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Our ref: ICAEW Rep 79/12

European Commission
DG Justice / D1
LX 46 – 1/101
'Consultation Gender Balance'
B-1049 Brussels

By email: JUST-GENDERBALANCE-CONSULTATION@ec.europa.eu

Dear Sir / Madam

Gender imbalance in corporate boards in the EU

ICAEW welcomes the opportunity to comment on the consultation paper *Gender imbalance in corporate boards in the EU* published by the European Commission (DG Justice) on 5 March 2012, a copy of which is available from this link.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

The ICAEW Europe Region is headquartered in Brussels and brings a pan-European perspective to ICAEW's work through regular interaction with professional bodies, firms, oversight authorities and market participants across Europe. It also engages with approximately 5,000 members in EU member states outside the UK. ICAEW is listed in the EU Interest Representative Register (ID number: 7719382720-34).

This response reflects consultation with the ICAEW Corporate Governance Committee which includes representatives from the business and investment communities. The Committee is responsible for ICAEW policy on corporate governance issues and related submissions to regulators and other external bodies.

Major points

A growing body of research points to diversity, not restricted to gender but diversity in general, as an essential contributor to board effectiveness in enabling different perspectives and helping to reduce

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'group think' or similar attitudes. We fully support greater diversity on boards as a way of increasing board effectiveness as well as promoting equal opportunities.

Regarding the concerns of the Commission over the lack of gender diversity on boards, we recognise that challenges to gender-balanced boards appear to relate to both supply and demand, as analysed in the first annual progress report on the 2011 initiative *Women on boards* issued by Lord Davies: fewer women than men are coming through to the top level of organisations (the supply issue); and women capable of serving on boards are not getting those roles (the demand issue). We need to tackle both types of challenges in order to achieve balanced boards in the long run. We believe that this distinction is useful in considering measures that are currently being proposed and debated.

While we believe that gender diversity in listed company boards warrants continued monitoring and actions, the diversity debate should not be restricted to gender. It is important to have a long term view and to encourage companies to have a comprehensive process to enable inclusive and diverse boards to benefit from a broad range of experience and perspectives. Gender is an important component, but this should not preclude other criteria of diversity that may help companies achieve their business objectives effectively.

We believe that a number of actions could be usefully taken to address the issue of gender balance on corporate boards. In particular, we consider that changes to corporate governance codes that require listed companies to establish boardroom diversity policies and report against them could bring about sustainable change.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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APPENDIX

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

Non-regulatory incentives are effective, but it may take more time for them to result in measurable outcomes. As the European Commission's report on *Women in Economic Decision Making in the EU: Progress Report* (European Commission Report) makes clear, a number of examples of voluntary initiatives and good practice are currently being implemented by businesses in the EU. ICAEW has also been supportive of European initiatives on board diversity, particularly the voluntary approach enshrined in the *Women on the Board Pledge for Europe* addressed to publicly listed EU companies although the take-up by European companies has been disappointing to date.

Many of these initiatives address the long term issue of supply by ensuring that there are sufficient numbers of women at the top of management structures. There are signs of progress: in the UK, the Davies progress report *Women on boards March 2012* shows that at the end of February 2012 women accounted for 15.6% of directorships in the FTSE 100, up from 12.5% in the previous year.[1] The near to 25% increase in the proportion of women on boards is, according to the report, '*real evidence that business is taking board diversity seriously and is working to bring about change voluntarily*' although '*efforts need to be ramped up and the speed of change accelerated*'.

ICAEW is concerned that supply remains an issue and recognises the importance of facilitating the appointment of board members who enhance diversity by reducing attrition rates as women progress through organisations. As a professional body, ICAEW has developed a number of relevant initiatives in this area, including:

- the Women in Leadership programme, launched in February 2011 to support female finance professionals with their career progression;
- the Back to the Workplace programme which supports career breakers when they return to work;
- the Women in Finance Network to enable sharing experiences and to help Network members with personal development.
- the Women in Accountancy events programme targeted at female undergraduates, encouraging them to choose accountancy as a career and involving schools and colleges; and
- ICAEW sponsored awards such as the First Women Awards (finance category) and Women in the City Awards (accountancy category) to promote the visibility of role models and mentors and to emphasise the success of female finance professionals and the initiatives of their employers.

