THE FEMALE FTSE BOARD REPORT 2017

WOMEN ON BOARDS:
BACK ON TRACK?

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THE FEMALE FTSE BOARD REPORT 2017

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GEO MINISTER'S FOREWORD

In this last year we have seen a number of successes in the drive to improve female representation at the top of the UK's biggest companies. We have seen a decrease in the number of all male boards in the FTSE 350 – from 11[1] to 8. The number of FTSE 100 companies with at least 33% women on their boards has also increased from 19%[2] to 28%. Whilst these changes may only appear small, they are as a result of considerable efforts by UK business, Government, and very many key stakeholders who are leading the charge.

This important business agenda continues to be spearheaded by the Hampton-Alexander Review, which has focused not just on delivering change at the very top, but at those all-important feeder grades for board roles. I would also like to pay tribute to Dame Helen Alexander who sadly passed away this year. Her work leading the Review and her huge achievements as a business leader means she remains one of this country's great female role models. Dame Helen will be sorely missed but she has certainly left a wonderful legacy for future female business leaders.

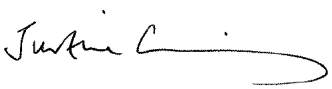
Cranfield continues to play an important part in the development of a robust evidence base underpinning the women on boards' targets and analysing key trends, and I would like to thank them for their commitment to this agenda. As Cranfield researchers have found through their interviews with board evaluators, there is a strong case to be made for the positive differences women make to the behaviour, culture and performance of boards.

This agenda must continue to be driven forward for business, by business. That is why Government established the Hampton-Alexander Review and also the Women's Business Council who are similarly looking at how to maximise women's contribution to the economy.

Government's role is in ensuring the foundations are solid ones. This is why in April this year the UK became one of the first countries in the world to introduce mandatory gender pay reporting for public, private and voluntary sector employers with 250 staff or more. We want employers to publish an action plan for closing their Gender Pay Gap. This could include introducing flexible working, returner programmes, changing working patterns or using new recruitment methods.

I believe these strong foundations will help ensure businesses are able to meet the stretching but achievable 33% targets set by the Hampton-Alexander Review.

We must continue to prioritise this agenda. It is not only important for women, men and their families, but to UK businesses themselves and the UK economy as a whole. The benefits of helping women to unlock their talents are huge – eliminating work-related gender gaps could add £150 billion to our annual GDP by 2025. That is an opportunity that neither Government nor businesses can afford to ignore.



The Rt Hon Justine Greening MP

Secretary of State for Education and
Minister for Women and Equalities

1 As of Nov 2016, Hampton-Alexander Review report
2 As of June 2016, Cranfield's Female FTSE report

SPONSOR'S FOREWORD

If this was easy it would have happened already. Beyond the simple fact that equality at all levels in the workplace is intuitively right, the business case for diversity is now also widely understood. But the complex barriers that have held back successive generations of women are still slowing down the change we wish to see.

Of course, not everyone is doing the right thing but more and more organisations share the view that I and the board at Aviva have long held: don't limit the talent available to your business. Allow people to be themselves. Build an inclusive organisation and a leadership team that truly represents the diversity of your customers, and your business will be better for it.

As this report underlines, although we are making progress, we still have not achieved the fundamental change in culture that is needed. Ultimately, our society's ability to strip away the barriers that have built up over decades depends on understanding them. We need the data on diversity not because the numbers are important for their own sake. Rather they are vital because of the insight that comes with evidence.

I welcome the fresh perspective brought by the Board Evaluators' Study contained in this year's report. I trust that it will add to our combined understanding of what more needs to be done to accelerate the pace of change. Having an inclusive culture that leads to a diverse workforce at all levels of the organisation is central to Aviva's vision of our future success. Many other organisations think the same way. The better we all understand the obstacles, the more easily and quickly we will overcome them to achieve that shared ambition.

Sir Adrian Montague

Chairman, Aviva

SIR PETER GREGSON'S FOREWORD

For almost 20 years, thanks to Professor Susan Vinnicombe and her colleagues, Cranfield has been at the forefront of influential research into 'women in leadership'. The research and ensuing debate has seen progress since the launch of our first report in 1999. However, while progress has been made, there is still work to be done to finally overcome the gender imbalance that remains in too many boardrooms.

At Cranfield, diversity has long been a priority both for the organisation and for me personally as Vice-Chancellor and Chief Executive. This year the University was awarded the Athena Swan Bronze Award in recognition of our efforts. Like many other organisations though we still need to strive to achieve more and to ensure that we are able to inspire and benefit from the widest possible pool of talent.

