have been saying that people have been too willing to take very big risks. A colleague of ours in Iceland who sits on a number of boards talks about women being much more risk aware—not risk averse but risk aware. In her experience of sitting on boards, women are much more careful and measured in looking at risk before being prepared to take a decision. I know that this is rather qualitative and anecdotal.

Dr Ruth Sealy: My understanding is that some research from Cambridge suggests that women take into account more information and are slower to make decisions where they perceive there to be risks. So that would back up the risk-aware as opposed to the risk-averse argument.

Lord Brooke of Alverthorpe: My questions are anecdotal and non-researched based. I was wondering whether there was any movement by you to do further work in this area.

Dr Ruth Sealy: I am not aware of any. I am not sure whether it directly answers your point about investment, but there is a piece of research from Leeds University showing that there are fewer corporate failures when women are on the boards. It is a massive statistical study looking at all the data from Companies House over, I think, the past five years.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Professor Susan Vinnicombe: Another point to finish on is that I am reminded that we worked with a group of investors who put together a FTSE female fund. They found that companies with women on their boards outperformed those that had all-male boards.

The Chairman: That last point is something that we will have to pick up on, because we were not aware of that. We are going on to question 3 from Lord Haskel and perhaps I can say that we need fairly short answers because we are running out of time.

Q204 Lord Haskel: I wonder whether we can turn to voluntary measures versus quotas. The European Union is setting a target of 40%. Do you think that voluntary measures can achieve this result or would it have to be quotas? If so, how long do you think it would take to achieve that?

Dr Ruth Sealy: That is one reason why in our last report we set out some trajectories. As I said in my opening statement, if we continue at our current pace of change, we can get to just below that 40% mark by 2020, which in our opinion would be a massive achievement and a really good thing for the UK. In terms of across the EU, in May I was at a meeting in Oslo which was one of the last European Commission meetings. There were representatives from 19 countries—one academic and one government representative from each country. The UK was asked to present its case in terms of what it was doing, and that was a paper that we wrote. The discussion among the other countries in terms of where they were and what they were doing was very interesting. When you start making comparisons across the EU, one problem is that the corporate structures are very different, the corporate ownership is very different, the government rules are very different and the acceptance of political intervention is very different. A number of countries are making some progress. Those without quota measures do not seem to be making the amount of progress that we are making in the UK, so I think that we are considered to be doing very well without quotas. There are different types of quota across the EU. For example, last month Denmark introduced what it calls a “flexi-quota”, which allows each organisation to set its own quota and outline the measures that it is going to take towards it. It is mandatory that they do that but the Government are not setting the figure for them. In our opinion, there is such a difference across EU countries that it is very difficult to come up with one answer that is going to fit everybody.

Q205 Lord Clinton-Davis: Do you think that there is a case for a mixed message for quotas and non-quotas?

Dr Ruth Sealy: I think we would like to see a country-specific approach in the EU, with each country having to set its own targets and quotas. Targets have to be realistic in terms of taking into account the starting point of the specific country.

Q206 Lord Haskel: What about a carrot and stick approach, where you set a target and, if they do not achieve it, then quotas come in?

Dr Ruth Sealy: That would probably be a good measure. Undoubtedly, one reason for the increased activity over the past two years has been the threat of EU-wide quotas. That has made a very big difference. Norway had many years of targets without sanctions. They found that it did not work and that was their reason for bringing in quotas.

The Chairman: Professor Vinnicombe.

Professor Susan Vinnicombe: I do not think that I want to add any more.

The Chairman: Thank you. If no other colleagues want to add something to that, it will now be your question, Lord Clinton-Davis.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Q207 Lord Clinton-Davis: The report of Lord Davies has highlighted the ability of women to come on to boards in increased numbers. Do you think that that progress will be sustained?

Professor Susan Vinnicombe: Yes. As a member of that committee, I can say that we did reach that decision. Following on from my colleague's comments just now, it is interesting to bear in mind that of course Lord Davies always retained the possibility that, if insufficient progress was made in the UK, he might still come back to quotas. So the threat of quotas does seem to stimulate action.

We think that increasing the number of women in non-executive directorships is almost the quick fix, but what is of great concern is the lack of women in executive directorships—indeed, the lack of women in chairman positions. Looking forward, we have to do a lot more research into what we call this leaky-pipeline of talent to the top. It is very easy to look in the media and think that the answer is just that women have children. That is not the answer. It is clearly a leaky pipeline—a pipeline that leaks women at a number of different levels.

The Chairman: I am sure you are right. Is that all right, Lord Clinton-Davis?

Lord Clinton-Davis: Yes.

The Chairman: Does anyone else want to deal with that question?

Q208 Lord Haskel: What do we do to plug the leaks?

Professor Susan Vinnicombe: Well, that is quite a complex question. The truth is that, from our point of view, having been the expert academics, there has not really been a sufficiently systematic look at this situation all the way through. I think we need to look at where women drop out and look at it as a kind of holistic situation. There are lots of initiatives around but I think that it is important to look at it as a whole piece.

Q209 The Chairman: Can I make an observation, on which I would like you to agree or disagree? When we had Lord Davies as a witness, we were all impressed at the fact that he is sustaining the impetus. Although he has given his report, the reality is that there are still meetings and he is going round talking to schools and groups of people. Is this idea of the leaky pipeline one of the things that he is pushing for? I am asking you specifically as you are a member of his group. First, are you still a member of his group?

Professor Susan Vinnicombe: I am.

The Chairman: So, secondly, are ways and means of trying to plug the leaks, so to speak, on the agenda?

Professor Susan Vinnicombe: Fairly early on, at the initial meetings with Lord Davies, he wanted to address the question of the leaky pipeline. I was the one who cautioned him that this would take a lot of time and investment. If we envisage a two-year project—and at that stage I did not know what was going to happen—I took the position we have at Cranfield that there are sufficient women in the pipeline at the moment to increase the number of women on corporate boards. However, as I said, from a longer-term point of view, we must indeed look at the pipeline.

The Chairman: That is reassuring. Thank you.

Q210 Baroness Valentine: I think you have partly answered this question but perhaps I can narrow it. The progress report on the Davies report—your March FTSE board report—

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

showed that almost half of FTSE 250 boards were still all male and indeed that 7% of executive directors were women. In particular, do you want to comment on FTSE 250 boards and whether you should be expanding your reach to look at those?

Dr Ruth Sealy: Yes. I think we feel that it is time to extend the targets to the FTSE 250 boards, although again they have started to make significant progress. In the last year, the figure has gone up from just under 8% to, looking at today's figures, 10.9%. So it is almost 11%, which is a good improvement. And their pace of change—the percentage of new appointments going to women—has also increased significantly. So we think it is time to introduce a target at that level. I think that the work that the Financial Reporting Council has done and the additions to the code will help to get the 250 involved, because of course they are bound by the same governance codes.

The Chairman: Professor Vinnicombe?

Professor Susan Vinnicombe: No, thank you.

The Chairman: Do any colleagues want to ask a supplementary on that?

Q211 Baroness Scott of Needham Market: Looking across the EU, there is now a sort of patchwork of some countries with quotas and others which are more active in this area. I wonder whether you are seeing what one might call distortions of the market as a result of policies, with females going across borders to look for jobs. Are you seeing anything of this kind?

Professor Susan Vinnicombe: We have not done systematic research on this, although in the last six months when we conducted our research with the executive search firms to follow up the voluntary code that they put together last July, it was evident that a number of women are being offered positions in other countries. Because the definition of directorships and the liabilities and responsibilities are different in different countries, what was reported to us was that they were able to make appointments rather more quickly than we in the UK were able to do.

Q212 Baroness Scott of Needham Market: That is interesting. I recognise that the different governance structures across Europe make it difficult to do a complete read-across, but regarding the balance between executive and non-executive, is there any evidence that in the countries where quotas have been introduced you are losing females at executive level in order to get more non-execs?

Dr Ruth Sealy: My understanding is that Norway has started to look at that. I cannot comment knowledgably on it but I think there is a small amount of evidence that that has been the case in Norway, although I could not tell you the numbers.

