

The Fawcett Society FTSE 100 and 250 Board Directors Recruitment and Appointment Practices



Response to the Equality and Human Rights Commission's Consultation

By **Susha Chandrasekhar**



BELINDA PHIPPS, CHAIR OF THE FAWCETT SOCIETY



The Fawcett Society is the UK's leading charity for women's rights and equality – at home, at work and in public life. Our origins go back to 1886 and the tenacity of Millicent Garrett Fawcett who campaigned for the women's right to vote. Since then we have championed the cause of women to equal rights and equal treatment in every sphere.

We believe strongly that breaking down gender stereotypes is of benefit to all, men as well as women, so that the potential of every individual is nurtured and realised. Today our vision is of an inspiring society where gender does not limit the life chances and choices that a person has. I am proud that our staff, trustees, members, supporters and volunteers work with such passion and commitment to turn that vision into reality.

The Fawcett Society welcomes the opportunity to make this response to the Equality and Human Rights Commission's consultation on the practices of FTSE 100 and FTSE 250 companies in relation to board director recruitment and appointments. We do so in furtherance of our charitable objectives of advocating women's rights and promoting positive attitudes and good practice in favour of gender equality.

We know that women are graduating and entering the workforce in great numbers but that career progression is still being held back. This issue must be analysed, reforms suggested and effective implementation undertaken. Under-utilising the talents of half the population is no longer an option if we are to flourish as a society of equals.

I would like to express my thanks to all those involved in the production of this report. I trust that it will provoke discussion and debate around women on boards. We would be delighted to receive your views and feedback on this or any other gender equality topic.

The Fawcett Society is now looking towards celebrating its 150th anniversary, reflecting on past achievements and developing our strategy for the future. This is the time to redouble our efforts for progress; this is the time for real change. I warmly invite you to join us in this endeavour at:

www.fawcettsociety.org.uk

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ABOUT THE AUTHOR

Susha Chandrasekhar is Legal Counsel in the public sector, having previously worked at an international law firm, as a lecturer at the London School of Economics and as a researcher. A graduate of Cambridge, Oxford and London Universities, Susha is multi-lingual and has lived and worked in several countries in Europe, the Middle East and Asia. She is passionate about creating an equal and fair society with opportunity for all and has been recognised for her diversity initiatives.



Susha is a board director and trustee of two national charities, **The Fawcett Society** and Grandparents Plus. She is also a Fellow of the Royal Society of Arts, a member of the Chartered Management Institute, an associate member of the Institute of Directors, and a past Chair of the Association of Women Solicitors. Her academic work has been published by Oxford University Press and she has been quoted and interviewed in national media. She can be contacted at: <https://uk.linkedin.com/in/sushac>

EXECUTIVE SUMMARY

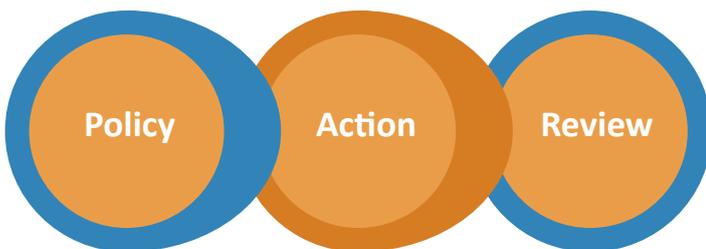
Equality is no longer an optional extra or about being on the right side of history; it is a legal requirement which brings extensive business benefits. Research has shown that fostering equality and diversity on boards brings different viewpoints, skills and experiences to improve decision-making and to contribute to the economic success of companies¹.

The Fawcett Society is pleased to see in The Davies Review: Women on Boards 2015 that the proportion of women has risen to 23.5% on FTSE 100 boards and 18% on FTSE 250 boards, and that there are no longer any all-male FTSE 100 boards². All those who have been involved in making these changes are to be congratulated on their efforts.

On Board, On PAR

The Fawcett Society advocates that each FTSE company should:

- have an aspirational **Policy** on boardroom diversity;
- **Action** that policy with rigour and commitment; and
- **Report** on that policy to ensure its efficacy.