Organisations that embrace diversity, thrive. They reap benefits from creating an environment where the best talent is recruited and rewarded, regardless of gender. Creating this environment requires more than one-off initiatives, it requires a system-wide change where everyone across the organisation understands the importance of removing gendered barriers.

These changes are taking time and I share the frustrations of many that they are not happening fast enough but as we see from this year's report, we are continuing to make progress towards creating a work environment where all women can realise their potential.

Sir Peter Gregson

Vice-Chancellor and Chief Executive,
Cranfield University

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EXECUTIVE SUMMARY

This year we have seen the percentage of women on FTSE 100 boards rise to almost 28% (27.7%) after a year of stagnation. Over the past 12 months, turnover of board directors has been low (12.5%), but the proportion of new appointments going to women has hit the target of at least 1:3. This means that we could be within reach of 33% women on FTSE 100 boards by 2020 as long as the momentum is maintained. Progress continues also on the FTSE 250 which has risen to almost 23% (22.8%). Here there needs to be a greater push in order to meet the target of 33% by 2020. The percentage of women holding FTSE 100 non-executive (NED) positions is at an all-time high of 33.3%, but the percentage of women holding executive directorships remains low at just under 10%. This year six women hold chair positions and a further 14 hold Senior Independent Directorships on the FTSE 100.

October 2017	FTSE 100	FTSE 250
Female held directorships	294 (27.7%)	453 (22.8%)
Female executive directorships	25 (9.8%)	38 (7.7%)
Female non-executive directorships	269 (33.3%)	415 (27.8%)
Companies with female executive directors	21 (21.0%)	37 (14.8%)
Companies with at least one female director	100 (100%)	242 (96.8%)
Companies with at least 27% female directors	56 (56.0%)	81 (32.4%)
Companies with at least 33% female directors	28 (28.0%)	54 (21.2%)

Trends in Growth of Women on FTSE 100 Boards Over the Past Ten Years

Between 2007 and 2017 a total of 167 companies were included in the FTSE 100 listing; however, only 57 were listed for the entire period. During that time women's representation on the FTSE 100 boards rose from 11% to 28%. Other highlights of our analysis are that the number of female held directorships has risen from 122 to 294, whilst the number of male held directorships has dropped from 992 to 756. Across the different sectors there were different starting points, with construction, for example, having no women on their boards in 2007. There has been a convergence across all the sectors in 2017 around the Davies target of 25%. Some sectors are now evidencing a levelling off.

Whilst the percentage of women in NED roles has risen from 15% in 2007 to 33.3% in 2017, there has not been an accompanying rise in the number of women CEOs (currently 6%) or executive directorships (9.8%).

In terms of nationality, men outnumber women in all categories (British, EU but non British, North American and Other) except North American where parity has almost been reached in 2017.

In 2007 30% of male NEDs held Senior Independent Director (SID) or Chair positions compared to 6% of female NEDs. In 2017 34% of male NEDs hold SIDs or Chair positions compared to only 8% of female NEDs.

There is some evidence to indicate that men are more likely than women to be internally promoted to CEO and other executive directorships.

Board Evaluators Study: Do Board Evaluators Have a Role to Play in Encouraging Gender Diversity Progression in the Boardroom?

Listed companies are obligated to conduct annual internal evaluations and triennial external board evaluations. The board evaluation industry is concentrated in a small number of organisations conducting the majority of FTSE 350 companies' evaluations. Recognising the evaluator community has rare and privileged access to Chairs, their boards, and witnessing the impact of boardroom composition, we conducted interviews with 11 experienced board evaluators, operating independently or within firms that offer wider sets of services, to ascertain their views on gender diversity in the boardroom.

Board evaluation can be crudely divided into those focused on more procedural reviews and those engaging with behavioural elements. Our interviews revealed that, through more behaviourally focused reviews, board evaluators demonstrate a deep understanding of the impact they see of group composition on boardroom behaviour, culture and effectiveness. These evaluators were extremely clear about the considerable benefits of a critical mass of diversity in the boardroom (often defined as three 'diverse' individuals). They evidence this through the dynamics of debate and decision-making. Evaluators can advise Chairs on how to optimise the benefits of a diverse board, providing challenge and support, particularly in the areas of feedback, induction and developing a diverse pipeline of talent, in the pursuit of highly effective team performance.