Professor Susan Vinnicombe: Equally, in the UK one or two search consultants have said that they are concerned about that because there is such a push to get an increase in the number of women on corporate boards. As I said earlier, the non-executive directorships are easier to fill and so there is quite a lot of pressure on the existing women executive directors to consider possibly coming out of a full-time career and taking up a portfolio career.

Baroness Scott of Needham Market: I can see that that might be quite attractive at a particular point in your life when you are struggling to juggle a lot of things. There might be more flexibility.

Professor Susan Vinnicombe: Indeed.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

The Chairman: I should say that the director-general at the Ministry of Children, Equality and Social Inclusion of the Norwegian Government will be coming to the next session. If you wish to stay and listen, you might learn something, as I am sure we will.

Q213 Lord Brooke of Alverthorpe: If we are not inclined towards quotas for the reasons that you have described concerning the structures of corporations and companies in different countries and so on, what should the EU be doing to promote gender diversity?

Dr Ruth Sealy: We also found a principles-based approach that works in the UK. As I alluded to earlier, I think we would suggest that if the EU could take a country-specific approach that took into account a country's current situation in terms of the percentage of women in the workforce, how long they had been there and their educational levels, and which also set out timeframes, that would be appropriate. We would also obviously greatly encourage continual measurement and reporting, because that seems to have had a big impact in the countries that have chosen to do it.

Q214 Lord Wilson of Tillyorn: Going back to headhunters, we had representatives from some of the leading headhunting firms here the other day giving evidence. As you know, they use a voluntary code. I have two questions. First, what do you think the effect of the voluntary code has been? Secondly, do you think it would be a good idea if there was a similar voluntary code throughout the European Union?

Professor Susan Vinnicombe: That is right. It was a colleague of mine on the Davies committee who pulled together the key search consultants. The set which she pulled together and which we worked with subsequently a few months ago handled probably 80% of the FTSE 100 appointments. So, have things changed? Yes they have. We have brought a couple of copies of that report just in case they are of use to you.

Lord Wilson of Tillyorn: Sorry, which report is that?

Professor Susan Vinnicombe: It is the one about executive search firms. It was commissioned by the Equality and Human Rights Commission and we interviewed each of these 10 search consultants to ask them what impact the voluntary code had. It certainly has had an impact, primarily in terms of legitimising having conversations about gender diversity on boards. Everyone says that it is always discussed. Alongside that, we saw evidence of much better practices emerging—for example, much better interviewing and better specifications for directorships. We heard that in time gone by you would have a half-page description of what was required for a particular directorship. That might run to 10 pages now, so there is much more detail. Coming back to my opening statement, the more specific, the more competence based, skills based and experience-based it is, the more bias is eliminated. This is the extremely important practice that we see and we very much welcome it.

Other findings were that the search firms are finally coming round to the idea that they are interested not just in working with women whom they can place on boards in the next few months. They are coming round to the idea that they, too, can be a party to developing the next generation of women directors. Several of them have done quite a lot of research to develop the next generation of directorships with quite a focus on women.

We also see them advocating and supporting women much more. Many of them talk to us about how poorly women put together their CVs and showcase themselves at interviews. The search firms seem to be doing more to advocate more for women and to help them. All those practices are very much welcomed.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Dr Ruth Sealy: Perhaps I could talk about the EU. One thing that was very apparent at the EU Commission meeting in Oslo was that executive search firms are used significantly less in most other EU countries—even less than they are here. So, in terms of your question about whether a code should be introduced, if they are substantially using the executive search firms, then I would say that, yes, it is a good idea, but a lot of them are not.

Q215 Lord Clinton-Davis: I did not quite hear you. Are you saying that you have had contact with Commissioners and their cabinets or civil servants in the Commission?

Dr Ruth Sealy: No. I am saying that I had contact at the EU Commission in Oslo, where there was one government representative and one academic from each of 19 countries.

The Chairman: Specifically on this subject?

Dr Ruth Sealy: Specifically on this subject.

Q216 Lord Wilson of Tillyorn: Does the code apply equally to executive directors as to non-executive directors, and is there a difference between how effective it is in one as compared with the other? In parenthesis, I notice that you always say “search consultants”. Clearly, “headhunter”, which I used, is not a good word.

The Chairman: It is pejorative.

Professor Susan Vinnicombe: Yes, they tend to call themselves executive search firms. We did focus on non-executive directorships. That is a very good point about executive directorships. Last week I was talking to a partner from a leading firm in the City. She said that when she came into search she was very shocked that the sophisticated processes that applied at executive director level were not applied to non-executive directorships. Our report looked purely at non-executive directorships.

Q217 Lord Brooke of Alverthorpe: Could I come back to the issue of sustainability? You have described what good progress has been made. I come from the Labour movement background, where 15 or 20 years ago we made very good progress in a number of areas where women accounted for a substantial number of the members but had very poor participatory levels for a whole variety of reasons, and we tried to reverse that. Fifteen years on, it had changed—it had gone backwards. This is my fear—that if we operate solely on a voluntary basis, there is always the risk that, as the water runs under the bridge, we will start going backwards to a degree. What do you think we could do to embed the changes?

Professor Susan Vinnicombe: It is very unfortunate that in this country we keep talking about fixing the women, mentoring for women and programmes for women. Actually, it is the chairmen that we need to fix.

The Chairman: That is Lord Davies’s plot.

Professor Susan Vinnicombe: Yes. As I said earlier, there is a small group of hugely active chairmen who are championing this and in some ways they need to educate the other chairmen in the UK. That is the key thing—you are absolutely right. Our great concern is: when Lord Davies decides that his committee work should come to an end, will we lose momentum? I do not think so. In my opening statement I spoke about the way that it is embedded in UK society. I have advised governments across the world. The UK is the only country in the world where absolutely all stakeholders are working in the same line of direction on this. Everyone is against regulation if possible and everybody wants change, working together. So that is what we have working for us but of course there is a great concern that we might lose this momentum.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Lord Brooke of Alverthorpe: We have certainly seen the momentum lost in my party in politics.

Dr Ruth Sealy: Can I add one comment to that? What is perhaps different now to, say, 10 or 15 years ago is that we have a critical mass of very senior women who have all reached what is described as the “marzipan layer”, which has never happened before. That has been quite significant in the change of discussion around this issue. There have always been one or two women who have got through, but now there is a critical mass. When you talk to female senior managers now, there is much more discussion about them applying their talent to pull through more and more younger women beneath them. So there is a critical mass that was not there before.

Q218 Baroness Scott of Needham Market: I want to try to link three separate topics that have emerged. There is Lord Brooke’s point about sustainability, there is the role of executive search companies and there is the point that you made much earlier about the change of culture on boards that having women can make. I am curious about this: when the executive search companies are filling positions and working with chairmen—not the enlightened chairmen but the others—what, in your experience, are these headhunters doing? Are they finding candidates who look like the blokes who the chairmen are comfortable with, or are they able to work with the chairmen to assist their understanding that it could be different?

Professor Susan Vinnicombe: I think that there is now evidence of the latter. A number of the executive search firms understand that they can play a key role in changing chairmen’s attitudes. Unfortunately, though, our research experience of the past 13 years has been that all too often they have colluded with the chairman. The whole process is very underdeveloped—appointments are made very much by personal refereeing—and it is a difficult and complex process. It is also a transactional process, and I think that one needs to look at that. I do not know how much executive search firms get paid for all these non-executive directors, but that is another piece of the argument about why not so much effort is expended and we do not see the level of professionalism that we do in the search for executive directorships.

Q219 Earl of Liverpool: On sustainability, you said that it was good that chairmen are pushing for this now, and mentioned that you are working collaboratively with the 30% Club. Is there any upper limit to the number of members? There are 53 chairmen now in the club. Is there a target of an upper limit?

Professor Susan Vinnicombe: The answer is: I do not think so. The whole idea of the club was 30 chairmen, so the fact that it is up to 53 must indicate that there is no upper limit.

Q220 Earl of Liverpool: So we would be in a win-win situation if that could somehow increase to a FTSE 100 level and even to the 250?

Professor Susan Vinnicombe: Yes, absolutely.