However, this is still some way off from making history on gender parity. The Equality and Human Rights Commission's consultation on recruitment and appointment practices in relation to FTSE 100 and FTSE 250 directors is therefore a timely one. This response to the consultation focuses on non-executive FTSE directorships, although we voice our concerns over the paucity of female-held executive board positions.

The Fawcett Society considers that there is still a tendency to exclude women from the network from which FTSE NEDs are drawn and that further changes are necessary to embed diversity practices in corporate culture.

We make the following recommendation:

Adopt a policy of
'On Board, on PAR'

The **Policy** should include:

- targets, means of achieving those targets and effective succession planning;
- assessing director role and person specifications for unconscious bias;
- focusing not merely on past performance of candidates but also on future potential;
- a greater emphasis on a broad range of skills, not merely on financial or sector experience;
- mentoring/sponsorship for women to become senior independent directors and Chairs; and
- a nine year time limit for NEDs.

As regards **Action**, The Fawcett Society recommends the open advertising of all FTSE NED board posts, as perfect competition requires perfect information. Open advertising is not to be seen as a substitute for the valuable work of executive search firms but rather can be used in parallel. We recognise the vital importance of ESFs in identifying, preparing, encouraging and sponsoring women within the NED process and so we suggest that companies should instruct those ESFs which meet the Voluntary ESF Code or preferably the Enhanced ESF Code criteria.

In order to assist with **Reporting**, we suggest changes to The Financial Reporting Council's Corporate Governance Code, Sep 2014³.

RECOMMENDATIONS

On Board, On PAR

Progress in identifying and securing female talent has been made but the situation could be improved by FTSE companies actively following an approach of “On Board - On PAR”.

This means:

- devising a policy on diverse recruitment;
- actioning that policy; and
- reporting on it periodically for efficacy.

POLICY

A company’s policy on FTSE director recruitment should set aspirational targets, identify the means of achieving those targets, and include a description of succession planning. There are also few female Chairs and female senior independent directors of FTSE boards and therefore thought should be given as to how women can be progressed into these pivotal roles. Diversity and a deep commitment to meritocracy should become embedded as normal business practice.

Bias

Care should be taken in devising job and person specifications so that they do not indirectly discriminate against women or candidates who come from outside the corporate mainstream. For example listing international postings as an essential rather than as a desirable requirement makes it harder for women who do not have ‘trailing spouses’ to the same extent as men.

High potential

The Fawcett Society recommends that FTSE companies should be willing to consider not only NED women candidates with prior FTSE director experience but also high calibre women with FTSE NED potential.⁵ This is important for two reasons.

First, research by McKinsey has shown that there is a tendency for women to be promoted on performance and past achievements, whilst men are promoted on potential.⁶ This discrepancy in treatment should be addressed so that the potential of women is also recognised. Secondly, it avoids women being caught in a catch 22 situation of needing FTSE experience to get FTSE experience.

“When recruiting NEDs I demand that ESFs have diversity firmly in mind when identifying candidates that I should meet. Even more importantly I am perfectly prepared to have one or two people on the board for whom this is their first NED experience. Together, these two rules of mine accelerate diversity without losing, and perhaps even enhancing, the role of the board as a whole.”

Sir Don Cruickshank

Chair 7digital, NED Qualcomm

Former Chair of the London Stock Exchange

Broad skills

There are advantages to looking outside the corporate mainstream for NEDs. We agree with Lord Davies that, “financial responsibility, just like sector expertise, can be taught and should not be a pre-requisite for appointments. Greater emphasis should be placed on a broader mix of skills and experience.”⁷ A board is a dynamic team which needs new viewpoints and different talents, not a group of people of similar backgrounds who follow the same thought patterns.

Time-limited appointments

The Fawcett Society notes that some FTSE NEDs are serving terms of more than nine years, 70 male NEDs (of whom 21 hold the position of Chair) and nine female NEDs.⁸ To refresh the board with new impetus, we recommend that a NED should ideally not serve terms beyond nine years in total.