On the understanding that behavioural reviews are more likely to comprehensively address issues of diversity, we suggest that the Financial Reporting Council recommend that board evaluation disclosure in the Annual Report includes information on whether a behavioural or a procedural external evaluation was undertaken, in addition to a summary of actions taken since the evaluation.

We also recommend that the board evaluation industry adopts minimum standards for reviews, in the form of a Code of Conduct, kitemark or other method, by mutual agreement. The minimum standards should address the areas raised in this report, i.e. on diversity and dynamics, culture and behaviour, on feedback, induction and the talent pipeline.

Our findings are unique in terms of behavioural insight into the dynamics of the boardroom and should encourage more Chairs to strive for, and more investors to insist on, maximising the benefits of a critical mass of boardroom diversity.

The focus of the Davies Review and now the Hampton-Alexander Review is on gender diversity in the boardroom and the most senior positions in business, in order to improve business effectiveness. The role of board evaluators is central to this objective, especially where the evaluation is from an objective, external professional source. Their work will always rightly cover specific processes, but the best evaluations will cover the behaviours of the board and its directors. Gender diversity will often, arguably always, be a key driver of behaviour.

Sir Philip Hampton
Chair, Hampton-Alexander Review

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INTRODUCTION

01

After a year of standing still at 26% women on FTSE 100 boards, it is pleasing to report that the UK could be back on track at 27.7%, as of October 3rd 2017. If we continue this pace of growth in the appointment of women to the FTSE 100 boards we can make 33% by the end of 2020. The FTSE 250 is also making good progress at 22.8%, but this pace of change will bring them up short at 2020, as they started from a lower point than FTSE 100 companies.

Whilst the overall growth of women directors on FTSE boards continues, it is a bit disappointing when looking below the surface. The UK chose to take a voluntary business led approach to increasing the number of women on top boards as the argument was that such an approach ensures a fundamental change in the culture of the board, as opposed to just increasing the numbers. In our ten year depth trend analysis this year we reveal a rather different picture. Similarly to other countries who have adopted a quota approach, the UK has only managed to increase the number of women in Non-Executive roles. Proportionally the number of women being promoted into senior roles, such as Senior Independent Director (SID) and Chair has barely changed (6% in 2007 to 8% in 2017). There are still very few women in Executive Director positions and the few in CEO roles tend to get appointed from the outside, rather than developed from within. Yet our interviews with board evaluation advisers overwhelmingly provide a compelling business case for having good women directors on boards. All of us who play a role in nudging forward both the appointment and development of women on FTSE boards need to step up our activities, in order to achieve what we truly set out to do initially with Lord Davies and currently with Sir Philip Hampton and the late Dame Helen Alexander.

In this report we provide an overview of the progress women have made on both FTSE 100 and FTSE 250 boards, identifying the female Executive Directors, Female SIDs and female Chairs on the FTSE 100 boards. This year we have undertaken a trend analysis of the data on women on FTSE 100 boards from 2007-2017 and carried out a series of interviews with the board evaluation advisers of the top FTSE boards for their take on progress and how women contribute to boards' culture and performance. We hope that our report complements and deepens the work on women on FTSE 350 boards in the Hampton-Alexander 2017 report.

Since the Davies Review started, FTSE firms have made good progress when it comes to diversity in the boardroom – but their work is far from over. Too much of the focus has been on the non-executives of listed firms, not the day-to-day leaders of our biggest businesses. And at times of great change, it's all too easy to let things to slip backwards. This must not be allowed to happen. Today's report is a timely reminder of how far we still have to go to ensure capable women can progress from entry-level to senior management positions.

Carolyn Fairbairn
Director-General, CBI

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METHODOLOGY

02

The main data from the FTSE 100 and FTSE 250 listings and the figures in this report were taken from BoardEx on 3rd October 2017. The 2017 data in the ten year trend analysis were taken from BoardEx on 1st September 2017. There are slight differences in these figures due to two companies (Prudential Financial, Royal Mail) leaving the FTSE 100 and two companies (Berkeley Group, NMC Health) joining during that period.

The interviews with the board evaluation advisers were initially set up with the help of Denise Wilson, CEO of the Hampton-Alexander Report. We are very grateful to her and all the advisers who took part in the study in September and October 2017.

With grateful thanks to Dr Valentina Battista for her time and efforts in collating the FTSE data.