Q221 Lord Kakkar: I would like to come back to the question of sustainability. If I have understood correctly, the small number of executive directors is an important and worrying consideration with regard to sustainability for the future appointment of non-executive directors. Do you think that there is a way of dealing with that which could be accepted and seen as reasonable by large corporations in the UK?

Professor Susan Vinnicombe: I do not think that there is going to be a quick solution here. The number of women at executive director level will increase only if corporates are much

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

more careful about managing their female talent coming through. We have seen so many examples from so many different sectors of how women can get overlooked. In many cases that is not conscious, but women do just get lost and therefore frequently do not get the same developmental opportunities as their male colleagues get—the stretch assignments, the opportunities to work overseas in an important role and so on. There has been a lot of publicity recently about the fact that they may get offered lots of quick mentoring, but they do not get the really serious sponsorship that their male colleagues often get. It is going to take some time to do this, and the approaches will probably be different in different corporate settings.

Q222 Baroness Buscombe: I have just made a note to self here. Going back to non-executives, could it be the converse of what has been suggested thus far? It has been suggested that perhaps women are not prepared to take risks, may not be prepared to challenge and may be a bit shy of coming forward. Could it not be the converse? How many chairmen out there really want a non-executive to challenge them? Let us be honest: most chairmen want their non-executives to be supportive. They would like them to be malleable, attentive and careful but not to rock the boat. Could that be an issue? Perhaps they feel that women might rock the boat as, in a sense, an unknown quantity.

Professor Susan Vinnicombe: I am sure that that is the case. What does come through in our interviews with chairmen who do have gender-diverse boards is that it is not a straightforward transformation. Often—and all our research bears this out—it can lead to quite a lot of friction and that is difficult to deal with on boards. Far more care needs to be given to induction, and bringing women on board and integrating them. But, once achieved, one has a much better dynamic on the board.

Q223 Lord Brooke of Alverthorpe: Back on the issue of sustainability, do you think there might be a case to be argued—going back to Lord Clinton-Davis holding up the threat that there should be quotas introduced if we did not make the targets—that perhaps if we overshot the targets we could have a fall-back position on quotas, that we should never fall below a certain amount?

Dr Ruth Sealy: That is a nice idea. I like that.

Professor Susan Vinnicombe: That is a good idea.

Q224 The Chairman: I feel another research project for Cranfield coming on! Let me just put three points in winding up. First of all, you did not make any point about role models. Having women on boards actually encourages women in the lower and middle management levels in those organisations, particularly where there are a lot of women, to aspire to go on boards. In my experience relating to two boards, I have been told that the presence of a woman on the board had a strong impact. It would be interesting to know if you have researched this.

Professor Susan Vinnicombe: We have not, but a large study was done in the UK of around 2,000 senior women managers who reported exactly that. They were asked whether they were optimistic about getting promotion. Interestingly, the women who worked in companies where there was at least one women director reported being twice as optimistic as the other women. So there is no doubt that there is this signalling up that it is possible.

The Chairman: That is an important point, particularly for the younger people—the graduates newly entering the labour market.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Dr Ruth Sealy: Can I just add to that? I did my PhD looking at the importance of role models for senior women in investment banks and that was a very clear finding: where there were not significant women above them, there was a complete lack of belief in their own ability to further their own career.

Q225 The Chairman: Question number two is: has any work been done on the failures, because not all women succeed on all boards? There have been some spectacular failures. There have also been failures that have been eased out. Now, the fact is that there are almost certainly failures of men being appointed but with women in the high-profile position, the spotlight is on them. So many times I have heard “I would not have another woman on the board because of—” and yet if a man had made a complete mess of something they would never say “I would not have another man on the board”. I wonder if you have done anything on that.

Professor Susan Vinnicombe: Yes, we have.

The Chairman: About women being in the spotlight position?

Professor Susan Vinnicombe: Yes, we have. That is a very good point. We were reminded by a colleague of ours in the City to address this because she had made the point that when the Metropolitan Police at one stage a few years ago had a real push to get more women at senior level, there were actually more women leaving than coming on. So we did put a spotlight on that this year and I think there are several points that might be worth making. One is that it is perfectly clear that it is not the same women being recycled each time, which was a great concern of ours. Two-thirds of the women appointed to the top boards this year are new women. Two-thirds also have a financial background, which is a bit of a stereotype, but that is another challenge. Two-thirds are new so we are not finding that women are just getting this “golden skirts” phenomenon, which has been talked about in relation to Norway—although I understand the data do not support it.

Secondly, we drilled down to see where the new women were coming from. In the main, this year on the FTSE 100, women were replacing men or there was evidence of additional directorships, but not just for women but for men as well. There was no evidence that the women were coming off but you are absolutely right to raise it. I am personally concerned that we need to give support to these new women who are coming on to boards because my sense is that they will have uneven experiences of being integrated on to the boards.

Q226 The Chairman: My final question—which I have asked all our witnesses—is: are there any questions that we have failed to ask that you think we should have asked and would you like to ask them now and give us the answers?

Dr Ruth Sealy: I think that the obvious one is: why would we not have quotas? But I think that in the UK at the moment, given the record of the past two years, we have evidence of why we should not have quotas in the UK. If you had asked that question two years ago, the answer might have been different.

Lord Clinton-Davis: But the TUC takes a radically different position, does it not?

Professor Susan Vinnicombe: No. Again, just to comment on this quickly, from all our research in talking to the chairmen, they do seem to be very against any more regulation so the signs are very encouraging in the UK. When I speak in the USA and other countries, they are quite jealous of the progress we are making but, as we have already heard this afternoon, this is based on the point that we continue to make this progress.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

The Chairman: Perhaps I may say thank you on behalf of the whole Committee. It has been a very worthwhile session. Thank you for giving up your time and answering our questions in such a detailed and courteous manner. If you think that there is anything else that would help us in our report and that you suddenly think of when you are rushing out, will you get in touch with the clerk? Thank you very much.

Examination of Witnesses

Ms Arni Hole, Director General, Ministry of Children, Equality and Social Inclusion, Norwegian Government; **Ms France Henry-Labordère**, Counsellor for Labour, Health & Social Affairs, French Government; and **Ms Joëlle Simon**, Director of Legal Affairs, MEDEF.

Q227 The Chairman: Good afternoon, ladies. Thank you very much for coming to give evidence before our inquiry. Before I start, I should tell you that if Members have any relevant interests in relation to the questions being asked they will declare them. The proceedings are being transcribed and webcast. You will get a copy of the transcript—for correction or amendments—and it will also be printed on the website. Before we start, I would be grateful if you could each identify yourself for the recording. Please say who you are and make a brief opening statement if you have one.

Ms France Henry-Labordère: My name is France Henry-Labordère. I am counsellor for labour, health and social affairs at the French embassy. Before June, I was counsellor for employment, labour law and professional training at the French Presidency, where I supervised the adoption of the law which implemented quotas for boards of directors.

Ms Arni Hole: I am Arni Hole, from the Norwegian Ministry of Children, Equality and Social Inclusion. I have been a director-general there for some years now and was responsible for writing up the law in 2002. I also have responsibility for family law, private law and all equality-related matters. I also have responsibility for economic provision for families.

Ms Joëlle Simon: I am Joëlle Simon. I am the director of legal affairs for MEDEF. MEDEF is the largest business representative organisation in France. We represent around 800,000 companies—small, medium, large, private and public—in all sectors of activity, retail and services. MEDEF is very much involved in developing gender diversity in general and on boards of companies.

Ms France Henry-Labordère: Perhaps I may make just a small introductory statement. I am very pleased to give to the Select Committee some insight into the experience of the French government regarding the implementation of quotas for boards of directors. Our perception is that full workplace gender equality is yet to be achieved in France, although, if you look at the figures, you might get the feeling that female labour market participation in France is quite high, because 64% of women of working age are in work. France is one of the 15 countries to have already achieved the objective of 60% that was fixed at the European Council in Lisbon in 2000. ~~Yet~~ yet numerical equality between men and women in employment is not in itself sufficient to guarantee professional equality. We have some figures which raise some questions. For instance, women earn 17% less than men at work, even with the same unbroken career path. Another figure which raises question is that only 17% of salaried directors of businesses are women. This is to give you some figures in order to understand why the French government decided to implement some quotas for boards of directors.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Ms Arni Hole: I think I could combine my introductory remarks with my answer to your first question.

