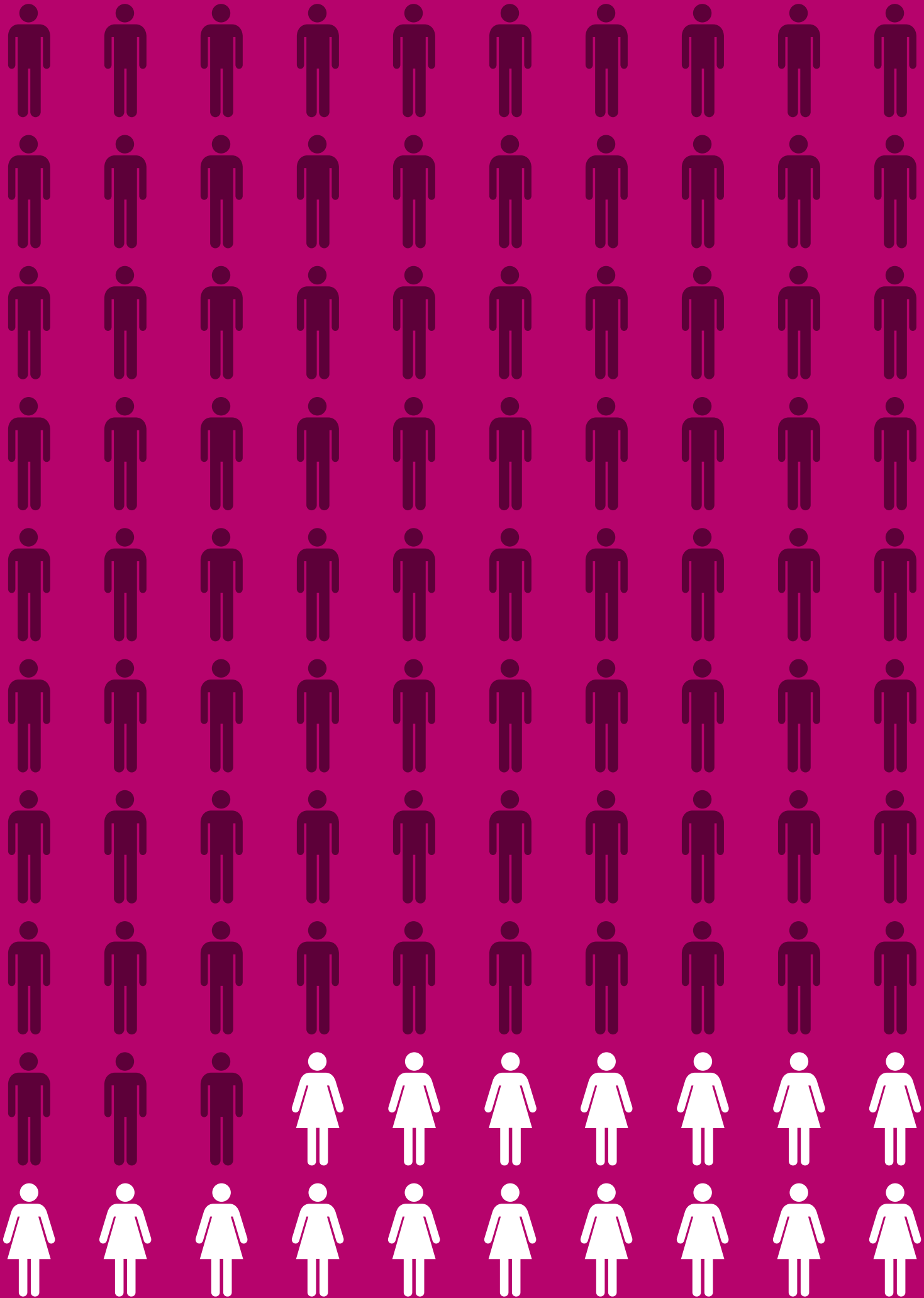


Women on boards April 2013



FTSE 100 boards. 82.7% men. 17.3% women.

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Foreword

In 2010 I was asked by the Government to investigate the barriers preventing women from reaching senior decision making roles in business, including at the boardroom level. My report *Women on Boards*, published in February 2011, highlighted the low numbers of women reaching the top and questioned why that might be. Given that women make up over half of the UK population, account for nearly half of the working population, outperform males educationally and are responsible for the majority of household purchasing decisions, it just didn't make sense.

During the course of the review period we identified a number of barriers to women's progression. My report recommended a voluntary business-led strategy to bring about a culture change at the heart of business. The onus was firmly placed on business to bring about this necessary change and I am pleased to say that evidence clearly shows that they have, and are, stepping up and responding.

Overall the progress has been good. Women now account for 17.3%¹ of FTSE 100 and 13.2% of FTSE 250 board directors (as at 1 March 2013), up from 12.5% and 7.8% respectively in February 2011. An increase of nearly 40%. In 2010, when I was asked to lead this inquiry, women made up just 10.5% of FTSE 100 board members and 6.7% of those in the FTSE 250. This means that since our work began in 2010 the percentage of female held board appointments has increased by nearly 50%.

Crucially, women have secured 34% of all FTSE 100, and 36% of FTSE 250 board appointments since 1 March 2012, clearly showing that businesses are making real efforts to find and appoint capable women to their boards.

Only 6 all-male boards remain in the FTSE 100, down from 21 in 2010, and for the second year running, all-male boards in the FTSE 250 continue to be in the minority at 26.8% (67), down from 52.4% in February 2011.

Whilst there is still some way to go to achieve parity, there can be no doubt that enormous change is being wrought in the boardrooms of UK plc. Progress in the FTSE 250, whilst slower than their FTSE 100 counterparts, has been remarkable. We are now moving to a place where it is unacceptable for the voice of women to be absent from the boardroom and we are now asking FTSE 250 companies to also set

¹ Professional Boards Forum BoardWatch.

