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The Case for Diversity in the Boardroom

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Company Commercial partner Max Hudson considers the case for diversity in the boardroom.

In 2010 standing amidst a sea of black dinner jackets in an awards ceremony for the private equity industry I found myself wondering "where are all the women?" The issue of whether there should be active steps to address this disparity has become a major issue for businesses. The purpose of this article is to look at the statistics and arguments being put forward. The facts and figures derive from third party information.

The dearth of females in board level roles is not peculiar to private equity: step into any board room in the country and you will note that these are predominantly male domains. The figures are clear: FTSE 100 boards - 12.5% women; FTSE 100 executive directorships - 5.5%; FTSE 250 boards - 7.8%. The picture is similar on the boards of the major banks: Barclays - 15%, Standard Chartered - 13% and Royal Bank of Scotland and Lloyds Banking Group only 10% women.

The reasons behind this imbalance are complex and controversial but governments around the world are taking note as strong views are put forward that this inequality damages economic growth. Lord Davies of Abersoch's government commissioned report "Women on Boards" published in February 2011 drew on research concluding not only that companies with more balanced boards demonstrate far better operational and share price performance but that female board members seem to cut risk. To take one example, having a female director on the board statistically reduces a company's chances of going into liquidation by 20%. A key proponent of the view that the presence of women in the board room lowers risk is Michel Barnier, Europe's internal markets commissioner. In an interview with the "Guardian" newspaper speaking about his proposal that mandatory quotas should dictate the number of female directors on the boards of banks, he said balanced boards are vital to prevent the "group think" mentality that has "been far too prevalent in the past, with the disastrous consequences we have all witnessed".

So what will this mean for the future composition of Britain's board rooms? In the UK two developments have followed the proposals in Lord Davies' report. First, the executive search community has published a voluntary code of conduct which seeks to improve board room diversity by opening up the recruitment process to more women and to suitably qualified candidates who lack board room experience thereby making recruitment for directorships less of a closed club. Secondly, the Financial Reporting Council (FRC) is in the process of consulting on the possible introduction of a provision in the UK Corporate Governance Code requiring that listed companies establish a policy on board room diversity. The FRC published the responses of over seventy different organisations this month. They represented a range of views particularly with respect to how prescriptive the code should be in its approach.

Meanwhile in Europe the European Commission is introducing regulation and a directive to implement the Basel III reforms, known as CRD IV. CRD IV which will regulate financial institutions requires, amongst other prudential measures, institutions to put in place "a policy promoting gender, age, geographical, educational and professional diversity on the management body". In a separate move the European Commission has also asked publicly listed EU companies to sign a pledge to increase the number of women on their boards to 30% by 2015 and 40% by 2020. Currently these measures are voluntary but on 8 March 2012 the Commission will analyse whether self-regulation has worked and consider further steps. Quota systems have their critics and fears that pushing reform through will create a two tier system of management with a predominantly male core making the decisions, whilst female directors occupy non-executive positions, may not be without foundation. However, with Norway as the pioneer of the quota system followed closely by France, the Netherlands and Spain, legislators may well pursue this route if self-regulation does not meet their expectations.

This is definitely an issue to watch over the coming months and publicly listed companies and financial institutions should review their boards and their recruitment policies to check that they are paying more than lip service to the need for diversity.

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