Q228 The Chairman: Yes, fine. The question is: why did you choose to impose quotas rather than continue with the voluntary approach in your respective countries? We have probably heard why they have done it in France, with 64% of women of working age in work and only 17% of them directors.

Ms France Henry-Labordère: The first gender equality law in France was voted in 1983. During 30 years, seven laws have been passed regarding professional equality and equality of salary. Most of them relied on self-regulation or made compulsory negotiation within companies between the employer's representatives and employees' trade unions. The result of this voluntary approach has been quite disappointing, because progress has been extremely slow. In October 2010, French companies only counted 12.3% of female directors. Taking into account this slow progress, France decided to adopt more binding legislation, resuming the logic which was adopted in terms of political parity. This was made possible by a change to our Constitution, which allowed a bypass of a judicial obstacle which had up to then banned measures of positive discrimination out of respect for the principle of equality. This change to the constitution was made in 2008. That made possible further changes of legislation to implement quotas for boards of directors. The law of 27 January 2011 constitutes a very important evolution, because it makes obligatory a minimum quota of persons of each sex on the boards of directors of private and public companies. The implementation of this quota is gradual. For listed companies, an initial threshold of 20% must be reached by 2014 and a threshold of 40% by 2017. For other companies, the threshold of 40% must be reached by 2017. Those companies affected by the law are listed companies in the CAC 40, which is the Paris stock exchange index, and non-listed companies which have more than 500 employees and whose turnover is greater than €50 million in three consecutive years. So the total number of companies affected by the law is estimated at 2,000.

Ms Arni Hole: I think that Norway was a pioneer. It was question of social innovation actually—and thank you for inviting me. Around 2001, there was much focus on why gender equality had not moved forward in the corporate sector, because it had moved forward in politics, the state sector, universities and families—paid parental leave for a year with a father's quota and so forth—but it had happened very little in the corporate sector. We displayed at that time 40% women in Parliament, 38% in elected municipal bodies, almost parity in Cabinet—today, we have parity in Cabinet—and more than 60% women graduating from universities and colleges. Whereas 79% of women already worked back then, today it is more than 80% between 16 and 66 years of age. However, only 7% of women had been elected to the board of governors of listed public limited companies and it was approximately the same for private limited companies, which represent the bulk of Norwegian companies. Some 30% of the boards of wholly state-owned companies and other municipal companies are women, and there are very few women on the boards of the large agribusiness companies. That is a very conservative sector in Norway, but something has happened there, too—we did the same regulation for gender balance for elections to the boards.

The politicians asked what could be done. The then Conservative/Christian Democrat/Liberal Government decided to try something radical. They looked for a chance to do something to change corporate culture—it was too genderised, in favour of one gender of course. All large companies already had mentor programmes and recruitment measures for diversity. Since 2003, all private and public institutions and companies have had

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

to report annually on gender equality and status. That law came into force in 2003. What could be done to the upper echelons of the economy? Women were already visible in the labour market; almost all the family policies were in place. Then came a very interesting argument which was not only about fairness and democracy and about mirroring the population. It was: “Society has invested heavily in higher education; now we need to see the return on this investment”. Another argument was— my job was to prep the politicians with some good arguments—“Talents are evenly divided between the genders. With 62% of women graduating from universities and colleges, it would be strange if none of them, or not more than 7%, should be fit for elections to the boards of governors of plcs”.

So we looked around for experiences. We found none in any other country. We looked to ourselves and found two legal regulations for better gender balance. One was from 1988, saying that there should be no less than 40% of each gender on all government-appointed committees, councils, working groups and even formal delegations travelling outside Norway. This has worked wonderfully. We also found the Municipal Act of 1993, which said that all groups and committees appointed by the elected municipal council or body should have no less than 40% of either sex. So we thought that we could use those experiences for elections to the boards of governors of listed companies. We do not apply quotas for jobs— none whatever—as you are probably aware. So we decided to set out with a proposal and delivered it to the Parliament in 2003. It was voted in with a large majority in November 2003. I will go more into the history in response later.

Q229 The Chairman: We have time pressures, so could you all aim for an equal share of voice? We are into equality around here after all. Thank you. That was very interesting and it filled us in on the Norwegian background.

Ms Joëlle Simon: Thank you, Lord Chairman, for giving MEDEF this opportunity to express its view on gender diversity on the boards of listed companies. As a business organisation, we truly believe in self-regulation. We privilege self-regulation over legislation, which will not come as a surprise to you, I imagine. We are originating a corporate accord of governance for listed companies, which is now the code of reference for listed companies. When we realised that nothing had changed over decades on boards of companies, we decided to recommend quotas. We decided that in 2005, but, unfortunately, this position was not shared by all the business organisations involved, so we were not able to issue our recommendation at that time. It was only in 2010 that we were able to do so, which was unfortunately too late, because the legislature had been waiting to vote on a law and the law was adopted, as has already been mentioned, in 2011. Even so, our recommendation had some effect in its first year of application. We will talk about the results afterwards. It was a real change of position for our business organisation, because we had in the past been against any quotas.

The Chairman: And now you are leading on the future.

Ms Joëlle Simon: Yes.

Q230 Baroness Scott of Needham Market: The first two speakers really focused on this question as a matter of gender equality. I wondered whether it was a question of gender equality for you, Madame Simon, or whether as a business representative you believe that there is a business case in terms of women and boards.

Ms Joëlle Simon: Excuse me, I am not sure that I got the question.

Baroness Scott of Needham Market: There are two arguments. One is that women should be equally represented because it is a question of gender diversity as a matter of

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

public policy, and the other is that they should be there because there is a business case for that. I wondered what was driving you as a business organisation to change your mind.

Ms Joëlle Simon: We changed our mind because we think that women have a lot of competence.

Q231 Lord Fearn: What has the reception been to the imposition of quotas, particularly among the business community? Do you think that quotas are seen as patronising, or that women who are on boards are not seen as being appointed on merit?

Ms Joëlle Simon: We heard this argument a lot from the opponents of quotas. They said that quotas were demeaning to women because they would be elected as a member of the board as a woman, not as a competent person. That is not a good argument; if we went that way, nothing would change. We need quotas because they are a necessary evil—they are the only way to speed up this movement—but of course we would prefer self-regulation to regulation.

Q232 Lord Clinton-Davis: But the situation is different in every country. One country can accept quotas; another country cannot. Is that not entirely relevant?

Ms Joëlle Simon: This movement is not reversible. I think that member states like Germany will have to follow the movement, because it is history.

Q233 The Chairman: On our second question, do you have any specific points that had not been mentioned?

Ms Arni Hole: When we amend laws in Norway, we have to put them out for a public hearing, for at least three months. There was a fierce discussion, and there was some upheaval and turmoil among the business community. After a while, though, strong influential business people, male and female, came forward and said, “Something has to be done because we have to recruit the talents”. Talent is evenly divided between the genders, and this is a competitive-edge issue. We have to see the return on investment of the free, higher education. So it was both the gender equality issue and, indeed, a business issue. Today, if you ask the business community, they will say that they live with it just fine. Of course, it could be a sunset law; it is only a tool to see the competence around you. It is not a goal in itself—not at all.

One further point: it is not a human right to be elected to a company board, but it is a human right not to be discriminated against—not to be overlooked due to the sex that you were born with. Most males do not sit on company boards. It is an issue of finding the best people, regardless of gender.

Q234 Lord Haskel: If you have quotas, can you explain to us how they are achieved? In Britain, we have search firms that will find directors for you. Do you have that kind of arrangement, or do you advertise the jobs? How do you achieve it?

Ms Arni Hole: We have search firms but we do not consider boardroom governorships as jobs. Public limited companies in Norway are governed by general assemblies. An election committee appointed by the general assembly sets up shortlists and finds good candidates. Then the board of governors is elected by the shareholders in the general assembly each year. However, the nomination committee can of course use a search firm.