Turnover is also one of the barriers to change on FTSE boards and unless appointments are time-limited, there is a danger that the number of female directors will reach a plateau point well before the target of 40% proposed by the European Commission.



ACTION

The **Fawcett Society** recommends that FTSE companies should⁹:

Instruct ESFs with a track record of Code compliance

Insert a contractual condition to require ESF to comply with Codes

Advertise widely

ESF Voluntary Codes

Whilst most ESFs which deal with FTSE directorships have signed up to the Voluntary Code for ESFs, this does not necessarily translate into full implementation.¹⁰ **The Fawcett Society** notes the concerns of Lord Davies in Women on Boards 2014 that, “some ESFs highlighted the issue of limited visibility and ownership of the Code and some were not aware that it existed.”

It is vital to increase awareness of the Voluntary Code for ESFs and the Enhanced Code for ESFs. It would be helpful if ESFs could indicate their commitment on websites and in any external reports that they produce.

We also recommend that companies should include, in their terms of engagement with ESFs, a condition stating that the ESF must comply with all aspects of the Voluntary Code for ESFs.¹¹ Ideally preference should be given to recruiters who adhere to the Enhanced Code. Companies should ask ESFs for evidence of past activity, identification and selection methods, and successful appointments of candidates of diverse backgrounds and experience.

Benefits of Advertising

1. Signals commitment to diversity

As the FRC Code notes, “it is important the board sets the ‘correct tone from the top.’” Many FTSE companies have diversity policies and have made significant strides in supporting gender balance. However if the most senior appointments continue to be made on an opaque basis, the level of commitment to equality at the highest level is open to misconstruction. The importance of the board in acting as a role model for organisational change is crucial; the board is not only a benchmark for diversity but also a powerful ambassador.

Advertising FTSE NED posts

The Fawcett Society supports the open advertising of FTSE NED directorships. We are aware of the arguments against such advertising:

- it can cut across a need for confidentiality;
- it is administratively burdensome;
- national advertising is inconsistent with the search for global talent;
- delays in appointment could occur; and
- few appointments are currently made via this means.

In response **The Fawcett Society** notes that open advertising may bring about several benefits.

Signals commitment to diversity

Promotes transparency

Online media makes advertising global

Opportunities for those outside the ‘right’ networks

Women get on the ESF radar and database

2. Promotes transparency

Confidentiality in NED appointments should not be regarded as a factor that automatically trumps openness. Each situation should be assessed on a case-by-case basis with a presumption in favour of transparency and diversity. Even if a woman hears about a board vacancy on the ‘grapevine’, she may have no idea of the job or person specification and so will not be able to assess whether she meets the selection criteria or what she should focus on to develop her skills set. This makes the NED appointment system obscure and difficult to navigate, especially for first-time candidates.

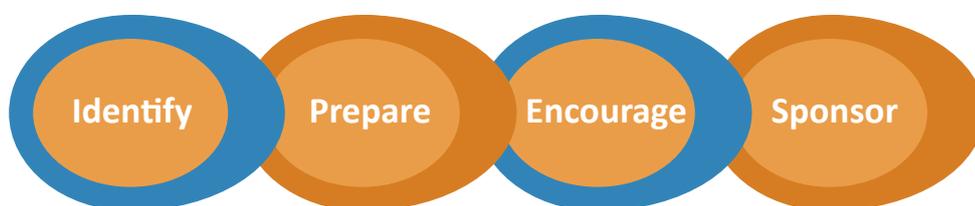
3. Global recruiting

NED job and person specifications can be uploaded within seconds on any number of websites and made available on a global basis. There is no need to advertise exclusively in national print media. Sifting through hundreds of applications, many of which are unsuitable, is unappealing and we are not suggesting otherwise. But if much smaller and more cash-strapped entities do this in the interests of transparency and diversity, it is unclear why FTSE companies cannot follow suit.

