

Employment news: Balancing the boards

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Recently we have been awash with reports on boardroom gender diversity. Last year, McKinsey published their report Women Matter, in which they concluded that companies with the highest share of women on their executive committees outperform companies with no women, both in terms of return on equity and operating results. This month, Odgers Berndtson published a report on senior women in financial services, which recommended (amongst other things) linking financial incentives to diversity achievements. This was preceded by Lord Davies' report in February of this year, 'Women on Boards'. Lord Davies urged the boards of FTSE 100 companies to double the number of women on their boards by 2015. This would mean an increase from 12.5% to 25% and would be an unprecedented acceleration. At the current rate of progress it would take (according to Lord Davies) 70 years to achieve gender-balanced boards. Lord Davies shunned quotas for the moment but promised to revisit this question if the 25% level was not reached by 2015.

Given that the increase in the number of women on FTSE 100 boards has plateaued over the last three years, it is difficult to see how boards are going to achieve the 25%. Lord Davies suggested that headhunters put together a code of good recruitment practice and that Board Chairmen publish 'aspirational goals' and disclose the proportion of women on their boards and in senior management each year.

But will charters, codes and goals actually achieve anything? We think not. There are already many codes of practice, goals and good intentions out there, yet nothing much has changed. Perhaps we should heed Einstein who famously defined insanity as 'doing the same thing over and over again and expecting different results.'

It goes without saying that board members should be appointed on merit. Boards need properly qualified independent thinkers, which is likely to be best achieved by sourcing members of both genders from a variety of backgrounds. Lord Davies rejected the idea of quotas because he felt that board appointments should be made on the basis of 'business needs, skills and ability'. But are quotas really so bad? No-one is suggesting that boards should appoint incompetent women, just that they should cast their nets wider and look harder for a more diverse range of candidates. Lack of pre-existing board experience should not be a bar to a new board appointment, provided the candidate can demonstrate other competencies required for board membership.

Quotas might just be an expedient short-term cure to our current board 'insanity'. This insanity was clearly identified by the Higgs Review in 2003, which found a worrying level of informality in the recruitment of non executive directors:

- Almost half were recruited through personal friendships or contacts;
- Only 4% had a formal interview for the role;
- Only 1% had obtained the role through answering an advertisement.

Lord Davies commented that there was no evidence to suggest this had changed between 2003 and 2011. Whilst executive directors may be recruited and promoted with a greater degree of formality perhaps than non-executive directors, this is still a dismal picture and unlikely to change unless we do something radical. Perhaps that 'radical thing' would be the introduction of quotas for a limited period, coupled with an accredited and tough training course for potential board members whose alumni would then be acknowledged to be fully ready to take up board positions. There is a passing reference to this in the Davies report where he suggests that 'a combination of entrepreneurs, existing providers and individuals need to come together to consolidate and improve the provision of training and development for potential board members'. Had Lord Davies actually set up such a training programme and set a quota, we might have been well on our way to more balanced boards.

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