Ms France Henry-Labordère: Maybe I can say a few words regarding the perception of the business community in France on the implementation of quotas. It is interesting to underline that on a topic relating to the organisation of the company, the law is the subject of a

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

relative consensus among unions and management, which is not that common in France, where any change in the law is very sensitive. Most unions supported this, as did the employers' representative, as Ms Simon said, which shows an evolution of mentalities. Presented by a centre-right member of Parliament, the legislative Bill was also voted for by Socialist members, which is also not very usual.

Ms Joëlle Simon: Something that struck me as a first consequence of the introduction of the debate was that there is a professionalisation of the selection of members of a board. That is good, in a sense, but it could be perceived as discrimination because we think about the professionalisation of selection only when we think about women. As a result, I think that it would help to find better male candidates too. Another way to select candidates is the coaching by some CEOs of younger women at top management.

The Chairman: Mentoring.

Ms Joëlle Simon: Yes. Also, women need to develop networks because we know that networks work quite well for men.

Q235 Baroness Valentine: My question has been answered in part already, but perhaps I could ask for the Norwegian perspective. How is the business community in Norway engaged with gender diversity? Is it an advocate? Is it being dragged along or is it just working in practice with the law that it receives? How has the business community's attitude changed pre and post quota? If there is anything more to say on the French examples, I would be interested.

Ms Arni Hole: We have a quite strong gender equality law in Norway with a duty to report annually, and we have a strong working environment law, both of which are from the 1970s. I would say that the business community has behaved excellently in Norway. It has always been interested in gender issues. Because we are such a small community, it needs to engage the talents. No more and no less—it is obliged by law.²⁵

After we passed the quota laws in 2003, the main business federation of Norway set up the most wonderful programme called “Female Future”. It has been prized internationally. I really commend it. The Government had nothing to do with that. “Female Future” was set up and the financial sector set up “Futura”. Those programmes are to recruit and retain young people, not only to be elected for boardroom positions but also for CEOs and middle management. It has been wonderful. The business community is deeply engaged.

The Chairman: On the back of Lady Valentine's question, you mentioned “Futura” and “Female Future”. Can you give a brief description of what they are? It would be very useful if you could give some background for our report. I have just been told that we are about to have a Division in the Chamber. We will continue until such time. I am very sorry about this. I had hoped that we might get through the session. It has not come yet, so let us go to the next question.

Q236 Baroness Buscombe: How do you respond to claims that quotas have led to unintended consequences? We have heard, for example, about companies delisting to avoid complying and about the presence of the rather unpleasant suggestion of “golden skirts” directors on multiple boards. We have heard of women having to be drawn from all parts of society to fill the slots. You are looking unhappy about this. Please respond because this has been a lot of the banter that we have not necessarily heard here during evidence, but certainly has been in the press and the media, among others.

²⁵ Note by witness: As well as being obligated by law, such values are deeply embedded in Norwegian society.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Ms Arni Hole: There has been a lot of research into this, but let us remember that the law governing public limited companies has been acting only for four years. It was enforced in 2006 with two years in transition. Now, 40.9% of people on those boards are female.

Baroness Buscombe: Can I just stop you there? Two years is a very short transition period, is it not?

Ms Arni Hole: It is the law in Norway. All company laws that are amended have two years in transition.

Baroness Buscombe: It is still short to bring up those numbers, is it not?

Ms Arni Hole: I have to tell you a story. When the proposal was voted in Parliament in November 2003, the then Conservative cabinet²⁶ decided to enforce all the laws for the other types of companies—wholly state owned, municipal, et cetera—but it did not go to the King with the amendment for the PLCs - we have to go to the King to enforce laws. The government believed that the PLCs would sort this out by themselves, but they did not. Each year, we have the National Business Register measuring compliance and by the autumn of 2005, at the time of our general election, we saw that nothing had happened. The gender balance had moved from 7% to 9% women.²⁷ Hence the government entering office in October—the present government—decided to go to the King. So they had four years to comply.

Perhaps I should answer the rest of your question. On the “golden skirts”, we hardly have that problem. A few women have four boardroom positions to which they are elected. It is interesting that you ask, because formerly we had an immense problem with the “golden ties”, but that obviously was not seen as a problem. This is so interesting. It is like this: you are nominated on a shortlist and you are elected from a general assembly. I would ask: who would elect a poorly educated person, regardless of gender, to take care of their shares? I would not.

Ms Joëlle Simon: We did not notice any delisting due to the introduction of quotas in France. It is true that, as in Norway, some women hold several positions but not that many. Generally, it is two and at the most it is three. According to French law, there is a limit to the number of positions a person may hold in a listed company. It is very complicated legislation so I will not go into details. We did not see any exodus of women after the introduction of quotas.

Q237 The Chairman: You have said that research is available. Again, could we see that research?

Ms Arni Hole: I could ask my staff to mail it to you later, when I am back in Oslo, because I do not have it with me. Not everything is in English, but the summaries are in English.

The Chairman: I am sure that we would be able to get it translated.

Ms France Henry-Labordère: I just want to add a few things to Ms Simon’s comments. The quota of 40% completes the legislation provision for multiple administrative posts, which limits to five the number of director posts that one person can hold at the same time. We have observed some notable progress in the number of women on boards of directors. However, one must underline that, if listed companies have already surpassed the threshold of 20% of women on their board of directors, that result has been mainly achieved by

²⁶ Note by witness: A three-party government.

²⁷ Note by witness: These percentages reflect the percentage of women on the boards of PLCs.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

offering posts to women who already had a position elsewhere. That limits the effectiveness of the legislation.

However, this attenuation of the expected effects of the law should turn out to be only temporary with this limitation of the number of positions that a person can hold. We think that French companies should be forced increasingly to expand their talent pool of women in administrative positions. This is an important element in order for the measure to have a true impact. Otherwise, the risk is, as you said, that a small group of women occupy all the posts.

Q238 The Chairman: I take it that the same law applies to men. Just for clarification, does the same law apply to men?

Ms Arni Hole: Obviously. Yes, it is gender neutral.

Ms France Henry-Labordère: Yes, exactly.

Q239 Lord Brooke of Alverthorpe: As you are probably aware, we are making progress on a voluntary basis for non-executive posts in the UK, but the number of executive posts going to women is still rather small. But it is higher than in Norway. Given that you have hit the 40% target, the quota, for the non-executives, why is there such slow progress with the executive posts? What are you doing about that?

Ms Arni Hole: Yes, indeed, but I am afraid that the numbers are not correct. Last Friday, I went to the National Bureau of Statistics. Today, 7.8% of the top managers of public limited companies are women. For private limited companies—the bulk of Norwegian companies—the number is 14.6%. They of course are chosen and hired by the boards.

The Chairman: Can I just warn you that we have a Division and we had better stop. We will be back in about 10 minutes.

[Meeting suspended for a Division in the House.]

The Chairman: Thank you, everybody. Again, I apologise for the break in proceedings. I call Lord Brooke.

Q240 Lord Brooke of Alverthorpe: We were being corrected on some of our figures on the number of executive posts that have been filled by women. Looking at that area, what more, if anything, needs to be done there? How do you address the issue of sustainability—not just keeping the momentum but not slipping back? Can we have a report on what is being done within France to achieve progress in those areas? I also picked up from our documents that your target date for compliance is 2017 in France, and that one sanction is that fees will not be paid to directors in companies that do not comply. Have any such fees as yet been exacted for failure to comply and is there a possibility that you may have to do it? Is it an effective weapon?

The Chairman: It is very effective.

Ms Joëlle Simon: Yes, we had a very long discussion about the nature of sanctions and we think that pecuniary sanctions, such as the privation of fees, are more effective, because nullity is a civil sanction, but the privation of fees is more efficient. For the moment, we do not have any opportunity to apply such sanctions because it is too recent. As has been mentioned, the law is well implemented, because we are in advance for implementation of the first target of 20%. After the general meetings of 2012 concerning the CAC 40 index of listed companies, we will reach a percentage of 23%.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Q241 Lord Brooke of Alverthorpe: So you have some milestones?