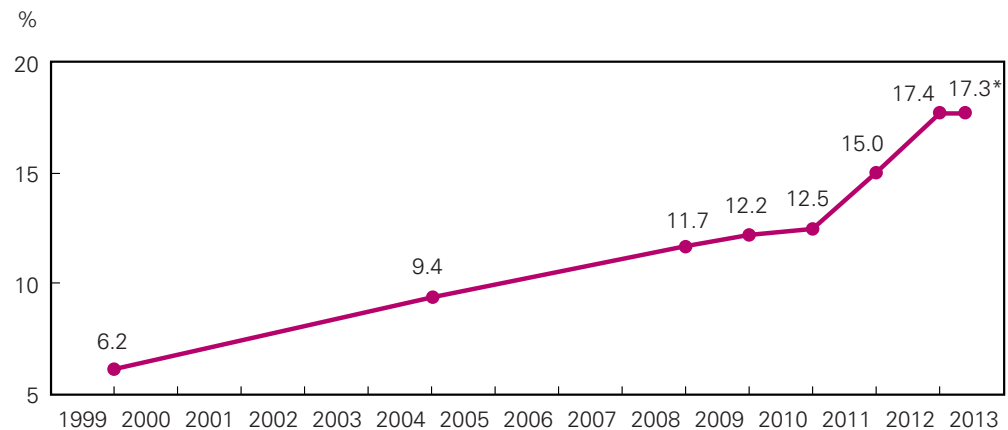
targets for the number of women they aim to have on their boards in 2015, with a minimum 25% target to be aimed for.

Average board tenure within the FTSE 250 is a steady six years and average annual board turnover sits at 13%. Using the same basis of analysis employed to derive the target for FTSE 100 companies, we calculate that if all new appointments are made in the proportion of 33.3% of women and 66.7% of men going forward, the FSE 250 would be on a trajectory to achieve 23.1% of women on boards by 2015 and 36.3% by 2020.

History 1999 – 2013

FTSE100: % women directors

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



The historical progression in the number of women appointed to FTSE 100 boards, since 1999, can clearly be seen in the graph below.

Last August the number of women on boards surpassed 17% for the first time. In December the number reached a peak of 17.7%, it is now 17.3%. Progress since last August has undeniably been slow and this plateauing at the 17% mark is worrying. Government, regulators, investors and business must continue to work together to ensure that complacency is not allowed to set in and the good progress we have seen to date lost.

At the same time we also need to remember that the increase to date indicates that the rise in the number of female board members in just 18 months is equivalent to the increase in the whole of the last decade.

According to Cranfield University, the FTSE 100 is on a trajectory to achieve 25% women on boards by 2015 and 34.4% by 2020, as long as the current momentum is maintained, and assuming women are appointed to one third of all new appointments. Cranfield have also considered these same projections in light of the EU 40% targets for NEDs for 2020. Again it is predicted that if the current momentum is

upheld these EU targets would be met by both FTSE 100 and FTSE 250 companies.

Action to date

Positive steps to improve female representation in the boardroom have come from a broad range of stakeholders.

Government has really got behind this campaign. The Business Secretary, Vince Cable, has specifically written on this issue, engaged with business and stakeholders and spoke firmly about the need for action. The Prime Minister has done likewise, as have other Ministers including Theresa May, Maria Miller and Jo Swinson.

The Financial Reporting Council has amended the UK Corporate Governance Code to require companies to report on their diversity policies and a voluntary Code of Conduct for Executive Search Firms is now in place. This code brings business and the executive search industry together in their efforts to identify and recruit the best female talent. 47 search firms, responsible for filing the vast majority of FTSE 350 board appointments, are signed up and following the code.

Investors have become much more proactive and vocal on this issue and evidence clearly shows that businesses are beginning to realise the benefits of having a more diverse board.

Europe and the wider world

The lack of women on boards is not just a UK issue; it's a global one. This issue is being considered across America, Australia and Asia. Quota laws in Norway have received mixed reviews, resulting in over 40% female board participation but tempered with allegations of "golden skirts" and a real dearth of women at the executive level. A report² conducted by Korn/Ferry Whitehead Mann for the High Pay Centre found that the number of female non-executives rose following the imposition of quotas but that the number of female executive directors failed to match pace. The report showed that despite introducing quotas in 2003 Norway still had no female chief executives running a top company. Citing the failure to impact on company talent pipelines the report concluded that "the real issue for diversity campaigners is how to encourage more women to be promoted to the executive ranks. There is a danger that government believe they have fixed the diversity issue by introducing non-executive quotas while there remains a dearth of women actually running companies."

² http://highpaycentre.org/files/REVISED_WOMEN_ON_BOARDS.pdf

The European Commission has also been considering for some time what action it may take across the 27 Member States. Women constitute just 15.8% of female directors on the boards of companies across the European Union. As such, the European Commission has been increasing its encouragement to Member States to take action at a domestic level. In April 2011, the EU Justice Commissioner and Vice-President, Viviane Reding, launched a “Women on the Board Pledge for Europe” which encouraged companies to commit to raising female representation on their boards to 30% by 2015 and 40% by 2020. Commissioner Reding gave companies one year to make a difference. However, at the end of that period only 24 companies had signed up to the pledge and the overall European statistics had barely moved. As a consequence the Commission has been considering, and consulting, on what further action it might take to accelerate growth in the number of women reaching the senior ranks of business.

In November 2012, the Commission published a draft Directive which places an “obligation of means” on companies to put in place fair and transparent recruitment policies with the aim of ensuring that at least 40%³ of the non-executive directors of individual listed companies are female by 2020, with listed companies controlled by the public sector reaching that target by 2018.

Within the Directive the Commission recognised the good progress that had been made by some Member States and laid out a provision enabling Member States to delay implementing the Directive if they can show that their existing national measures to increase the number of women on boards will achieve the targets within the given timescales.

We firmly believe that placing additional regulation on business will hinder working practices and we doubt would achieve the desired outcome in any acceptable way. In today’s tough economic environment business must retain the flexibility to respond to changing circumstances and have the freedom to make decisions. The UK government is committed to a voluntary business-led approach. Government has listened to us, business and women, who by and large oppose legislative measures. But, in order to ward off European level action, Government needs to be able to demonstrate real progress in the UK. We can only reassert to Chairman and Chief Executives the importance of taking further action now to increase the number of women in senior positions, showing in no uncertain terms that European legislation is unnecessary for UK companies.

³ NB. We should include here the reference to 33.3% if applying Directive to execs and non execs here.

The Executive Pipeline Challenge

Without demeaning the excellent overall progress that has been made to date, the executive pipeline continues to remain a challenge.

Women currently hold 21.8% of FTSE 100 non-executive directorships (up from 15.6% in 2010) and 6.1% of executive directorships (up from 5.5% in 2010). Whilst in the FTSE 250, women hold 16.4% of non-executive and 5.4% of executive directorships.