Except in cases of sudden departures, e.g. due to illness, effective succession planning means that NED posts can be advertised in a timely manner to avoid delays in appointments to the board. **The Fawcett Society** considers that the lack of women currently being appointed as NEDs on FTSE boards through open advertising may be because of the paucity of such advertising. A short-term trial, such as six months, is not long enough to assess or discount the impact of advertising widely.

5. ESF radar and databases

The Fawcett Society does not suggest that open advertising is a substitute for instructing an ESF but rather that it is complementary to the work carried out by ESFs. ESFs play an important function in identifying, preparing, encouraging, and sponsoring women.



Identify

ESFs are talent spotters. Accomplished women who respond to advertising may become known to the ESF and their details may be kept on the ESF's database for future reference. If a woman is not ideal for one post, she may be put forward for another post at a later point for which she is suitable.

Prepare

ESFs who have signed up to the ESF Codes have committed to providing support to first-time candidates to increase their chances of success. If a woman is almost 'board ready', the ESF may assist her to progress further.

Encourage

ESFs can also encourage a woman to apply for a post even if she feels she does not 'tick all the boxes.' It has often been noted that men apply for a vacancy even if they meet only some of the job and person specifications, whereas women feel the need to meet more of such specifications. The truth is that there is no Renaissance-style FTSE director that embodies all knowledge and talents known to humanity; a FTSE board is a team of exceptional but not perfectly box-ticking individuals who each bring different skills to the table.

4. Outside the 'right' networks

Currently NED recruitment is characterised by imperfect competition occasioned by imperfect information. Women cannot apply for FTSE NED posts unless they know there is a vacancy. A FTSE directorship vacancy that is not advertised is unlikely to reach those who are not fortunate enough to be within the right tap-on-the-shoulder networks.¹² **The Fawcett Society** has no wish to see the development of an old girls' network that operates alongside an old boys' network; this is not the kind of gender parity we advocate. What is better is a level-playing field with equal information and equal opportunities for all talented people.

Sponsor

The importance of being on an ESF's radar should not be under-estimated. What women usually receive in relation to NED posts is mentoring which, although useful, is not enough. What women need – and do not get as often as men – is sponsorship.¹³ They need 'vertical social capital',¹⁴ someone who will actively champion them and put them forward for opportunities.¹⁵ ESFs can play this vital role.¹⁶ This endorsing function of an ESF is especially beneficial to women who:

- undertake less strategic networking due to bearing the majority of carer/household duties;¹⁷
- have left the corporate mainstream due to the difficulties of remaining in it as a woman;
- have fewer contacts to call upon because they do not get the same opportunities as men for building up those contacts through direct interaction with clients on projects or at entertainment events; and/or
- have taken time out for children, as maternity leave often reduces visibility and influence.

REPORT

FTSE companies should report on their diversity policy and instigate changes where the policy is not delivering results. There should be two parts to the reviewing and reporting process.

- Internal - where the company bluntly and honestly reassesses its policy, notes where the policy has worked well, and takes steps to make improvements where it has not.
- External – meaningful and specific public disclosure. **The Fawcett Society** proposes changes to the FRC Code to encourage this external aspect.

We recommend the following changes, in italics, to FRC Code, B.2.4¹⁸

“...and progress on achieving those objectives. *Where objectives are not met, this section should include a description of any further or alternative steps that are planned so that the objectives are more likely to be met.*Where an external search consultancy has been used, it should be identified in the annual report and a statement made as to whether it has any connection with the company. *A statement should also be made as to whether the external search consultancy used has signed up to any Voluntary Code of Practice for external search consultancies and whether it is accredited under the Enhanced Code of Conduct for executive search consultancies.*¹⁹

The Fawcett Society takes the stance that what needs to be reported tends to get reviewed. FTSE companies should take a reflective approach, providing specific information, statistics and explanations rather than off-the-shelf or precedent-style disclosures.

We also note that the FRC Code refers to ‘Chairman’ throughout which seems out of step with current thinking on gender neutral drafting. The use of ‘Chair’ seems more appropriate.