0 3

FTSE 100 COMPANIES

3.1 FTSE 100 COMPANIES WITH FEMALE DIRECTORS

After a year of stagnation we are pleased to present improvements on key indicators of progress of women on boards. As of 5th October 2017, there are 294 female held directorships across the FTSE 100 boardrooms. The percentage of women on FTSE 100 boards has increased to 27.7%, up from 26% in June 2016. The turnover of board directors has been low this year, but the percentage of new appointments going to women is back on track at 34%.

The percentage of female Non Executive Directors (NEDs) has increased to 33.3% and that of the Executive Directors (EDs) to 9.8%. Two hundred and fifty nine women now hold 294 FTSE 100 directorships.

I am encouraged by the upward trend in women's representation on the FTSE boards. However, the continuing low number of women executive directors is concerning. The International Women's Forum is committed to furthering women's leadership globally and we are very familiar with the challenges women still have to overcome in order to achieve senior roles. A greater push is indeed needed to ensure that all FTSE boards meet the targets set for 2020. I support the report's recommendation for minimum standards for the board evaluation industry in carrying out board reviews. As women leaders, we must continue to support one another and be strong advocates for the next generation in order to bring about much needed change.

Julie Goldstein
Chair, International Women's Forum UK

TABLE 1: FTSE 100 DIRECTORSHIPS 2017

	2017	2016	2015	2014	2013
Female held directorships	294 (27.7%)	279 (26.0%)	263 (23.5%)	231 (20.7%)	194 (17.3%)
Female executive directorships	25 (9.8%)	26 (9.7%)	24 (8.6%)	20 (6.9%)	18 (5.8%)
Female non-executive directorships	269 (33.3%)	253 (31.4%)	239 (28.5%)	211 (25.5%)	176 (21.6%)
Total female directors (NED & ED)*	259	244	233	205	169
Companies with female executives	21	20	22	18	17
Companies with at least one female director	100	100	100	98	93
Companies with at least 27% female directors	56	44			
Companies with at least 33% female directors	28	19			

* The total number of female directors is lower than the number of female held directorships because some women hold more than one directorship.

Fifty six companies in the FTSE 100 have now reached the 27% level. Companies who have reached 27% this year are in a good position to reach 33% by 2020. At present 28 companies have already reached the minimum of 33% women on their boards. Top position is jointly held by Diageo, Kingfisher, Merlin Entertainments, Next, Severn Trent and Whitbread – all on 44.4% women on their boards.

3.1.1 FTSE 100 Companies with Women in Executive Roles

The percentage of women in executive directorships has risen marginally to 9.8% in 2017. There are 25 women holding executive roles in 21 companies. Five companies have two women in executive directorships. They are Kingfisher, Next, Severn Trent, Whitbread and Prudential. Carolyn McCall will be leaving her role soon as CEO of EasyJet to join ITV as CEO – the first woman to have been appointed to two FTSE 100 CEO positions.

In terms of the particular executive roles that the women have, six are CEOs and 13 are CFOs/GFDs. The remainder are in a variety of roles ranging from Regional CEO, Sales and Marketing and Group HR Director.

There are now six women holding the Chair role in the FTSE 100. They are:

- Fiona McBain, Scottish Mortgage Investment Trust
- Annette Court, Admiral Group
- Dame Alison Carnwath, Land Securities Group
- Susan Kilsby, Shire
- Anita Frew, Croda International
- Sarah Bates, St James's Place

In addition there are 14 women holding SID positions. They are:

- Val Gooding, Vodafone Group
- Julia Wilson, Legal and General Group
- Karen Slatford, Micro Focus International
- Dr Vivienne Cox, Pearson
- Lady Susan Rice, Sainsbury's
- Baroness Shriti Vadera, BHP Billiton
- Deanna Oppenheimer, Tesco
- Nicole Seligman, WPP
- Vanda Murray, Bunzl
- Isabel Hudson, RSA Insurance Group
- Ann Godbehere, Rio Tinto
- Baroness Margaret Ford, Segro
- Anita Frew, Lloyds Banking Group
- Ann Fudge, Unilever