This translates, in numerical terms, to just 18 female FTSE 100 executive directors compared to 292 males, and just 32 female FTSE 250 executive directors compared to 558.

The figures are stark and highlight just how far there is to go. Such evidence is shifting the debate from directorships as a whole to that of executive directors and the talent pipeline.

The executive pipeline is not an easy nut to crack. On the outside it sounds quite simple; organisations need to attract the best people at the start of their careers, spot and nurture their talent and ensure that they have good development routes, offering challenges, variety, role models, mentoring and career progression in a supportive environment. Succession plans help to ensure that senior management pools are well developed and that the company is well equipped to handle any unforeseen events. Of course this takes time and we could not expect to see well developed pipelines overnight. Nevertheless, companies really need to think about what they are doing to develop talent across their organisations to ensure that they are well equipped for the future.

A genuine risk that has been reported to us is that of women opting out of executive careers in favour of a pleural non-executive career route. When the average board is made up of just three executive positions and around eight non-executives, there are many more opportunities for individuals to attain a non-executive role rather than an executive one. This is a new challenge that must be addressed if we are to prevent women becoming sidelined into supervisory non-executive roles, whilst the active day to day business of running companies is left to their male counterparts.

We would recommend that companies release executive committee members to serve on the boards of other companies as part of the overall executive development plan. This would allow executive committee members to gain experience and show their credibility at board level whilst sharing best practice amongst our top companies.

We would also reiterate our recommendation that FTSE 350 Chief Executives set out the percentage of women they aim to have on their Executive Committees including Senior Management levels within their organisation in 2015. We would suggest that those who have not done this should do so by the end of September 2013.

Future Action

- We would ask Chairmen to review their targets for 2015, and encourage those companies that have not yet set targets to do so.
- FTSE 250 companies to also set targets for the number of women they aim to have on their boards in 2015, with a minimum 25% target to be aimed for.
- FTSE 350 Chief Executives to set out the percentage of women they aim to have on their Executive Committees and in Senior Management levels within their organisation in 2015. This should be set out by the end of September 2013.
- Executive committee members to be released to serve on the boards of other companies as part of the overall executive development plan.
- Companies to conduct a pilot for advertising director opportunities to test the benefits and pitfalls of advertising.



Lord Davies of Abersoch

The Recommendations

Recommendation 1

All Chairmen of FTSE 350 companies should set out the percentage of women they aim to have on their boards in 2013 and 2015. FTSE 100 boards should aim for a minimum of 25% female representation by 2015 and we expect that many will achieve a higher figure. Chairmen should announce their aspirational goals within the next six months (by September 2011). Also we expect all Chief Executives to review the percentage of women they aim to have on their Executive Committees in 2013 and 2015.

Following our initial report of February 2011, 38 FTSE 100 companies and 34 FTSE 250 companies set targets for the number of women they aimed to have on their board in 2013 and 2015.

In the interim period we are aware of two other FTSE 350 companies that have also set targets for the number of women they aimed to have on their boards in 2013 and 2015.

All 39 FTSE 100 companies aim to achieve the 25% as a minimum bar one, which is an international mining company with the bulk of its operations overseas. This company has set a target of 20% female board membership by 2015.

The 35 FTSE 250 companies have set targets ranging from 10-33%.

By October 2012 47%⁴ of a sample 93 FTSE 100 companies had developed and put in place clear policies or measures specifically aimed at increasing women in senior management positions. 18% of these companies had stated measurable objectives.

The statistics, whilst promising are at the same time rather disappointing.

Setting down stretching but achievable targets, whilst putting in place policies (or a route map) to allow you to get there and measuring progress along the way, is a proven method of getting things done. It allows the board to show their commitment to increasing the number of women on their board and sends a clear message to the company's stakeholders that the company takes this issue seriously and is doing something about it. If companies fail to put in place policies or measurable objectives they are sending a clear message to their stakeholders that this is not an issue on which they are engaging with. And, as they won't be working towards meeting a target by

⁴ Women on Boards: Benchmarking early adopters of the Corporate Governance Code 2012. Cranfield / FRC

2015, it's a realistic bet that they won't achieve an acceptable rate of change.

Enlightened companies really are grasping this issue and doing their utmost to change the face of British boardrooms. However, they are being let down by others who feel that they can ignore this issue. The time has come for them to realise that they can't. This is not an issue that is going to go away. Our initial strategy recognised that all companies are different and gave them the freedom to tackle this issue in their own way, making the right decisions for their companies. We still feel that this is the right approach for UK business. However, there is a very real danger that those companies who refuse to act now, by failing to put in place targets and policies, will force the hand of Government into imposing burdensome regulation upon all businesses.

Our initial report called upon Chairmen to review the aspirational targets that they had set in 2013. We would encourage enlightened Chairmen, who have already set targets, to do this. And we would encourage the Chairman of companies yet to set targets, to do so as soon as possible.

Some companies wished to await the publication of the Financial Reporting Council's report about the impact from the changes made to the UK Corporate Governance Code, which came into effect in October 2012. The Code now requires companies to report on their boardroom diversity policy (including gender) on any measurable objectives and on progress made against these objectives. Under this new code stakeholders have a clear mandate to tackle companies that fail to take action.

Public Sector Appointments

Government recognises that the boards of public bodies need to be representative of the communities they serve and have set an aspiration that women will comprise 50% of all new appointments to the boards of public bodies by the end of the current Parliament, May 2015. Currently this proportion stands at just over one third, 34%, and has done so for the last five years.

In order to work towards this aspiration, the Government has established a Centre for Public Appointments in the Cabinet Office which is working with Departments to review job specifications and advertising strategies and provide best practice guidance on attracting a diverse field of candidates. The Centre for Public Appointments is also working closely with executive search agencies to increase the profile of public appointments and working with them to increase the diversity of candidates.

This work sits alongside that carried out by the Commissioner for Public Appointments who has put diversity at the heart of a revised and simplified Code of Practice, which came into effect in April 2012. The Code emphasises a light-touch and proportionate approach, with more flexibility for Departments, so long as their processes meet the principles of being fair, open and transparent.

In addition, Government intends to publish a cross-Government diversity strategy for achieving this aspiration shortly. The Cabinet Office will monitor progress and report regularly against the overall strategy and individual departmental action plans. Departments are already progressing work on this important issue.

Women in Sport

Improving the governance of sport is a significant government priority. As a result UK Sport and Sport England have included an expectation that all National Governing Bodies (NGBs) will have at least 25% women on their Boards by 2017.