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

We believe that a number of actions could usefully be taken to address the issue of gender imbalance on corporate boards, as already indicated in our response to the Commission's 2011 consultation on the *Green Paper on the EU Corporate Governance Framework*. In particular, we consider that changes to corporate governance codes or other approaches that require listed companies to establish and report against their boardroom diversity policies, paying attention to both supply and demand issues, could bring about sustainable change. The Commission may effectively recommend revision to corporate governance codes or other relevant approaches as these can be very successful in effecting

[1] UK Department of Business, Innovation and Skills: Women on Boards 2012. Available at: http://bis.gov.uk/assets/biscore/business-law/docs/w/12-p135-women-on-boards-2012.pdf

real change in motivation and behaviours in a relatively short period of time. The UK Corporate Governance Code, for example, has facilitated the separation of the roles of Chief Executive Officer and Chairman and prompted the change towards a majority of non-executive directors on boards. In order to implement the recommendations of the Davies report, the UK Financial Reporting Council made changes to its Corporate Governance Code which ICAEW fully supported.

Specific actions that the Davies report recommends, and which we encourage the Commission to support, include the following:

- Listed companies should establish and disclose their diversity policies and report regularly on their performance against their diversity policy. This could usefully include information on any measurable objectives that listed companies have set for implementing the policy in the light of their differing business needs, and progress on achieving these objectives. This should focus the board's attention on current progress against its goals in this area while allowing greater transparency for shareholders to assess performance. This is now introduced in the revised UK Corporate Governance Code. We believe that this should help address both supply and demand issues.

- As an additional point, it might be useful to encourage companies to consider disclosing the breakdown of their senior management so to identify supply related issues early.

- More needs to be done to provide a level playing field to ensure that potential candidates get equal opportunities for mentoring, networking and training for management positions. We believe that developments in these areas will bring about real, lasting outcomes and ICAEW has launched a number of related initiatives as noted in our response to Question 1.

- Another way of addressing the supply issue may be for companies to consider appointing candidates from outside the corporate mainstream. The Davies report suggests sources such as entrepreneurs, academics, civil servants and senior women with professional services backgrounds for whom there are fewer opportunities to take up corporate board positions.

- Identifying suitable candidates is an area where further innovation is needed to address the demand issue and this should come from boards and their advisors. The adoption of a voluntary code for UK recruitment professionals in July 2011 is a welcome example although its effectiveness in changing behaviours needs to be monitored.

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

A growing body of research links diversity on boards to board effectiveness. Greater diversity on boards may help reduce 'group think', which has been identified as a major problem in some boards: board members with different experiences help to increase the diversity of thinking. Diversity on boards can promote effective challenge within the boardroom and increase overall board independence.

Broadening the candidate pool enables companies to recruit board members from a rich and qualified talent base. It is a given that all candidates must have the appropriate individual skills, relevant experience and sound judgement required to contribute effectively to a board.

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?

The slow pace of change in relation to female participation on boards can be frustrating. By introducing binding quotas, it would be possible to force the appearance of gender-diverse boards. However, the Commission should be aware of two risks of binding quotas.

Firstly, binding quotas could mask an underlying supply issue of qualified women not coming through to senior management positions. It may become easier to overlook the limited size of the candidate pool when the number of women who sit on board satisfies the given quota. It could also lead to situations where qualified women sit on a number of boards while not facilitating board diversity in substance. It may also lead to the female candidate pool bases depleted until the supply issue is resolved, potentially reducing choice over other criteria such as relevant industry experience, which may weaken the board in the eyes of internal and external stakeholders.

Secondly, binding quotas risk creating a generation of highly qualified men who resent the whole gender diversity debate because they are unable to be on boards. There may also be other unintended adverse consequences that binding quotas could cause. The use of legislative measures is a very recent phenomenon as the European Commission Report identifies, and caution should be exercised as relevant evidence is still emerging.

We do not support quotas as binding objectives and believe that quotas can be primarily useful as goals and criteria against which companies and policy makers can evaluate progress in this area. Diversity issues call for a decisive shift in corporate culture and behaviours, not a tick box exercise. As noted in our response to Question 2, such changes are more likely to be effected by expecting companies to establish, implement and evaluate a comprehensive diversity policy and communicate outcomes to internal and external stakeholders.

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

Initiatives relating to board diversity should focus on listed companies so that they may lead by example.

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

Initiatives should cover both executive and non-executive board members.

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

No. Sanctions will not convince companies of the benefits of diverse boards or make then want to initiate sustainable changes.