TABLE 2: THE 21 FTSE 100 COMPANIES WITH FEMALE EXECUTIVE DIRECTORS

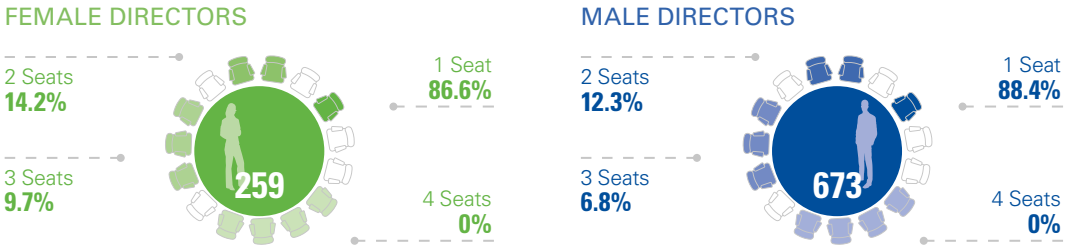
Rank	Company	Female Board %	No. Fem. Directors	No. Fem. EDs	Executive Roles	Sector	Women in Executive Roles
1	DIAGEO PLC	44.4%	4	1	CFO	Beverages	Kathy Mikells
1	KINGFISHER PLC	44.4%	4	2	CFO/FD, CEO	General Retailers	Karen Witts, Véronique Laury-Deroubaix
1	MERLIN ENTERTAINMENTS PLC	44.4%	4	1	CFO	Leisure & Hotels	Anne-Francoise Nesmes
1	NEXT PLC	44.4%	4	2	GFD, Group Director – Sales/Mktg	General Retailers	Amanda James, Jane Shields
1	SEVERN TRENT PLC	44.4%	4	2	ED, CEO	Utilities – Other	Dr. Emma Fitzgerald, Liv Garfield
1	WHITBREAD PLC	44.4%	4	2	CEO, Group HR Director	Leisure & Hotels	Alison Jane Brittain, Louise Helen Smalley
7	GLAXOSMITHKLINE PLC	41.7%	5	1	CEO	Pharmaceuticals & Biotechnology	Emma Walmsley
7	OLD MUTUAL PLC	41.7%	5	1	GFD	Life Assurance	Ingrid Gail Johnson
12	BARRATT DEVELOPMENTS PLC	37.5%	3	1	CFO	Construction & Building Materials	Jessica White
19	ASHTEAD GROUP PLC	33.3%	3	1	FD	Business Services	Suzanne Wood
19	BURBERRY GROUP PLC	33.3%	4	1	CFO	General Retailers	Julie Brown
19	EASYJET PLC	33.3%	3	1	CEO	Leisure & Hotels	Dame Carolyn McCall
19	JOHNSON MATTHEY PLC	33.3%	3	1	CFO	Chemicals	Anna Manz
19	ROYAL DUTCH SHELL PLC	33.3%	4	1	CFO	Oil & Gas	Jessica Rodgers Uhl
29	TUI AG	30.8%	8	1	Board Member – HR	Leisure & Hotels	Dr. Elke Eller-Braatz
32	IMPERIAL BRANDS PLC	30.0%	3	1	CEO	Tobacco	Alison Cooper
32	MARKS & SPENCER GROUP PLC	30.0%	3	1	CFO	General Retailers	Helen Alison Weir
47	NATIONAL GRID PLC	27.3%	3	1	ED	Electricity	Lucy Nicola Shaw
57	3i GROUP PLC	25.0%	2	1	GFD	Private Equity	Julia Wilson
97	PRUDENTIAL PLC	13.3%	2	1	Division CEO	Life Assurance	Dr. Anne Richards

3.2 CHARACTERISTICS OF FEMALE DIRECTORS

3.2.1 Multiple Directorships

Each year we analyse multiple directorships. In Figure 1 we see that the number of female directors is 259, an increase of nine since 2016, whilst the number of male directors is 673, a decrease of 69 since 2016. More women hold multiple directorships this year with 14.2% holding two and 9.7% holding three positions. The respective comparisons for men are 12.3% and 6.8%.

FIGURE 1: MULTIPLE DIRECTORSHIPS



3.2.2 Age and Tenure

As in previous years, the average age of female directors is approximately two and a half years younger than male directors at 56.9 years compared to 59.4 years. The gap is slightly bigger in NED compared to ED.

TABLE 3: FTSE 100 DIRECTORSHIPS BY AGE AND TENURE

Directors	Age			Tenure		
	All	EDs	NEDs	All	EDs	NEDs
Men	59.4	54.1	61.7	5.3	6.2	4.9
Women	56.9	51.0	57.5	3.6	3.1	3.6

Women's tenure, as in previous years, is less than men's for both EDs and NEDs. Last year we drew attention again to the large number of NEDs who had sat on their boards for more than the nine years recommended by the governance codes. The numbers have fallen considerably this year, from 69 males to 32 males and from 15 females to just 5 females. This is a great improvement and ensures that boards are being refreshed on a regular basis.