Recognising that the target is challenging, the Government has put in place a strategy including the development of a mentoring programme to support existing, and encourage potential new, female board members.

Recommendation 2

Quoted companies should be required to disclose each year the proportion of women on the board, women in senior executive positions and female employees in the whole organisation.

As part of the target-setting process we also recommended companies put in place systems for monitoring the proportion of women, and their positions in the workforce. This will assist companies to identify gender imbalances and address talent blockages.

Businesses and business stakeholders have repeatedly told us that greater disclosure will play an important role in moving this agenda forward. In 2011 just 32%⁵ of FTSE 100 companies disclosed the number of women directors on their Boards. New measures taken by the Department for Business should help to rectify this.

Over the past year the Department for Business, Innovation and Skills has been working to simplify and improve the quality of narrative reporting by quoted companies in their annual reports. This involves amending the Companies Act 2006 to require companies to issue

⁵ ehrc report http://www.equalityhumanrights.com/uploaded_files/research/rr85_final.pdf

annually a concise stand-alone statement detailing the company's overall strategy and business model. This gives a deeper insight into the company's risks and basic performance measures.

In October 2012, the Department published draft regulations to change the structure and content of narrative reports. These included a requirement for quoted companies to disclose in their annual report the number of men and women within the organisation as a whole, including on boards and at senior management levels. These regulations will come into force in October 2013 to coincide with other reforms to annual reports

Together with the changes to the UK Corporate Governance Code which now requires company boards to state their policy on board diversity and the progress that has been made, shareholders will be able to easily access the vital information they need to understand how the companies they invest in are being run.

In addition, Government has launched the *Think, Act, Report* initiative which aims to drive greater transparency on gender employment issues. This joint government-business initiative provides a simple framework to help companies think about gender equality in the workforce. It asks them to report, monitor and take action where needed on key issues including recruitment, retention, promotion, and pay. And then strongly encourages them to share their progress to help companies learn from each other. It is flexible and business-led – businesses choose what measures are right for them, what to report and where. To date over 80 major companies, with over one million employees combined have signed up and are actively supporting the initiative, including BT, Tesco, IBM, Fujitsu, M&S, GlaxoSmithKline, Morgan Stanley, National Grid, Ernst and Young, Eversheds, McDonalds, BAE Systems and BP.

Recommendation 3

The Financial Reporting Council (FRC) should amend the UK Corporate Governance Code to require listed companies to establish a policy concerning boardroom diversity, including measurable objectives for implementing the policy, and disclose annually a summary of the policy and the progress made in achieving the objectives.

The UK Corporate Governance Code sets standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders for listed companies.

In accordance with our recommendations the FRC amended the UK Corporate Governance Code which now includes a gender principle, under sections B.2.4 and B.2.6, requiring companies to explain their policy on boardroom diversity, including any targets that they have set, to report against it and to take account of diversity when assessing their effectiveness.

Supporting principle B.2.4

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.

Supporting principle B.6 (board evaluation)

Evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness.

The amended code came into force on 1 October 2012. The FRC had announced the intended changes in October 2011 and companies were encouraged to take steps to adopt the new principles as early as possible.

Last November the FRC and Government jointly published a report *Women on Boards. Benchmarking early adopters of the Corporate Governance Code 2012* which looked at the number of FTSE 100 companies which had adopted the diversity principles early.

The report conducted by Cranfield School of Management considered the annual reports of the 93 FTSE 100 companies which produced annual reports between January and October 2012 and found that:

- 60% had stated a clear policy on boardroom diversity;
- 42% had set, or intended to set, measurable objectives to increase the number of women on their boards;
- 7.5% reported progress against their objectives;
- 26% addressed diversity in the board evaluation process;
- 47% demonstrated clear policies or measures aimed at increasing the number of women in senior management;
- 18% has set clear measurable objectives for the number of women in senior levels.

A similar study conducted by Grant Thornton⁶ found that 78% of FTSE 350 companies provided at least some description of the company's boardroom diversity policies.

These studies show undoubtedly that companies really are considering this issue at the highest levels. I commend the early adopters for setting the pace and raising the bar for other companies to follow.

Recommendation 4

Companies should report on the matters in recommendations 1, 2 and 3 in their 2012 Corporate Governance Statement whether or not the underlying regulatory changes are in place. In addition, Chairmen will be encouraged to sign a charter supporting the recommendations.

The majority of FTSE 350 companies have a year-end of either 31 December or 31 March, which means that the majority of 2012 Annual Reports were published between February and June 2013. Corporate Governance disclosures or statements will be included in those reports and picked up by the FRC / Cranfield research detailed above. Only 24 FTSE 350 companies have year ends between 1 September, when the data was compiled, and 30 September 2012 and so may have disclosed information which has not been picked up within the detailed statistics.

The Institute of Chartered Secretaries and Administrators (ICSA) Hermes Transparency in Governance Awards continues to emphasise the importance of addressing gender diversity on boards through its assessment methodology for its award criteria. The awards assessment includes disclosure by the board of its consideration of *'the benefits of diversity, including gender'* and, for the award for best annual report, includes *'insight into the company's approach to diversity, including gender'*. As the 'gold standard' of corporate reporting the awards seek to drive behaviours and encourage better governance. Through these awards, and through other initiatives by ICSA membership groups, ICSA seeks to contribute to the continuing improvement in the representation of women on the boards of UK companies. For the 2012 awards Marks and Spencer won the Best Board Disclosure for the FTSE100 and Telecity Group won the Best Board Disclosure for the FTSE250.

As detailed in our last report it was decided that a Charter, mentioned in the second part of this recommendation, would not be in the interest of business given the "Women on the Board pledge for Europe" launched by EU Justice Commissioner Vice-President Viviane Reding in 2011.

⁶ Grant Thornton. The Chemistry of Governance: Analysing the compliance efforts of UK business; December 2012.

Recommendation 5

In line with the UK Corporate Governance Code provision B.2.4 “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” Chairmen should disclose meaningful information about the company’s appointment process and how it addresses diversity in the company’s Annual Report including a description of the search and nominations process.

The UK Corporate Governance Code, under supporting principle B.2 states that “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.”