Ms Joëlle Simon: Let me check. It is 23.4%. That is quite good, but perhaps it will be more difficult to reach the second threshold of 40%. There are a lot of initiatives and it is an ongoing process, but, to answer your question, we have also to develop initiatives at the executive level. That is very important, but we thought that it was easier to start with the board level, because it is visible. Of course, it would have been more objective to start with the executive level, because that is the place that you can pick up skills, competence and experience, but it would not have worked that way. That is why we decided to start with the board level, but now there are a lot of initiatives by companies to work on the promotion of equality and the promotion of women at top executive level.

For example, I can tell you that the board of Accenture meets every year to look at promotion and to try to reach a balance between the promotion of males and females at top executive level. This is now a virtuous process.

The Chairman: You wanted to have another word.

Ms Arni Hole: Yes, because I did not manage to finish before the Bell sounded. It is important for me to say that we cannot employ quotas for jobs. If you are to be hired for a job you have to compete. We cannot implement quotas for CEOs. In Norway, under the law governing public limited companies, the top manager, the CEO, cannot be a member of the board, but it is the board's most important job to recruit and hire the CEO. We are improving in that sense as well, because the pool of competent women seeing themselves fit to compete for top management is increasing due to the fact that we have the quota for boardrooms. More competent women are seen and see themselves as fit for this competition. There are now 7.8% women CEOs of plcs—it has moved on by 4%—and private limited companies have 14.6% CEOs.

There is another interesting number: We have 40.9% in public limited companies and the non-regulated private limited companies have 17.4% women on average.²⁸ That is not so bad, but it is not so good either, so in my ministry, together with the Ministry of Finance and the Ministry of Trade and Industry, we are looking to regulate—maybe—the largest of the ordinary private limited companies. We are working on that now.

I must declare, Madam Chairman, that I am a little disappointed that, in those four years, after the 40% level was reached in 2008, boards with gender balance have not been able to hire more women as CEOs. However, from the governmental side we cannot legislate quotas for jobs; that would be illegal in Norway.

So we have a process, and I think that it is keeping a high pace. We have family policies quite in order in Norway: you have one year of paid parental leave, 12 weeks for the father and full coverage for early childcare to an affordable price after the child is one year of age, and one parent can stay at home 10 days a week with pay until the child is 12.

The Chairman: Ten days a week?

Ms Arni Hole: No, 10 days per year, of course, until the child is 12—that would be too good, even in Norway. As I see it, there is no excuse any more for women not to compete for top jobs.

The Chairman: That is very interesting. It could be just psychology? I am afraid that we have to push on, because we have other things to deal with.

²⁸ Note by witness: Those percentages reflect the figures from 214,000 companies.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Q242 Lord Kakkar: Can I turn to the role of the European Union and the single market on this issue? For the single market to operate appropriately, does it really matter whether EU states take a different approach towards this question? Does the European Union really have a role in taking a single approach by specifying a quota across the entire single market and the member states? With regard to gender diversity on boards, does the percentage need to be consistent across the EU? Will it actually make any difference and what should the percentage be?

Ms France Henry-Labordère: I would say that France is very interested in the possible initiatives that the European Commission could take to increase the presence of women on boards, among them by implementing quotas. The assessment made by the French government regarding the European Commission's initiatives in terms of incentivising the companies show that little progress has been made. If I look at the figures, in 2012 only 13.7% of board members in big European companies are women. That figure was 11.8% in 2010; at that pace, it would take more than 40 years to reach a satisfactory equilibrium of having at least 40% of each sex. That is why we believe that a graduated approach and one of reasonable voluntarism should be considered. We could start with self-regulation, recommendations and maybe have directives if necessary, in co-ordination with unions and stakeholders.

Regarding your question on whether the percentage should be consistent among the different EU countries, we believe, yes, that this percentage should be consistent. We think that having 40%, and maybe a first step at 20%, seems reasonable as it corresponds to the critical mass that allows women to influence the decision-making on boards. It also gives the minimum amount of flexibility because it is not strict parity—it is not 50%. However, having said that, we could consider a different schedule for the implementation of this quota and for each country to comply with this new requirement.

Q243 Lord Kakkar: Why, though, should it specifically be a single market issue? Why does a single market operate better because we have a European Union quota applied across all member states in this matter?

Ms Arni Hole: I was just going to give a comment from a non-EU member.

The Chairman: Briefly, please.

Ms Arni Hole: Yes, but it seems strange that the EU, at the union level, should roll out one single approach in all member states because the cultural, economic and social situations are so different. I hosted a 17-country expert group this May with the Commission. Even the British were there with representatives from the UK, discussing Lord Davies's report and so forth. The presentations they made from their situations were extremely different, and the company laws vary a lot. The normative issue is of course extremely important. I think that reporting, transparency and being fined when not reporting is an excellent measure if, politically, you do not want to go for quotas. Denmark recently did that, this spring. The Danes have introduced a legal measure of reporting and transparency, as you have in Britain, but the companies could be fined if they are not reporting. That is another way of doing it.

The Chairman: A final word from Ms Simon on that.

Ms Joëlle Simon: On that issue, we also privilege soft regulations—I mean recommendations. An issue I want to address is the application of legislation to private companies because in France, most private companies are family controlled. It is more difficult to introduce quotas in family-controlled companies. That is really an issue in France because there is a limitation on the number of directors that you can have on boards, so it is a problem.

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

The Chairman: That is very interesting. It is a problem. As a Chairman, I am not supposed to have a view but I am still not convinced. I do not have a view but I would like to bring us back to what the single market is all about. It is essentially about trade and the movement of people and goods, all leading to growth, and about the removal of non-tariff barriers to trade. I am not so sure that quotas for women on boards would be regarded as a non-tariff barrier to trade, if we did not apply it. I throw that out because I think that sometimes we have to stand back a little bit and see it in the round.

Ms Joëlle Simon: I am not sure because there may be some difficulties at European level in imposing quotas, because it will not be possible due to the treaty. I do not know if you share my point of view.

Q244 Lord Kakkar: The conclusion is that it is not really a single market issue. There are many good reasons for doing this, but one of them is not the fact that this matter is pertinent to the single market in Europe. Would you agree with that?

Ms Arni Hole: I follow you.

The Chairman: You are non-committal, but you follow us. I think that Lord Kakkar has raised a very important point. We are probably more aware of it because we recently produced in this committee a report on the single market, highlighting the barriers to its completion. If you have any further ideas on that question, which I know we have thrown at you, it would be very good if you could write to us. I am sorry about not giving you advance notice but it had just begun to germinate and I think it is an area we should look at.

Q245 Earl of Liverpool: This is by way of a wind-up of everything that has been discussed, and Lord Kakkar's supplementary question that he just asked may have answered it. Are there any other measures that the EU should take—either alongside or instead of quotas—to ensure better gender diversity on boards, such as reporting or monitoring requirements?

Ms France Henry-Labordère: As my colleague from the Norwegian ministry said, we believe that the question of transparency is obviously very important and goes alongside the implementation of quotas. Regarding the French legislation, the law said that the report of the director of the boards towards the composition of the board must be made public, and must from now on show specific developments regarding the application of the principle of equal representation of women and men on the board. This is the principle of “comply or explain”. We see that as also being a very important step in order to promote gender diversity. It is not only a question of quotas but a question of the public image of companies. All these results are made public every year and there are some press articles regarding the achievements of the companies, so it also participates in this movement for promoting gender diversity in boards. We think that is another step that maybe the EU could also promote and encourage.

Ms Arni Hole: I think that, at the Union level, Viviane Reding has seen that it is necessary to change corporate culture. Like you say, a gender-balanced business culture is good for reputation building in the market. You compete well if you compete for the best outcome—you know, being proud of it in the market—so why not use a market possibility that is more efficient? It is about that as well. I think that would be my advice: to increase the competitive edge by recruiting and retaining the best talents of Europe.

The Chairman: And the final comment is from Madame Simon.

Ms Joëlle Simon: This may not be a comment on this issue but there is a point we did not address: the question of remuneration and the differences in it between male and female

French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

directors. According to a recent survey, the remuneration of female directors is still much below that of male directors. I read that it is 50%, which is a huge gap, but I was not able to check. Compared to the difference between the remuneration of women and men within companies—is that around 20%?

