



## **GENDER IMBALANCE IN CORPORATE BOARDS IN THE EU**

### **RESPONSE FROM ICAS TO THE EC**

28 May 2012

CA House 21 Haymarket Yards Edinburgh EH12 5BH  
enquiries@icas.org.uk +44 (0)131 347 0100 icas.org.uk

Direct: +44 (0)131 347 0231 Email: atelfer@icas.org.uk

## Background

1. The Institute of Chartered Accountants of Scotland (ICAS) welcomes the opportunity to comment on the consultation paper “Gender Imbalance in Corporate Boards in the EU”. Our CA qualification is internationally recognised and respected. We are a professional body for over 19,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK’s and the world’s great companies.
2. Our Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members’ views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

## Key Points

3. We do not support the imposition of a mandatory universal quota. Mandatory quotas undermine the principle of recruiting the best candidates and earning one’s way to the top. The most important outcome is to ensure that the best candidate is selected. The economic and financial impact on companies of introducing legislation to achieve quotas is not yet sufficiently clear<sup>1</sup>. The case for introducing further regulation should be based on stronger evidence of the impact and assessment of any consequences (not just the rapidity of achieving the required numbers of women on board), to avoid any unintended consequences.
4. Gender is only one aspect of diversity. We support steps to achieve more balanced and diverse boards (not only gender but also age, ethnicity, experience, background, skills etc.). We believe that improving arrangements to ensure organisations are recruiting the best candidate from a wide and diverse pool helps to build a stronger board. There is a wide range of research findings available presenting the positive effect of greater gender diversity in management teams. Examples are cited in the EU report<sup>2</sup> and the Lord Davies report (February 2011).<sup>3</sup>

## Our response to specific consultation questions

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

5. Our preference is for minimal intervention. Self-regulation in the UK combined with a voluntary target of 25% for 2015 as recommended in Lord Davies’ report, is resulting in progress within the UK. Professional Boards Forum BoardWatch<sup>4</sup> has been tracking the appointments of women to UK boards since February 2011, when Lord Davies’s report was published. The following graph shows a stepping up of the pace in the appointment of women on boards from 2010.

<sup>1</sup> [Women on Board - The Norwegian Experience \(June 2010\)](#)

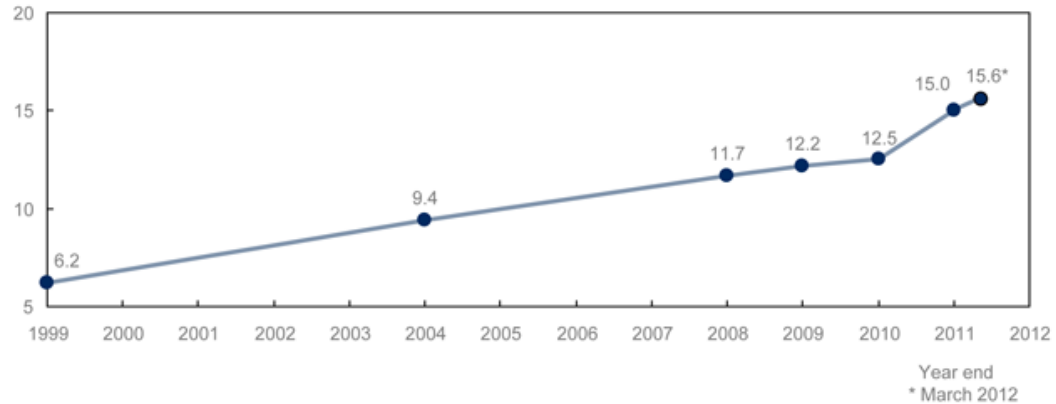
<sup>2</sup> [Women in Economic Decision Making in the EU: A Progress Report \(2012\)](#)

<sup>3</sup> <http://www.bis.gov.uk/assets/biscore/business-law/docs/w/11-745-women-on-boards.pdf>

<sup>4</sup> <http://www.boardsforum.co.uk/boardwatch.html#>

**HISTORY 1999-2011**

FTSE 100: % women directors



Source: Professional Boards Forum BoardWatch. Data kindly provided by BoardEx and The Female FTSE Board Report.

6. Although the overall increase may appear slow at present, additional statistics show more significant improvements, for example: between February 2011 and March 2012 for the FTSE 100: all-male boards have reduced from 21 to 10; and 50% of board appointments since 1 March 2012 have been women<sup>5</sup>. Furthermore, of all the new non-executive directors appointed in 2011, 22.7% were women in the FTSE 100 and 17% were women in the FTSE 250<sup>6</sup>. It also notes that 18 of FTSE 100 Boards have 25% female representation with Diageo showing 44%. To sum up, this demonstrates that the voluntary approach in the UK, is working.

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

7. To develop sustained improvement in board balance, i.e. not just achieving 25% by 2015 but a balance that is representative of the wider workforce and community; organisations and recruitment agents need:
- a) To align arrangements for recruiting, identifying and mentoring (under represented) talent to provide a pipeline which is aligned with gender and diversity targets.

Companies should have in place a wider diversity strategy which addresses diversity at all levels of the organisation, including board level. This would need to reflect the organisation's own statistics, performance and targets (for example, recruits, promotions, management team and board balance). It should seek to understand any barriers where discrepancies exist (for example 50% of recruits are female but only 10% of the management team are female with little movement over time) and identify strategies for addressing any particular difficulties.

Looking solely at board appointments fails to address that the pool of women who can be considered is smaller than it could be. A strategy should address the issue of diversity at a much earlier stage than board level.