In October 2011⁷ we found that 96% of FTSE 100 companies included within their annual reports information as to the work of their nominations committee and 73% gave details regarding the transparency of their process. However, just 20% specifically mentioned gender diversity in relation to their appointment process. Not surprisingly the FTSE 250 fared much worse of a sample 72 annual reports, 88% gave details of the work of nomination committees, 50% gave details regarding the transparency of their processes but just 7% gave any regard to gender.

The additional amendments to the Code (detailed under recommendation 1) together with the changes currently being made to the Companies Act 2006 (detailed under recommendation 2) should ensure that much more meaningful information is disclosed and available to all stakeholders. This will include detailed information on the appointment processes employed by firms, bringing new levels of transparency.

We welcome the changes made by the Financial Reporting Council to the UK Corporate Governance Code following our 2011 report. As of October 2012, companies are now required to report on their board diversity policy. We know that prior to these changes actually coming into effect a number of companies were already taking action. For instance, 42% of the 93 FTSE100 companies who were part of a study⁸ benchmarking early adopters of the Corporate Governance Code 2012, had set themselves measurable targets. Whilst 47% had stated policies or measures specifically aimed at increasing women in senior management positions.

⁷ Women on Boards Six Month Monitoring Report, October 2011

⁸ Cranfield Nov 2012

Recommendation 6

Investors play a critical role in engaging with company boards. Therefore investors should pay close attention to recommendations 1-5 when considering company reporting and appointments to the board.

The proactive engagement of the investor community is one of the key planks to increasing the number of women rising to senior levels within business. Investors need to know that they are investing wisely, in organisations that make well thought out decisions following thorough debate. This recommendation was aimed at helping the investor community make informed decisions about the companies they invest in.

And it's working. Over the last year investors have become increasingly vocal and proactive on this issue. Many have set their own policies for engagement with the companies in which they invest.

The Association of British Insurers (ABI) now reviews what listed companies are doing in respect to board effectiveness and the role diversity plays in board evaluation and succession planning. It has also begun to report on the number of women on FTSE boards, incorporating the figures into its Institutional Voting Information Service.

The National Association of Pension Funds (NAPF) has updated their Corporate Governance Policy to state: *"The importance of gender diversity had 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. They should also track the implementation of that policy. They see this as an integral part of good succession planning, in the absence of which shareholders should consider abstaining on or voting against the re-election of the Chairman of the Nominations Committee."*

The 30% Club Investor Group is going strong. Key institutional investment firms including Aberdeen Asset Management, Aviva Investors, AXA Investment Managers, BlackRock, Cooperative Asset Management, Ecclesiastical Investment Management, F&C Investments, Hermes Equity Ownership Services, Jupiter Asset Management, Legal & General Investment Management, the Local Authority Pension Fund Forum, the London Pensions Fund Authority, Newton Investment Management and RPMI Railpen are now working together to press the case for gender diverse boards in a coordinated fashion. In November 2012, the Group published Diversity and

Stewardship⁹ which sets out some recommendations on how to embed diversity in investors' stewardship policies, including "consider voting positions on the Board Chairman and the Nominations Committee Chairman and/or the Report & Accounts if, in spite of engagement, diversity is not being appropriately addressed and reporting is continuously poor."

Diversity is now a core part of the discussion in the board governance engagement work undertaken by members with investee companies. Some members have begun to signal their concern to companies via their voting decisions. For example, Co-operative Asset Management having written to the Chairman of Nominations Committees at their top 80 holdings asking them to publish aspirational targets for the number of women they aim to have on their boards in 2013 and 2015, instigated a new voting policy, that "*should an investee company fail to disclose its aspirational targets or fail to elect any women to an all-male board, they will in the first instance, abstain on the re-election of the Chairman of the Nominations Committee*". This was no empty threat. During the 2012 voting season the group abstained on the re-election of the Chair of the Nominations Committee at 13 Annual General Meetings, including the Daily Mail General Trust, Low and Bonar, St Ives, Paragon, Balfour Beatty, Renishaw and Smiths News and then wrote to the companies detailing their concerns. Going forward the group plan to actually vote against the Chairman of the Nominations Committee if progress is still not made.

Aviva has also added diversity to their voting policy. Their work to encourage greater engagement between investors and Chairmen is commendable. The increased levels of scrutiny and emphasis on the appointment and re-election of board members will pay dividends for all stakeholders. This will not only benefit women but also all individuals engaged within the investment chain including beneficial owners.

The unstinting effort of investors is paying off. Consultations with stakeholders tell us that diversity is now a key component of stewardship dialogue between investors and companies, a factor that companies can no longer ignore.

Recommendation 7

We encourage companies periodically to advertise non-executive board positions to encourage greater diversity in applications.

The recruitment process remains opaque. This in turn means that the field is not being opened up to as diverse a field as possible and that

⁹ <http://www.30percentclub.org.uk/wp-content/uploads/2012/12/30percent-Club-investor-group-diversity-and-stewardship-Final.pdf>

companies may be missing out on securing the skills of talented individuals.

Our original recommendation was that companies advertise their positions periodically to test the water and widen their opportunities to new talent. There is no evidence to suggest that this has happened. In November 2012 Business Secretary, Vince Cable, keen to test whether the transparent advertisement of opportunities would indeed lead to the identification of untapped talent asked a selection of businesses if they would be able to commit to advertise arising opportunities over a six month period. The overwhelming response from companies was negative. Many had very good reasons; they were not expecting any new openings or were committed to existing recruitment plans which would entail breaking contracts. Others pointed out that board searches needed to be global and that advertising in the UK media may in fact limit the talent pool further and it was pointed out that sometimes, for high profile board positions, recruitment needs to be undertaken confidentially. Clearly more work needs to be done here. A few companies felt that they were able, and keen, to take part and we would suggest that this group go ahead to develop a pilot, identifying the limitations and risks of such an approach and reporting back next year on the success or failure of the initiative. Such a test will prove to be invaluable as the European debate progresses.

Outside of business, a number of new initiatives have crystallised to increase the reach of opportunities. Women on Boards, a new network for aspiring directors modelled on an Australian success, actively search for and communicate opportunities to their members. Launched in October the network is already 2,400 strong and has advertised over 220 non-executive positions in that time. Whilst the majority of these opportunities have been in the public sector there is evidence to suggest that Chairmen are actively engaging with such groups to extend their reach to credible board-ready women. Executive search firms, under pressure from Chairmen to deliver 30% long-lists of women also now actively scouting such groups for new rising talent.

Recommendation 8

Executive search firms should draw up a Voluntary Code of Conduct addressing gender diversity and best practice which covers the relevant search criteria and processes relating to FTSE 350 board level appointments.