FURTHER VIEWS

Corporate pipeline

Although this response has focused on NEDs, **The Fawcett Society** notes that the proportion of female executive directors in the FTSE 100 is currently 8.6%.²⁰ The position of a part-time NED overseeing governance is not the same as an executive officer with responsibility for operations and delivery.²¹ We are concerned that unless female corporate talent is nurtured and retained, women will be predominantly represented on FTSE boards as part-time ‘guardians of governance’ rather than as full-time leaders of business and industry.

In order to stop the corporate pipeline from leaking female talent, FTSE companies must engage more effectively with well-known barriers to women’s progression: a workplace culture inimical to gender diversity, the effects of maternity leave,²² unconscious bias,²³ a lack of flexible working,²⁴ limited networking opportunities, and a lack of genuine sponsorship from senior managers.

The best recruitment practice that FTSE companies can follow to help women achieve executive board positions is to hardwire diversity and inclusion in their own organisational practices and to encourage, foster and promote talent within their own ranks.

If fewer women than men overall progress to the higher corporate echelons, then no matter how open-minded and diligent ESFs are, they will have fewer female candidates to put forward for executive board positions than male candidates. The onus is not merely on ESFs to track down the best executive directors but also on companies to put in place the culture and the conditions to produce such talent. **The Fawcett Society** supports the ‘25 by 25’ approach which sets a target of 25 female CEOs of FTSE 100 companies by 2025.

Gender equality benefits society

The Fawcett Society strongly believes that promoting gender equality benefits the whole of society. We recognise that many of the obstacles faced by women (e.g. being outside the ‘right’ circles) are also faced by others, such as those of any gender of black and minority ethnic origin. We therefore submit that our recommendations will assist not only women per se but also others who are given protection under the Equality Act 2010.

The Fawcett Society appreciates that several companies and ESFs have already taken proactive steps to address the issue of diversity on FTSE boards and applauds them for this approach. Many men, as well as women, have been successful role models, sponsors and agents of change. Without their initiatives, determination and action the significant strides that have been made would not have been possible. The 25% target is but one step on a longer journey to fully maximising gender talent.

The Fawcett Society expresses its gratitude to all who have assisted in this report. Their helpful participation is not to be read as approval of every point made by **The Fawcett Society**. We are pleased to have the opportunity of presenting this response to the Equality and Human Rights Commission’s consultation and look forward to the publication of the Commission’s report.

SUMMARY OF RECOMMENDATIONS

On Board, On PAR

Policy of diverse boards

- Aspirational policy, means of achieving it, effective succession planning
- Check job and person specifications for indirect bias
- Assess candidates not only on previous FTSE board experience but on FTSE board potential
- Look for broad skills not merely financial or sector experience
- Sponsorship for women to achieve senior positions on boards e.g. Chair
- Appoint NED ideally for a max of 9 years.

Action that policy

- Advertise widely
- Instruct executive search firms who effectively implement the ESF Codes
- Companies to include a condition in contract with ESF that ESF will comply with Codes

Report that diversity policy

- Regular internal corporate review of diversity policy for efficacy
- Make meaningful and specific public disclosure about the diversity policy under the FRC Code

Revise FRC Code

- To promote review and reporting of diversity policy
- To adopt gender neutral language



