

Boardroom of the Future

Davies, Diversity, Development

Davies Report Update

- The percentage of FTSE 100 board seats held by women is now 14.2% (up from 12.5%).
- There have been 21 female Board appointments or 22.5% of all appointments to FTSE 100 boards. 3 Executive Directorships & 18 Non-Executive Directorships
- 2/3rds of the new female appointees to the FTSE 100 & 250 have no prior quoted board experience

Davies Report Update

- There have been 28 new female appointments on FTSE 250 boards representing 18% of all new appointments. & 8.9% of all board seats. It is now the minority of FTSE 250 companies that have all-male boards.
- There has been no change in the size of director turnover of directors on either the FTSE 100 or FTSE 250 boards, thus indicating no extra board changes to achieve greater numbers of women.
- 33 FTSE 100 companies have set targets for the percentage of women on their boards. Of these 33, only 10 set themselves targets greater than 10% increases. 17 FTSE 250 companies have set targets.

Davies Report Update

- Only 4 FTSE 100 companies set themselves a target of more than the recommended 25%. Only 1 FTSE 250 company set a self-determined target of 15% from a currently all-male board.
- 61 FTSE 100 companies made statements that acknowledge gender diversity issues. There were 55 statements from FTSE 250 companies. Around one third of these statements reinforced the message about selection being strictly on merit.

Davies Report Update

- Only 32% of FTSE 100 companies disclosed the number of women on their boards, 28% the number of women senior executives and 33% the number of women employees. The figures for FTSE 250 companies were much lower at 22%, 10% and 5% respectively.
- 56 percent of FTSE 100 companies report having a policy on boardroom diversity; 35% for FTSE 250 companies. In general these policies are not currently supported by measurable targets or clear reporting, although a number of companies stated an intent to do so in future.

Is the FSA interested in diversity?

“While the FSA does not have a specific equality and diversity objective or have targets for the number of women or other groups being authorised to carry out SIF roles, we are permitted under the public sector equality duty to monitor which groups are represented among those individuals we approve and to act as advocates for equality and diversity generally within the firms that we regulate.”

*FSA Policy Statement 10/15:
Effective Corporate Governance (September 2010)*

The risk of a lack of diversity

- “Our focus on individuals’ experience and qualifications could increase the conformity and homogeneity of those at the top of the UK financial services industry, with the risk that levels of challenge and alternative points of view are reduced....”
- “...We have been asked to focus not only on the attributes of each individual director, but also on the overall composition of the governing body in relation to the firm itself.”

*FSA Policy Statement 10/15:
Effective Corporate Governance (September 2010)*

Why the FSA might be interested in diversity

“Having a more diverse board may help deliver better regulatory outcomes, as increased diversity produces a wider range of perspectives, thought and approaches to solving regulatory problems and can help avoid the danger of ‘group think’.”

FSA response to Commission Green Paper: Corporate Governance in Financial Institutions and Remuneration Policies, 31 August 2010

But no to quotas...

“We would have concerns about the introduction of a fixed quota, which we think could raise the risk that people are appointed just to fulfil the quota, rather than because they have the right qualities needed by that Board at that time.”

FSA response to Commission Green Paper: Corporate Governance in Financial Institutions and Remuneration Policies, 31 August 2010

Shareholders

- Legal & General investment management have threatened to take action against companies that fail to recruit more women directors and make their boardrooms more diverse “We don’t want clones”
- LGIM’s corporate governance team met 250 companies during the nine months to end September & regularly raised the diversity issue. Mr Sadan described the “jobs-for-the-boys” mentality still prevalent in some FTSE 100 companies as an unacceptable “merry-go-round”
- Aberdeen Asset Management, Standard Life investments, F&C Asset Management & Aviva Investors are taking a tougher line on directors resisting progress
- Listed Mining companies are under scrutiny 3.7% female directors

Myths & Legends

- The myth of the “one ideal candidate” – a decent shortlist will have 3 or 4 appointable candidates
- The myth of insufficient qualified Board-ready women & tokenism
- Position matters so an operating board director or division director cannot be a main board director
- Nominations committees always decide who is appointed - more often it is the Chairman & the CEO
- Diversity means male vs female – diversity includes functional expertise, career experience, generation +++

Risk Management

- Companies serve their customers and stakeholders best when the leadership team is diverse and there is diversity of thinking, functional expertise and operational experience
- Diversity has been evidenced to reduce the risk of “group think” and improve performance and risk management
- Financial services - where risk management is critical - is particularly short of women in senior leadership roles
- Communications, media savvy & response speed are now critical to manage reputational issues & “old style” Boards need new skills

Search Voluntary Code of Conduct

- **Succession Planning** 2-3 years whole Board review
- **Diversity Goals** Overall Board composition
- **Defining Briefs** Relevant skills and intrinsic personal qualities and not just proven career experience
- **Long lists** 30% women or justify demonstrating the scope and rigour of their research. No agreement on Short Lists.....
- **Supporting Selection**
- **Emphasising Intrinsic**
- **Induction**
- **Embedding the Code**

Challenges

- Narrow search briefs with an emphasis on too many specific “done this before” criteria is a real challenge to improving diversity
- Search business model is executive led & insufficient research
- Women are a minority in the boardroom across UK corporate life but are often the majority of customers & employees & this lack of diversity goes beyond gender
- Evidence shows that sponsorship is important & anecdotally women are less likely to be sponsored by a senior leader
- Role models are important & you may not have these internally

Development

- Mentoring is the transfer of skill and knowledge from a highly experienced leader who has faced similar challenges
- Mentees can learn from this experience whilst receiving trusted, confidential advice on how to meet their challenges & achieve their objectives
- Each framework is specific to the mentee but it will include setting expectations & objectives & a defined timeframe
- The Mentor can handle the “you need to do some things differently” conversation the organisation avoids
- Support for new hires & high flyers is critical & pays high returns

Mentoring – Internal & External

- The mentor needs to understand the organisation's perspective as well as the mentee's, but all discussions are kept confidential
- An internal mentor has the advantage of greater organisational knowledge & can also sponsor their mentee, but often they struggle to devote the necessary time & crucially they lack independence
- Ideal to have both & internal mentors really benefit from master classes in how to mentor & sponsor effectively
- Role models can be internal or external

Sponsorship

- Sponsorship has been shown to be key to progression within an organisation
- People have a natural tendency to recruit & sponsor in their own image
- Internal mentors can act as sponsors for their mentee & this is a valuable role
- Creating internal mentoring programmes can promote sponsorship for a more diverse group
- Role models really matter

Board Appraisal & Succession Planning

- A well-run, independent process can add value
- Likewise a poor process can create conflict & distraction
- Search firms are not independent & acknowledge conflicts
- Helpful to include the wider team in reviews
- Good succession planning should improve diversity, retention and business performance

Summary

- Companies are lagging stakeholders including shareholders & government
- Activism is increasing from shareholders & lobbyists
- Boards need to demonstrate the progress made, identify actions & set targets to improve diversity
- Introducing mentoring schemes improves organisational performance & demonstrates action towards targets
- Board appraisal & succession planning must be independent
- The role of the Chairman is now being scrutinised – too powerful? fixed terms?