Leading Executive Search Firms continue to play an important role and are providing the support and focus needed during the recruitment process to Chairmen and board ready women.

On the 22 July 2011 the Voluntary Code of Conduct for Executive Search Firms was launched. The Code originally set out seven principles of best practise for firms to follow throughout the executive search process and crucially requires that long-lists are made up of 30% women, ensuring that executive search firms think more creatively when pulling together lists of candidates for board positions. The Code has now been revised and will be revisited on an ongoing basis according to progress and feedback.

Voluntary Code of Conduct for Executive Search Firms

Introduction

Recommendation 8 of the Davies Report proposed that the executive search community should draw up a voluntary code of conduct to address gender diversity on corporate boards and best practice for the related search processes.

The Report proposed challenging targets for improving the representation of women on the boards of FTSE 350 companies. Search firms are committed to help their clients increase the effectiveness of their boards and acknowledge the value that diversity can bring; they readily acknowledge the important role their profession needs to play in supporting chairmen and nominations committees as they take steps to increase the proportion of women on their boards, in both executive and non-executive roles.

The Code, outlined below, lays out steps for search firms to follow across the search process, from accepting a brief through to final induction.

Code of Conduct: Provisions

1. **Succession Planning:** *Search firms should support chairmen and their nomination committees in developing medium-term succession plans that identify the balance of experience and skills that they will need to recruit for over the next two to three years to maximise board effectiveness. This time frame will allow a broader view to be established by looking at the whole board, not individual hires; this should facilitate increased flexibility in candidate specifications.*
2. **Diversity Goals:** *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.*

3. **Defining Briefs:** *In defining briefs, search firms should work to ensure that significant weight is given to relevant skills, underlying competencies and personal capabilities and not just proven career experience, in order to extend the pool of candidates beyond those with existing board roles or conventional corporate careers.*
4. **Longlists:** *When presenting their longlists, search firms should ensure that at least 30% of the candidates are women – and, if not, should explicitly justify to the client why they are convinced that there are no other qualified female options, through demonstrating the scope and rigour of their research.*
5. **Candidate Support:** *During the selection process, search firms should provide appropriate support, in particular to first-time candidates, to prepare them for interviews and guide them through the process.*
6. **Supporting Candidate Selection:** *As clients evaluate candidates, search firms should ensure that they continue to provide appropriate weight to intrinsic competencies and capabilities, supported by thorough referencing, rather than over-valuing certain kinds of experience. Search firms should, as necessary, advise their clients on how to run their interview process to demonstrate the required rigour and professionalism and to avoid unconscious gender bias.*
7. **Induction:** *Search firms should provide advice to clients on best practice in induction and ‘onboarding’ processes to help new board directors settle quickly into their roles.*
8. **Embedding Best Practice:** *Search firms should ensure that best practices in supporting clients on enhancing Board gender diversity are well-documented and shared internally and that adherence to the Code is effectively monitored.*
9. **Signalling Commitment:** *Search firms should signal their commitment to supporting gender diversity on Boards through their websites and marketing initiatives as appropriate and are encouraged to invest time into developing relationships with the pipeline of future female candidates.*

Embedding and developing the Code

The Code has now been signed up to by 47 search firms, who collectively account for the vast majority of the Board work in the UK.

We will continue periodically to review the effectiveness of this Code and progress towards improving board diversity, with the Davies Report steering group and other key stakeholders, and recommend changes as appropriate.

The Executive Search community has shown unstinting commitment to this issue. 47 firms, responsible for the vast majority of FTSE 350 appointments, have signed up to abide by the principles of the code.

Together, they have played a crucial role in bringing about a heightened awareness and greater focus on this issue amongst Chairmen. There is now a growing acceptance of the value of securing talent from the widest and most diverse pool and a noticeable shift towards a greater focus on skills and capabilities, rather than relying purely on experience is taking place.

In May 2012 the Equality and Human Rights Commission published a report '*Gender diversity on Boards: the Appointment Process and the Role of Executive Search Firms*' that examined the Board appointment process and the impact of the Code of Conduct. The report found that executive search firms are now increasingly aware of the need to address the issue of gender diversity at board level, both within their firms and among their clients. It also found that the Code itself was seen as a huge step forward in legitimising the conversation with companies regarding the recruitment of female board members.

There were, however, a number of recommendations as to where further progress could be made as well as key areas of good practice for executive search firms to follow. Although the report found lots of good progress with executive search firms working to a more transparent and rigorous selection process it also stated that more needed to be done to standardise this practice amongst all executive search firms as best practice was patchy. The updated Code should help to alleviate some of these concerns and Government might want to consider how best to further promulgate and harmonise best practice across the industry.

We applaud this Group's commitment and continued support in helping to achieve better gender balance in the Boardroom. The Code appears to be making a difference and is being used as a key supporting mechanism, and we are pleased that it is now being championed across Europe by the Association of Executive Search Companies and The Association of Executive Recruiters.

A full list of those companies who have signed up to the Code can be found at annex B. We would urge all other Executive Search Firms to also sign up this Code.

Recommendation 9

In order to achieve these recommendations, recognition and development of two different populations of women who are well-qualified to be appointed to UK boards needs to be considered:

- **Executives from within the corporate sector, for whom there are many different training and mentoring opportunities; and**
- **Women from outside the corporate mainstream, including entrepreneurs, academics, civil servants and senior women with professional service backgrounds, for whom there are many fewer opportunities to take up corporate board positions.**

A combination of entrepreneurs, existing providers and individuals needs to come together to consolidate and improve the provision of training and development for potential board members.

The need to expand the talent pool of women and develop a credible pipeline of talented women suitable for board level roles is increasingly becoming the area of focus for many groups and rightly so.

Evidence has shown that there is a ready pool of women available, refuting the myth that there is a problem with the supply of female talent.

In December 2012, Commissioner Reding announced the formation of the Global Board Ready Women LinkedIn Group for female business leaders qualified for boardroom positions in an effort to encourage companies to identify and use an “untapped pool of talent”. The Group, administered by The Financial Times Non-Executive Directors’ Club includes women who have had at least five-years’ experience in top-level executive positions or in similar roles.