3.3 TRENDS IN BOARD COMPOSITION

In total there are 1,062 FTSE 100 directorships of which 254 are EDs and 808 are NEDs. Once again, both the total number of directorships and the number of EDs are at their lowest since 2009.

TABLE 4: FTSE 100 BOARD COMPOSITION 2009-2017

	2017	2016	2015	2014	2013	2012	2010	2009
No. of FTSE 100 NEDs	808	806	838	826	805	781	751	748
No. of FTSE 100 EDs	254	268	279	291	307	305	325	330
Total FTSE 100 Directorships	1,062	1,074	1,117	1,117	1,112	1,086	1,076	1,078

3.4 TRENDS IN GROWTH OF WOMEN ON FTSE 100 BOARDS OVER THE PAST TEN YEARS

Cranfield School of Management has been involved in monitoring the representation of women on boards of FTSE 100 companies since 1999. In October 2015 the Davies report confirmed that the target of 25% women on boards had been reached (26.1%). Going further and now in the context of the Hampton-Alexander review, a new voluntary target has been set. This target recommends a minimum representation of women at 33% of the boards of FTSE 350 companies and at 33% of the executive levels of the FTSE 100 companies (executive committee and direct reports levels). In this section we look back to map the progress that has been made over the past ten years.

We focus on the following areas in turn:

1. A review of the overall progress
2. A review of the progress made across sectors
3. Composition of Boards by Role
4. Nationality of directors
5. Women's representation across NED roles
6. Organisational, board and role tenure

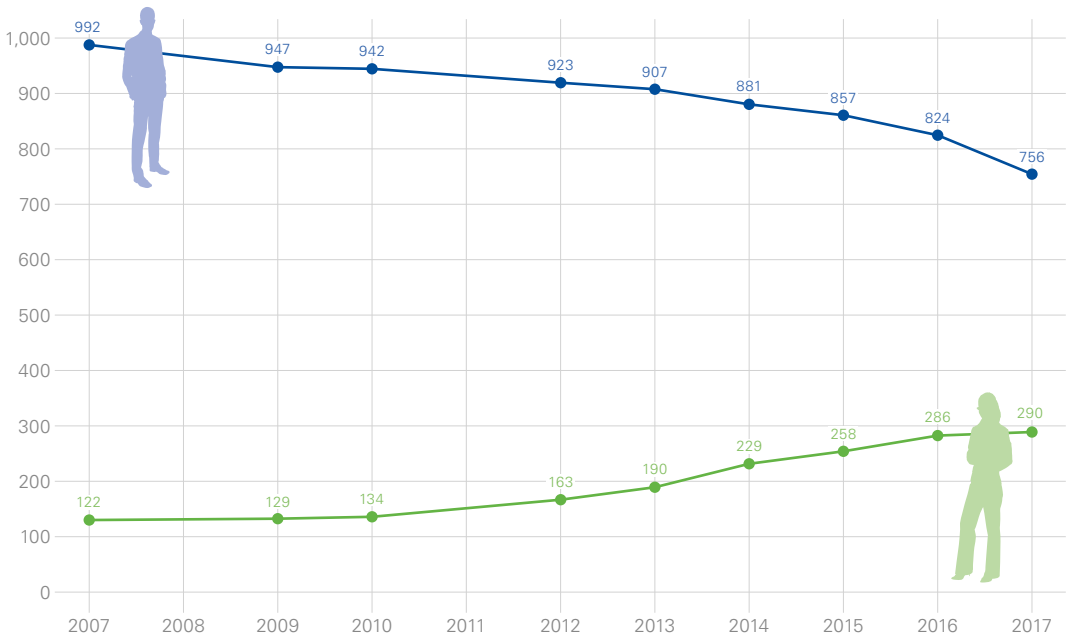
3.4.1 Overview of Women's Board Representation in FTSE 100 Companies 2007-2017 – Overall Progress

Between 2007 and 2017, a total of 167 companies were included in the FTSE 100 listing. There is nonetheless a significant amount of change since of these, only 57 were listed for the entire period. During that time, women's representation on the boards of FTSE 100 companies rose from 11% on average in 2007 to 28% by 2017.

Between 2007 and 2017, the influx of women on the boards of FTSE 100 companies has been accompanied by a decline in the number of men. Women's increased representation has therefore not resulted in an increase in the size of boards, which has hovered around 11 members throughout the period.