Ms France Henry-Labordère: 17%.

Ms Joëlle Simon: It is 17%, so it is huge regarding the executive directors.

The Chairman: I am afraid that we will have to end it there because we have a few more items on our agenda. On behalf of the Committee and on my behalf as well, thank you very much indeed for your great answers and for your helpful additions to our knowledge. You will be getting a copy of the report and of course you will be getting a transcript as well, so thank you again.

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.

GC 100—Written evidence

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

Government Equalities Office (GEO), Department for Business, Innovation and Skills (BIS), Lord Davies of Abersoch—Oral evidence (QQ 1–81)

Government Equalities Office (GEO), Department for Business, Innovation and Skills (BIS), Lord Davies of Abersoch—Oral evidence (QQ 1–81)

Please see under [Department for Business, Innovation and Skills](#) for transcript.

Hermes Equity Ownership Services—Written evidence

As we are broadly supportive of the 30% Club approach and response we have not responded directly to the call for evidence with a bespoke response.

Our one point of difference with the 30% Club is that in some European jurisdictions we accept that quotas may be necessary if a voluntary regime does not work having been tried for a period. We do not believe that this will be necessary or desirable in the UK with its strong history of comply or explain governance and the encouraging response to the Lord Davies report and subsequent related efforts to improve diversity on boards.

I trust that this clarifies our response.

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

Elin Hurvenes—Written evidence

Following our email correspondence and your request for more information about Norwegian quota law experience I am please to follow with my response to your questions below:

1. Why did the Norwegian government choose to impose quotas, rather than continuing with the voluntary approach in your respective countries?

In 1993 there were 3% women on Norwegian boards. By 2002 this had, despite a number of voluntary approaches, only increased to 6%. The Minister for Trade and Industry, Mr Ansgar Gabrielsen argued that

- The boards of Oslo Stock Exchange listed companies were too homogenous, hence running the risk of group-think and tunnel vision
- An “old boys’ network dominated the boardrooms with little or no diversity
- Norway needed to utilise the full talent pool and not systematically ignore half of it
- As a nation we spend a lot of resources educating men and women and as a nation we should utilise their full potential, also at board level
- With “organic growth” it would take 100 years to reach 40% on Norwegian boards

2. What has the reception been to the imposition of quotas, particularly amongst the business community?

Internationally there is a perception that the quota law was well received in Norway because of our reputation as an egalitarian society. This could not be further from the truth, in fact there was a public outcry. Chairmen, investors, CEO, the business community in general were up in arms and the proposal was called “outrageous”, “totally tragic”, “impossible and laughable”. I only recall Mr Jannick Lindbæk, former CEO at DNB Bank and former Chairman at Statoil (Norway’s largest companies) and Mr Leif Frode Onarheim (leading industrialist and Conservative MP) saying publically that this utilisation of the national talent pool would have positive effects for business.

Leading chairmen and investors were quoted in the media saying “the women don’t exist, they don’t have the skills and experience, they are not interested and we don’t know where to find them”. Some rather odd and old fashioned statements were made that clearly illustrated the reason why women had not been invited into the boardrooms.

However, once the Norwegian business community realised the quota legislation would be implemented most took it in their stride and today, 10 years on we have 40% women on our boards and it is no longer a big issue, it is business as usual.

When I hosted the international Board Impact (www.boardimpact.com) conference in Norway in 2010 chairmen, investors, business leaders/CEOs, politicians, women board members shared their experiences following the quota legislation. The chairmen all agreed that even though they in principle still opposed quotas, they were delighted with the results and the positive effects of having more women in the boardroom. Particularly they stressed that the women

- Enhanced the debate but asking probing question
- Helped generate a more open, positive and constructive forum for debate and decision
- Were not afraid to challenge the status quo or ask “stupid” questions
- Brought new, different and sometimes innovative perspectives to the discussions
- Had high expectations for corporate governance standards that also raise the bar for the whole board
- Were exceedingly well prepared at meetings
- Sometimes took longer to reach a decision because they wanted all aspects discussed. This could be irritating in the short run but added value in the long run

3. *Do you think that quotas are seen as patronising, or that women who are on boards are not seen as appointed on merit?*

Not at all, I think women find it more patronising to be told they are not qualified to serve on boards despite having all the credentials. To quote Mr Leiv Askvig, Chairman of the Oslo Stock Exchange: “Board appointments without merit are very rare and has nothing to do with gender. If unmerited appointments take place then shareholders and nomination committees have not done their job properly.”

I speak with a large number of women board members in Norway. They report that board work is challenging and stimulating, they feel able to contribute and many say they enjoy the opportunity to use the full scale of their skills and experiences. Chairmen and fellow board members have welcomed them and treated them as they would a new male board member; with high expectations to contribution and efforts.

A board seat is a valuable company asset. I firmly believe no chairman or shareholder, in Norway or elsewhere, would deliberately appoint someone without merit and waste a board seat.

4. *Is the business community in Norway engaged with gender diversity? Has this engagement improved or worsened since quotas were introduced?*

Most women in Norway work outside the home and traditionally Norwegian businesses have had a strong gender focus. The quota legislation has strengthened this by raising the visibility and profiles of outstanding women and expanding their networks to other influential business people.

5. *How do you respond to claims that quotas have led to “unintended consequences”, namely companies delisting to avoid complying and the presence of so-called “golden skirt” female directors on multiple boards? Have there been any other negative consequences?*

In my view the “golden skirts” do not exist, it is a myth created by the media. Figures for the ASA companies (those affected by the quota) released by the Central Bureau for National Statistics (www.ssb.no) in July 2012 showed the following figures:

1 board seat:

89% men, 83% women

2-3 board seats:

10% men, 15% women

4 board seats or more:

1% men, 2% women

This clearly demonstrates that any “golden skirts” are matched by “golden suits”.

When we talk about NED roles in the UK it is generally in the context of the FTSE350.

Portfolios NEDs in Norway typically have two, possibly three seats on a plc. The rest of the portfolio is made up of smaller, private limited companies with smaller workload and complexity. The international media don't analyse the content of these board portfolios and hence the “golden skirts” are presented as having 15-20 plc roles. This is simply not the case and would be ridiculous if it was.

6. *In Norway, the numbers of women in non-executive posts have increased, but the numbers in executive posts are still very low – less than 3% of CEOs are women. Are quotas delivering*

sustainable change, or are they simply addressing the symptoms rather than the cause? What else was done, and what else should be done, to deliver sustainability?

Companies in Norway have a complete two tier-system. All our board members are Non-Executives, including the chairman and they are all shareholder appointed through shareholder-elected nominations committees. Current board members never serve on the selection committee but former board members are often asked to fill these roles and naturally the nomination-committee consults the Chairman. The CEO and other executive committee members will attend the board meetings but have no voting power and are not members of the board. In other words, our quota legislation was designed to deal with the NED side, not the executive side.

To see an increase the number of women in executive roles totally different mechanisms need to be put in place. This drive has to come from the corporate world itself and is already happening in some companies. Mr David Thomlinson as head of Accenture for UK and Ireland set a target of 30% women in ALL leadership roles in 2010 and found, to his surprise, that the target was reached ahead of time, I believe as a result of “what gets measured gets done”. To think there would be a large “spill-over” effect from a board quota to the executive level is wishful thinking. Changes in mindsets, focus and promotion practices in the corporate sector must take place before we see a significant increase in the number of women at ex-co level.

Outside the UK Deutsche Telecom pledged two years ago to bring 30% women into the top two leadership levels in the company by 2018. The DAX30 followed with a similar pledge a year later.

7. Are quotas seen as having been a success? What positive aspects, beyond the increase in the percentage of women on boards, have been observed?

As I reported above, Norwegian chairmen are pleased with the results. The quota law was tough medicine but it worked where everything else failed. If the law were abolished would we revert back to 6% women on the boards? That is an acid test I am positive Norway would pass.

In my view there are two other significant and positive aspects:

- Norway with its unprecedented legislation has placed the issue of women on boards on the global agenda. (You may already know that Malaysia has introduced a 30% quota for women on boards and is actively considering doing the same for the executive level.)