Similarly the European Round Table of Industrialists (ERT) a forum of around 50 Chief Executives and Chairmen of major multinational companies have been working with leading UK executive search firms to build a database of top female talent. The women on this list are recommended by their own Chief Executives or Chairman as qualified for non-executive board positions and benefit from a training program sponsored by Vodafone and ERT with the European Institute of Business Administration (INSEAD)

Research from Cranfield School of Management shows that the numbers of women being appointed to board roles with no previous FTSE experience is increasing, which is hugely encouraging showing that companies are beginning to think more broadly about the skills

they need and are allowing for fresh perspectives and new ideas which can only lead to better decision making.

Over the past year a number of organisations and groups have specifically considered why there aren't more women coming through the pipeline, what the barriers are and how they can be overcome.

The Women's Business Council, set up in November 2011, have been commissioned to make recommendations to business and Government on how best to remove the barriers that women face in playing a full part in business and the workplace in order to optimise women's contribution to economic growth. Part of their work specifically looks at the pipeline and how various mechanisms such as childcare and flexible working can support parents, particularly mothers, to balance work and family life and support them to achieve their career aspirations and economic potential. We look forward to hearing the final outcomes of the Women's Business Council this summer.

The 30% Club's two 'Pipeline Action Groups' – one working with professional services firms, the other with FTSE-350 companies – and the work of all those involved with Tomorrow's Company's '*Tomorrow's Global Leaders: How to ensure women reach the top*' are specifically focused on this agenda. The 30% Club has been enabling firms to share innovative practices that have accelerated the progress of women in individual companies and is also exploring how working practices can be modernised to enable more women to develop successful careers. The work being undertaken by Tomorrow's Company focuses on both the behaviours and cultures which enable and block the pipeline of women's development. We look forward to seeing the outcome of their work this summer.

The report '*WomenCount: Charity Leaders 2012*' showed the number of women on the board of the UK's top charities. The report not only showed the charity sector to have overall better female representation than in the FTSE, but it also highlighted the huge talent pool of women with board experience upon which the private sector, and particularly FTSE companies, can draw upon. Women in non-traditional areas such as those within the charity sector are a useful potential talent pool for greater board diversity in the private sector, and also for public appointments. We understand that there are plans for similar reports covering other sectors to be produced. We look forward to seeing these reports and the contribution they can make in shining a light on the huge pool of female talent in the UK.

And there are many examples of the action being taken by private sector companies such as BTs Women's Executive Network which was set up to try to boost the number of senior women within their organisation and help them to achieve their aspirations via coaching schemes, focused training programmes and networking opportunities. The National Grid also use their global DELTA network to support women to progress through the pipeline and remove any potential barriers. They offer support and access to role models and mentoring schemes for high potential females who they consider to be potential candidates for senior roles.

Recommendation 10

This steering board will meet every six months to consider progress against these measures and will report annually with an assessment of whether sufficient progress is being made.

Over the course of the year the steering group has continued to meet at six-monthly intervals to discuss the progress against the recommendations and to debate possible next steps. We have actively worked to champion women on board at every opportunity, including in Europe, and reaffirm our commitment to continue do so over the coming year.

Conclusion

Our overriding message is one of congratulation and applaud. The engagement of stakeholders at all levels really is making a difference on this crucial issue. The last year has been an active one, many new initiatives have been developed and the business case for diverse boards bought into in a way that we could only have dreamed of.

We also wish to thank the media for their combined efforts that have ensured that hardly a week has gone by without some kind of presence in our daily newspapers. This has been enormously helpful in ensuring that the momentum for change is maintained and built upon, best practice showcased and areas for action highlighted.

Real issues that have been highlighted over the last couple of years as part of this work including raising aspirations, childcare, work-life balance, flexible working and the need for real female role models in business are now sparking real debate and receiving the attention they deserve.

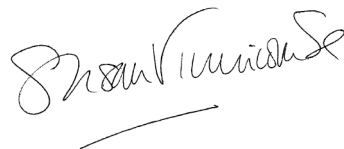
We would ask you all to continue the work you have started. There's still a long way to go, we can't afford to be complacent and we can't afford to relax. But we are confident that our combined efforts delivered with the will and determination we have seen so far, will get us there.



Lord Davies of Abersoch



Denise Wilson



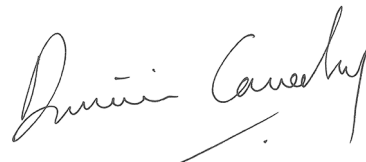
Professor Susan Vinnicombe



Sir John Parker



Amanda MacKenzie



Dominic Casserley

FTSE 100 Company Targets

Annex A

	COMPANY	2013	2015
1	Admiral Group PLC		25 %
2	Anglo American PLC	30%	
3	Aviva	25%	
4	BAE Systems PLC		25%
5	Barclays PLC	20%	25%
6	BHP Billiton PLC	25%	
7	BP PLC	25%	
8	BSKYB	25%	25%
9	Capital Shopping Centres Group PLC	25%	
10	Centrica PLC		25%
11	ENRC PLC		20%
12	G4S PLC		25%
13	GKN PLC		25%
14	Glaxosmithkline PLC	25%	
15	HSBC Holdings PLC		25%
16	Intercontinental Hotels Group PLC		25%
17	Kingfisher PLC		25%
18	Land Securities Group PLC		25%
19	Lloyds Banking Group PLC		25%
20	Marks & Spencer	30%	30%
21	Meggitt PLC		25%
22	Morrison Supermarkets PLC		30%
23	National Grid PLC		25%
24	Old Mutual PLC	18%	27%
25	Petrofac Ltd	15%	25%
26	Reed Elsevier	22%	
27	Rexam PLC		25%
28	Rolls-Royce Holdings PLC		25%
29	Royal Bank of Scotland Group	25%	
30	Royal Dutch Shell PLC		25%
31	Sage Group PLC	25%	25%
32	Sainburys		25%
33	Smith & Nephew PLC		25%
34	Tesco PLC		25%
35	Tullow Oil		25%
36	Unilever PLC		25%
37	Vodafone Group PLC		25%
38	Whitbread PLC		27.3%
39	Wolseley		25%