FIGURE 2. NUMBER OF WOMEN AND MEN ON THE BOARDS OF FTSE 100 COMPANIES

2007-2017



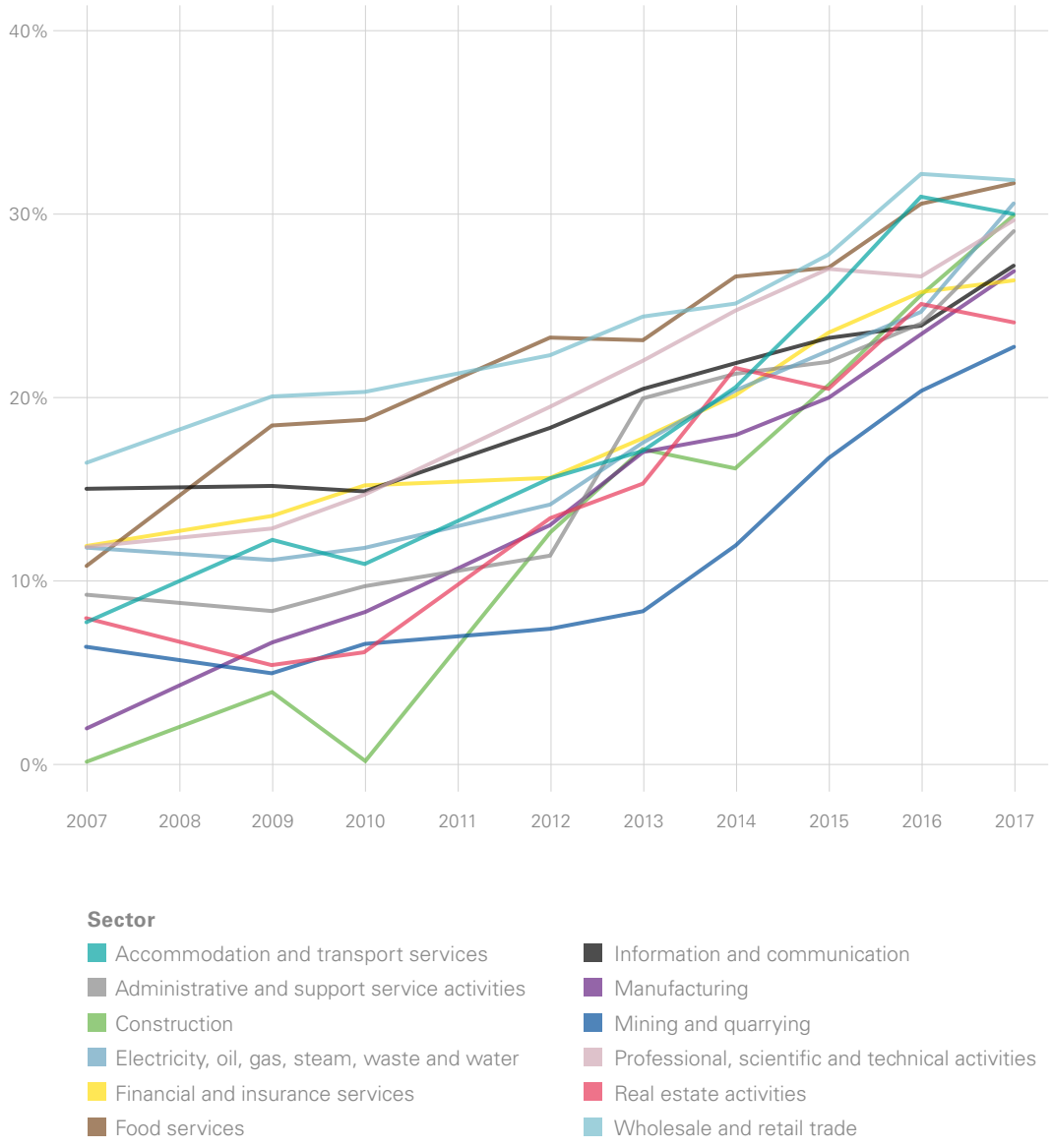
3.4.2 Progress Across Sectors

Looking at the differences across sectors shows that starting points were different. There were no women on the boards of FTSE 100 companies in the construction sector in 2007, and only 4% in manufacturing. Both sectors are now, on average, above the Davies target with respective women's representation of 29% and 25%.

Despite these different sector starting places, differences in paces of increase have resulted in a convergence across sectors. Average progress in construction has been at the annual rate of 3 percentage points, compared with just 1.3 percentage points in information and communications companies. By 2017, women's board representation ranged from an average of 23% in mining and quarrying companies up to 32% in the sector of accommodation and transport services.