Fawcett
closing the inequality gap
wo since 1866 men

REFERENCES

- ¹McKinsey has produced several reports linking diversity to economic success.
- ²The Fawcett Society is a registered charity (no.1108769) and a company limited by guarantee registered in England and Wales (no.04600514) with a registered office at Linton House, 168-180 Union Street, London, SE1 0LH.
- ³All references to the FRC Code in this response relate to the Code of Sept 2014.
- ⁴This was recommendation 9 of The Davies Report: Women on Boards 2011, p5 and p21.
- ⁵Quote by Sir Don Cruickshank given to The Fawcett Society on 1 April 2015.
- ⁶Unlocking the Full Potential of Women in the US Economy, McKinsey, April 2011.
- ⁷The Davies Review: Women on Boards 2011, p12.
- ⁸As reported by the Cranfield Female FTSE Report 2015.
- ⁹The Davies Review: Women on Boards 2011 p5 recommended advertising NED positions “periodically”. However The Davies Review: Women on Boards 2012, p11, states that advertising is a crucial part of tackling the recruitment agenda.
- ¹⁰As stated in Gender Diversity on Boards: The Appointment Process and the Role of Executive Search Firms, E Doldor, S Vinnicombe, M Gaughan & R Sealy of Cranfield University, May 2012, published by the Equality and Human Rights Commission.
- ¹¹Women on Boards: Voluntary Code for Executive Search Firms – Taking the Next Step, March 2014, Charlotte Sweeney.
- ¹²A current Fawcett board director/trustee applied for the post, was interviewed, selected, elected, and began her term of office all whilst on maternity leave. Without advertising, she would never have known of this opportunity.
- ¹³Why Men Still Get More Promotions than Women, Herminia Ibarra, Harvard Business Review, Sept 2010.
- ¹⁴As described by Tom Schuller, www.paulaprinciple.com, cited in the Chartered Management Institute: Women in Management, Women in Leadership, March 2013.
- ¹⁵These points on sponsorship were made by attendees at a European Women on Boards Round Table hosted by AIG and the Institute of Directors, reported in “How do we improve gender balance on boards?” Director Magazine, Feb 2015.
- ¹⁶See Opening the Black Box of Board Appointments: Women’s and Men’s Routes to the Boardroom, Sapphire Partners, S Brown, E Kelan and A-L Humbert, March 2015.
- ¹⁷This problem is exacerbated by lone parenting. There are around 2 million lone parents with dependent children, representing 26% of all households: ONS 2012. 91% of lone parent households are headed by women.
- ¹⁸We note that this provision overlaps with the Financial Conduct Authority’s Disclosure and Transparency Rules (DTR 7.2.7 R as set out in Schedule B to the FRC Code) and therefore consequential amendments may have to be made to those Rules.
- ¹⁹The Davies Review: Women on Boards 2014, recommends that, “FTSE 350 clients should appoint firms that are signed up to the Code and ensure they adhere to the principles and spirit of the Code, including intolerance of those who are willing to find suitable women candidates.”
- ²⁰As stated in The Davies Review: Women on Boards 2015.
- ²¹Dysfunction in the Boardroom, Professor B Groysberg and D Bell, Harvard Business Review, June 2013, presents interesting transatlantic parallels about directorships, and what hurdles women and men consider that women face.
- ²²The Fawcett Society welcomes shared parental leave as a means of involving men in childcare and we encourage companies to offer fathers incentives to take this up. We agree with the charity Working Families that such an approach is likely to break down gender stereotypes relating to caring and to have a positive impact on female career progression, see Working Families, Shared Parental Leave: A Briefing for Employers, Nov 2014.
- ²³Bias may result ‘in my own image’ promotions or in assumptions being made about the aspirations and competencies of women. One method has been to send women on programmes essentially to learn how to behave more like men. This can unfortunately lead to the ‘double bind’ where qualities, such as dominance, are deemed unattractive in women. Most of all, with women trying to be like men, the benefits of diversity are lost. Another approach is that it is not the women who need ‘fixing’ but the bias. Businesses invest in learning the language and culture of new markets such as China, but fail to invest in learning the language and culture of women. Gender-bilingualism means that each gender is recognised, encouraged and promoted on its own merits and for the different contributions each brings. See The Balancing Act: A Study of How to Balance the Talent Pipeline in Business, Harvey Nash, 2012; Quiet, Susan Cain, Penguin 2013; Through the Labyrinth, AH Eagly & LL Carli, Harvard Business Review, 2007; Why Women Mean Business, A Wittenberg-Cox & Alison Maitland, Wiley, 2009.
- ²⁴We welcome the change in the law that removes the requirement on employees to be a parent/carer in order to make a statutory request for flexible working, as flexible working should be viewed as of potential benefit to the whole workforce.