Elin Hurvenes—Written evidence

- And finally, Norway has on a grand scale improved the skills base of it's population. We now have a larger pool of talent with board experience and competencies consisting of both genders.

I hope this is helpful but please do not hesitate to contact me should you require further information.

Elin Hurvenes - Founder & Chair

14 August 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 Directors (IoD), Brook Graham, Confederation of British Industry (CBI), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Institute of Directors (IoD), Brook Graham, Confederation of British Industry (CBI), MWM Consulting, Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Please see under [Brook Graham](#) for transcript.

Institute of Leadership & Management (ILM)—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, reduces overheads and absenteeism, increases 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 country's 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 (IMA)—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 2007² 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

Investment Management Association (IMA), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), National Alliance of Women's Organisations (NAWO), National Association of Pension Funds (NAPF), Trades Union Congress (TUC),
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Investment Management Association (IMA), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), National Alliance of Women's Organisations (NAWO), National Association of Pension Funds (NAPF), Trades Union Congress (TUC), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140)

Please see under [Association of British Insurers](#) for transcript.

Michael Klein—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

Arlene McCarthy 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 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

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

Mouvement des Entreprises de France (MEDEF), French government, Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Mouvement des Entreprises de France (MEDEF), French government, Norwegian government, Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Please see under [French government](#) for transcript.

MWM Consulting, Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

MWM Consulting, Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), Sir Michael Rake, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Please see under [Brook Graham](#) for transcript.

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

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

National Alliance of Women's Organisations (NAWO), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Association of Pension Funds (NAPF), Trades Union Congress (TUC), Profe

National Alliance of Women's Organisations (NAWO), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Association of Pension Funds (NAPF), Trades Union Congress (TUC), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140)

Please see under [Association of British Insurers](#) for transcript.

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 Association of Pension Funds (NAPF), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women's Organisations (NAWO), Trades Union Congress (TUC),
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National Association of Pension Funds (NAPF), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women's Organisations (NAWO), Trades Union Congress (TUC), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140)

Please see under [Association of British Insurers](#) for transcript.

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

Norwegian government, French government, Mouvement des Entreprises de France (MEDEF), Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Norwegian government, French government, Mouvement des Entreprises de France (MEDEF), Dr Ruth Sealy, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

Please see under [French government](#) for transcript.

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.

Professional Boards Forum—Written evidence

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.

4 July 2012

Quoted Companies Alliance (QCA)—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

Sir Michael Rake, Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Sir Michael Rake, Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sapphire Partners, Spencer Stuart—Oral evidence (QQ 141–196)

Please see under [Brook Graham](#) for transcript.

Sapphire Partners, Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Spencer Stuart—Oral evidence (QQ 141–196)

Sapphire Partners, Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Spencer Stuart—Oral evidence (QQ 141–196)

Please see under [Brook Graham](#) for transcript.

Dr Ruth Sealy, French government, Mouvement des Entreprises de France (MEDEF),
Norwegian government, Professor Susan Vinnicombe OBE —Oral evidence (QQ 197–245)

**Dr Ruth Sealy, French government, Mouvement des Entreprises de
France (MEDEF), Norwegian government, Professor Susan
Vinnicombe OBE —Oral evidence (QQ 197–245)**

Please see under [French government](#) for transcript.

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

Spencer Stuart, Brook Graham, Confederation of British Industry (CBI), Institute of Directors (IoD), MWM Consulting, Sir Michael Rake, Sapphire Partners—Oral evidence (QQ 141–196)

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Please see under [Brook Graham](#) for transcript.

Trades Union Congress (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.

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Trades Union Congress (TUC), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women's Organisations (NAWO), National Association of Pension Funds (NAPF), Profe

Trades Union Congress (TUC), Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women's Organisations (NAWO), National Association of Pension Funds (NAPF), Professor Sylvia Walby OBE—Oral evidence (QQ 82–140)

Please see under [Association of British Insurers](#) for transcript.

Professor Susan Vinnicombe OBE, French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy—Oral evidence (QQ 197–245)

Professor Susan Vinnicombe OBE, French government, Mouvement des Entreprises de France (MEDEF), Norwegian government, Dr Ruth Sealy—Oral evidence (QQ 197–245)

Please see under [French government](#) for transcript.

Professor Sylvia Walby OBE—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.

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Professor Sylvia Walby OBE, Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women's Organisations (NAWO), National Association of Pension Funds (NAPF), Trades

Professor Sylvia Walby OBE, Association of British Insurers (ABI), Equality and Human Rights Commission (EHRC), Investment Management Association (IMA), National Alliance of Women's Organisations (NAWO), National Association of Pension Funds (NAPF), Trades Union Congress (TUC)—Oral evidence (QQ 82–140)

Please see under [Association of British Insurers](#) for transcript.

Marina Yannakoudakis MEP—Written evidence

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?

I do not believe that the EU has any role to play in setting targets, or worse still quotas, for women on boards. This should be the exclusive competence of national governments. The Working Time Directive and my personal campaign against the threat of the Maternity Leave Directive have demonstrated how dangerous EU interference in social and employment policy can be to the UK's competitiveness.

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

Self regulation works. In 2011, 100 women were appointed to FTSE-100 and FTSE-250 boards with FTSE-100 boards currently have 15.2% female representation. The voluntary target of 25% female directors by 2015 is working with the UK is likely to exceed this target, even achieving 30% of women on boards in 4 years.

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

Monitoring should be conducted by Member States, as progress is best observed at the local level. This is not an EU competence.

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

Companies need to do more, but not under threat of sanctions, especially not those from Brussels. We need to encourage sustainable and meaningful change to the way women are represented at a senior level in companies, but we should do so through voluntary targets rather than mandatory minimums.

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 UK is already exceeding voluntary targets. There is no need for legislative intervention especially not at the EU level.

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 a link between women in business and business performance. Also, when I spoke to financiers about women entrepreneurs, bankers saw businesses run by women as less of a risk. However, in Norway, although outside the EU, but inside the EEA, following the introduction of quotas there was a rise in so-called female ‘trophy directors’; nominal women who took on multiple boardroom jobs just to fill the quotas. This is tokenistic and demoralising for women who have made it on to boards by reputation rather than regulation.

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?

Commissioner Reding has said “The lack of women in top jobs in the business world harms Europe’s competitiveness and hampers economic growth.” While this may be true to a certain extent, a Bundesbank report has recently suggested that inexperienced women parachuted onto the boards of banks leads to “a more risky conduct of business”. This is a strong argument for ensuring that people are appointed to boards purely on the basis of merit

What are the positive and negative effects of legislative quotas?

While I still believe that voluntary targets work best, there may be an argument for temporary measures, including quotas, to ensure that women have equal opportunities to reach senior positions. However the negative effects far outweigh the positives: quotas send out the message that women can’t make it on merit. They are demeaning and patronising and fail to recognise the achievements of talented women who have already been appointed to boards. Also, with quotas the focus is skewed towards boards rather than ensuring that there are sufficient qualified women available to take on senior roles as and when they come available.

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?

Action need only take place at the national level. We need to support initiatives like the 30% Club which provides support to businesses which wish to improve diversity.

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?

This rather depends on what is meant by “action”. I am all for using the European Union as a way to exchange best practice. I authored a report in the European Parliament on female entrepreneurship, which contained recommendations for mentoring and information-sharing across borders. These are the kind of initiatives which could be considered when it comes to improving diversity in top and middle management positions. It should not, under any circumstances, be legislative.

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

The ultimate goal is there to be no need to have this discussion about quotas. In the meantime, a 25% voluntary target is a good start and the UK is close to meeting that target. The use of voluntary targets has helped accelerate progress, and, to a certain extent, the threat of quotas (rather than quotas themselves) has been a useful tool in picking up the pace. I don't believe full parity will ever be achieved, nor should it be our goal. Women need to have the same opportunities as their male counterparts, which means a better work-life balance for both women and men. However, women also need to have the choice to raise a family should that be their preference. And for the EU, the ultimate goal should be to complete and make best use of the Single Market rather than interfering in Member States' social policy.

20 July 2012