FTSE 250 Company Targets

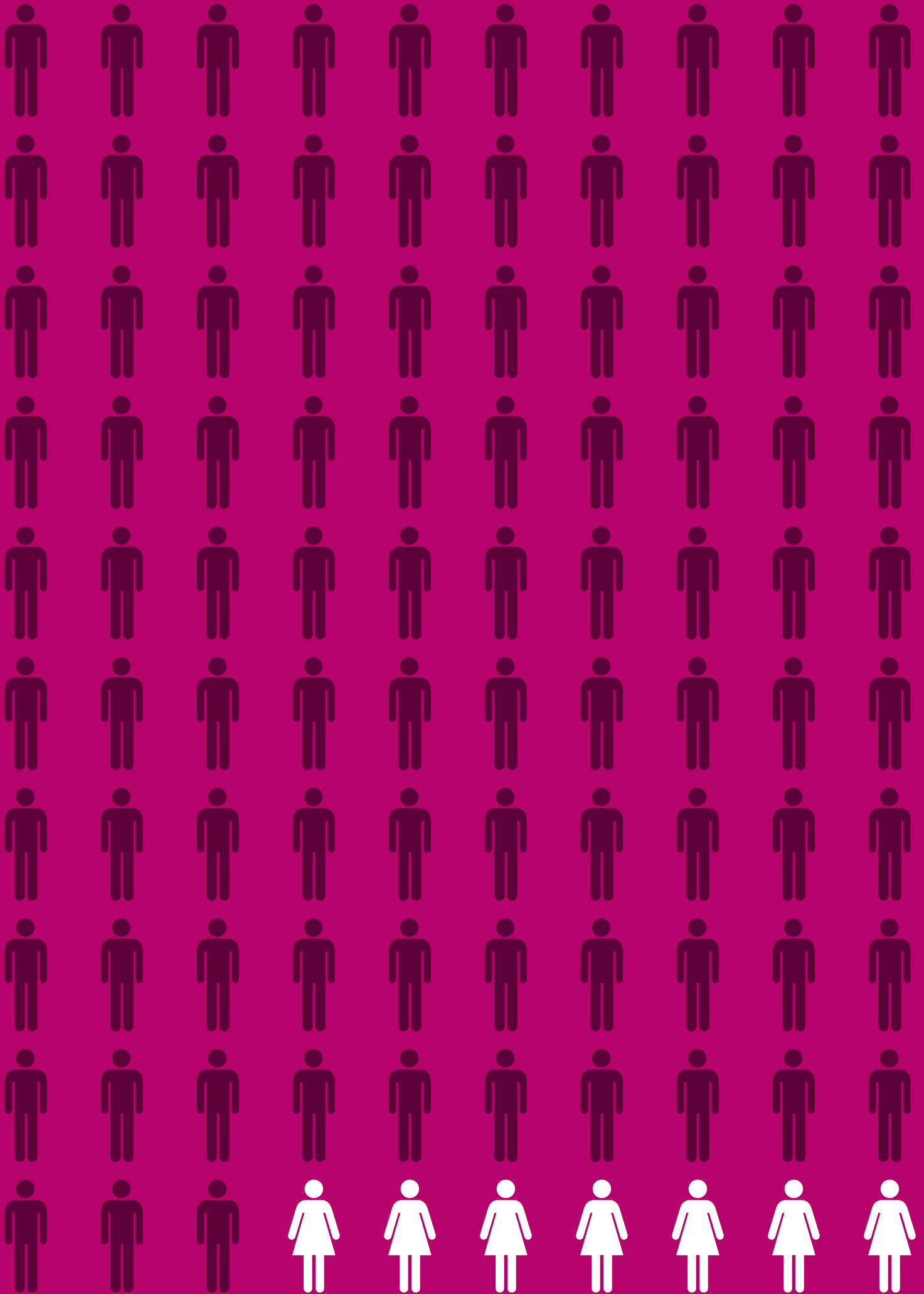
	COMPANY	2013	2015
1	Amlin PLC		20%
2	Beazley PLC		10%
3	Dignity PLC		25%
4	Domino's Pizza Uk & IRL PLC	20%	20%
5	DS Smith PLC		25%
6	Electra Private Equity PLC	33%	33%
7	Euromoney Institutional Investor PLC		13%
8	Fidelity European Values PLC (Quoted)		20%
9	Fidelity China Special Situations PLC		25%
10	Firstgroup PLC		20%
11	Go-ahead Group PLC	17%	17%
12	Grainger PLC	18%	18%
13	Greene King PLC		14%
14	Informa PLC	14%	14%
15	Investec PLC		25%
16	Jupiter Fund Management PLC	20%	20%
17	Laird PLC	13%	25%
18	Mondi PLC	25%	25%
19	Pennon Group PLC	14%	25%
20	Phoenix Group Holdings	14%	21%
21	Premier Farnell PLC	25%	25%
22	Redrow PLC		33%
23	Rentokil Initial PLC	20%	20%
24	Rotork PLC	12.5%	12.5%
25	RPS Group PLC	25%	25%
26	Senior PLC	15%	15%
27	Stagecoach Group PLC	22%	22%
28	Stobart Group		25%
29	SVG Capital PLC		25%
30	Synergy Health PLC	33.3%	33.3%
31	Taylor Wimpey PLC	22%	22%
32	The Restaurant Group PLC	17%	17%
33	TUI Travel		25%
34	William Hill PLC		25%
35	WS Atkins PLC		33.3%

Annex B

Executive Search Firms signed up to the Voluntary Code of Conduct

1	Alpine Executive
2	Association of Executive Search Consultants
3	Augmentum Consulting
4	Boyden global executive search
5	Brattle Cameron
6	Buchanan Harvey
7	Cadence Partners
8	Cavendish Hawk
9	CNA Executive Research
10	CT Partners
11	Curzon Partnership
12	Drax Executive
13	Egon Zehnder International
14	Fidelio
15	GWF Search & Mentoring
16	Harvey Nash
17	Heads! International
18	Hedley May
19	Heidrick & Struggles
20	Investigo
21	JCA Group
22	Korn/Ferry Whitehead Mann
23	Lygon Group
24	MWM Consulting
25	Norman Broadbent
26	Odgers Berndtson
27	Palm Mason
28	Pertemps
29	Ridgeway Partners
30	Robson Partners
31	Robinson Hambro
32	Rowley Williams Limited
33	Russell Reynolds Associates
34	Rurak & Associates
35	Sapphire Partners
36	Sciteb
37	Shoreman International
38	Spencer Stuart

39	Stonehaven LLP
40	The Ashton Partnership
41	The Curve Group
42	The Miles Partnership LLP
43	The Zygos Partnership
44	Thewlis Graham
45	Veredus
46	Warren Partners
47	Wyatt & Jaffe



FTSE 100 executive boards directorships, 99.9% men. 0.1% women.