<sup>5</sup> Boardwatch

<sup>6</sup> [ABI - Report on Board Effectiveness 2011](#) (page 8)

Our view is that the diversity strategy should include flexible working arrangements to make it possible for women who choose a career break to have families to retain their seniority and maintain their trade while doing so. Adaptability at the work place is another important feature such as part time working, flexible hours, working at home, crèches, paternity/maternity leave and the understanding that sudden demands such as family sickness are a conflicting reality.

To help get the best out of staff, a supportive organisation would actively encourage both men and women to work in such a way that can respond to these sometimes sudden and conflicting demands of family life. Underlining this is acceptance throughout the business community of the need for, and benefits of, flexibility in the work place, to work around these obstacles so that more women choose to remain in work more men could support family needs and more women might then be available as directors. This may also help to create a more positive and motivated team.

The diversity strategy should also consider the performance criteria necessary for achieving management and board positions. If, for example, a company requires its board directors to have a certain level of experience, judgement and skill-set, then it needs to assess how different groups of individuals within the organisation can be provided with the opportunities that would enable them to acquire those skills so as to increase the available pool of suitably talented individuals with the required experience and skillset.

It is also recommended that companies should question the skill-set they need from a diverse board, as the whole point of diversity is the strength that comes from people bringing different skills, experiences and points of view to the table. As an example, a global organisation may require senior managers/directors to have worked in different countries throughout their careers. This may prove impossible if you are a female with a family which reduces the available pool of potential candidates, but are there other ways that the same skill-set can be acquired which may be more family-friendly?

- b) More transparent reporting of how the organisation is developing diversity, its remuneration policy, performance against diversity targets, current diversity levels, progress against targets over time and benchmarking against peer groups in areas which are key for setting the tone at the top such as Chair, Board (exec and non-exec) as well as the bodies responsible for board nominations and remuneration. We would encourage companies to set their own targets which reflect their circumstances.

Publication enables companies to be held to account if they fail to meet their targets. In view of attempts to streamline annual reports, it may be more appropriate to publish details on the organisation's website, with a summary and cross reference provided in the annual report (or financial statements).

- c) The "comply and explain" approach whereby an organisation is required to publish its performance (as above) and remedial actions why the target has not been achieved (if appropriate).
8. A neutral, non-commercial body can help to champion the issue, gather high profile support, provide good practice examples and stimulate improvements. In the UK, achieving a voluntary 30% board share through self-regulation is supported by "The 30% Club"<sup>7</sup>, which is a group of Chairmen and organisations committed to bringing more women onto UK corporate boards. They also provide research and tips on how to develop a gender balanced board. BoardWatch track these improvements and publish the name of companies achieving the 25% target and above.

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<sup>7</sup> <http://www.30percentclub.org.uk/>

9. We also advocate the importance of a strong Chair who is aware of the different norms which female and males may work to and ensure each voice is heard. Indeed diversity training can be used effectively to build greater awareness across the organisation and better understanding to help get the best out of each member of the team.

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

10. We refer to the evidence gathered by researchers as referred to in paragraph 4.

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

11. There is a considerable variety of companies, at different stages of progress across the EU. For example, the EU report (chapter 2) highlights the variety of performance across European boardrooms in terms of percentage of women on boards in large listed companies. Some traditionally male industries may also require longer developing a pipeline to achieve a target than others. For some organisations it may be more appropriate to set a target which may reflect their representation among the workforce (legislation in Germany<sup>8</sup>) or their community.

12. We do not believe that a one-size fits all mandatory quota is the best way to achieve sustainable and effective change. Quotas are fixed and do not reflect variety whereas a target is flexible and aspirational. A quota-based approach risks generating a token response focused on meeting the numbers rather than the desired outcome of an effective balanced board. Our preference is for a recommendation to prepare a voluntary target (for the UK this is 25% by 2015). Intervention should focus on encouraging those who have made the least change and not overlap with those organisations who are successfully making changes without regulation.

13. We are interested in the following aspects of the German approach:

- a) A legal obligation of self-commitment whereby certain companies are legally obliged to set a self-determined quota in their boards and make it public;
- b) The flexibility of a conditional legal obligation arising by a certain date and entering into force only for those companies who have not achieved a certain level of improvement (*the German example is to triple the average percentage of women on the board*); and
- c) Sunsetting (or expiring) the legal obligation once a certain female share on the Board has been achieved (*in Germany this is 30%*).

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

14. Listed companies (100 and 350), government, government owned organisations and co-operatives should lead the way.

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

15. Initiatives should focus on the Board but transparent reporting of performance should include all those areas which are key for setting the tone at the top such as Chair, Board (exec and non-exec) and the bodies responsible for board nominations and remuneration (as detailed in paragraph 7).

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<sup>8</sup> [Women in Economic Decision Making in the EU: A Progress Report \(2012\) page 18](#)

*Question 7. Should there be any sanctions applied to companies which do not meet the objectives? Should there be any exception for not reaching the objectives?*

16. Some level of sustained pressure on companies to give some impetus to change can help achieve an impact. The threat of future legislation in this area if companies are not demonstrating progress against targets within a reasonable timescale is encouraging companies to look more seriously at addressing imbalances, more urgently and raising the profile.
17. A sliding scale of sanctions from “naming and shaming” of all those who do not comply or where explanations for not achieving targets (using the “comply or explain model”) are not sufficiently robust or convincing is our preferred option. Legal sanctions to contest board member appointments should only be considered in the most severe cases.