FIGURE 3. WOMEN'S INCREASED REPRESENTATION ACROSS ALL SECTORS

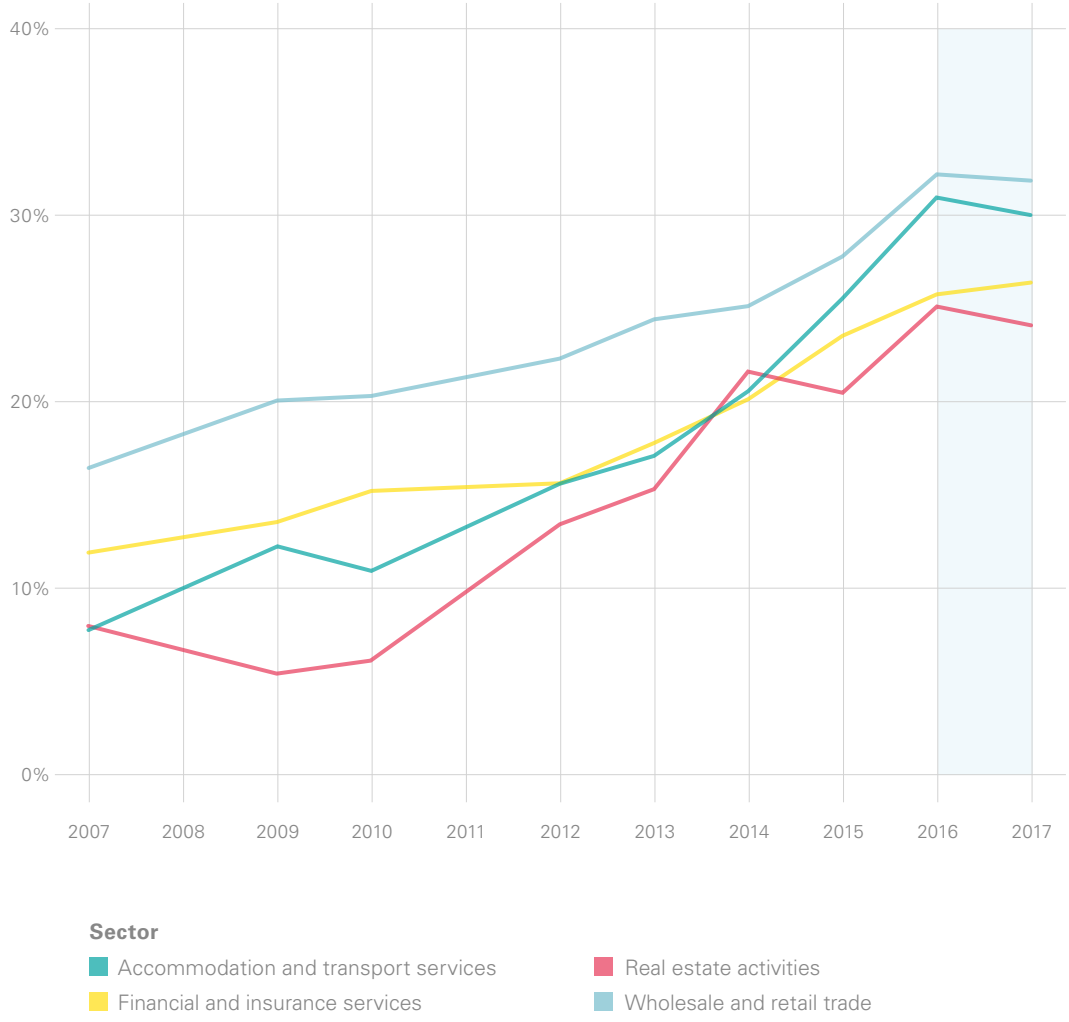
WOMEN'S REPRESENTATION ON THE BOARDS OF FTSE 100 COMPANIES BY SECTOR 2007-2017



This convergence is likely to be related to a so-called Davies effect. Companies across all sectors have made efforts to reach the voluntary target of 25% women on boards by 2015, but may have somewhat lost momentum after reaching this critical point. Graphically, this can be seen by the tendency for women's representation to rise sharply but to then level off at or just below 25% in some sectors.

FIGURE 4. WOMEN'S DECLINING REPRESENTATION IN FOUR SECTORS

WOMEN'S REPRESENTATION ON THE BOARDS OF FTSE 100 COMPANIES BY SECTOR 2007-17

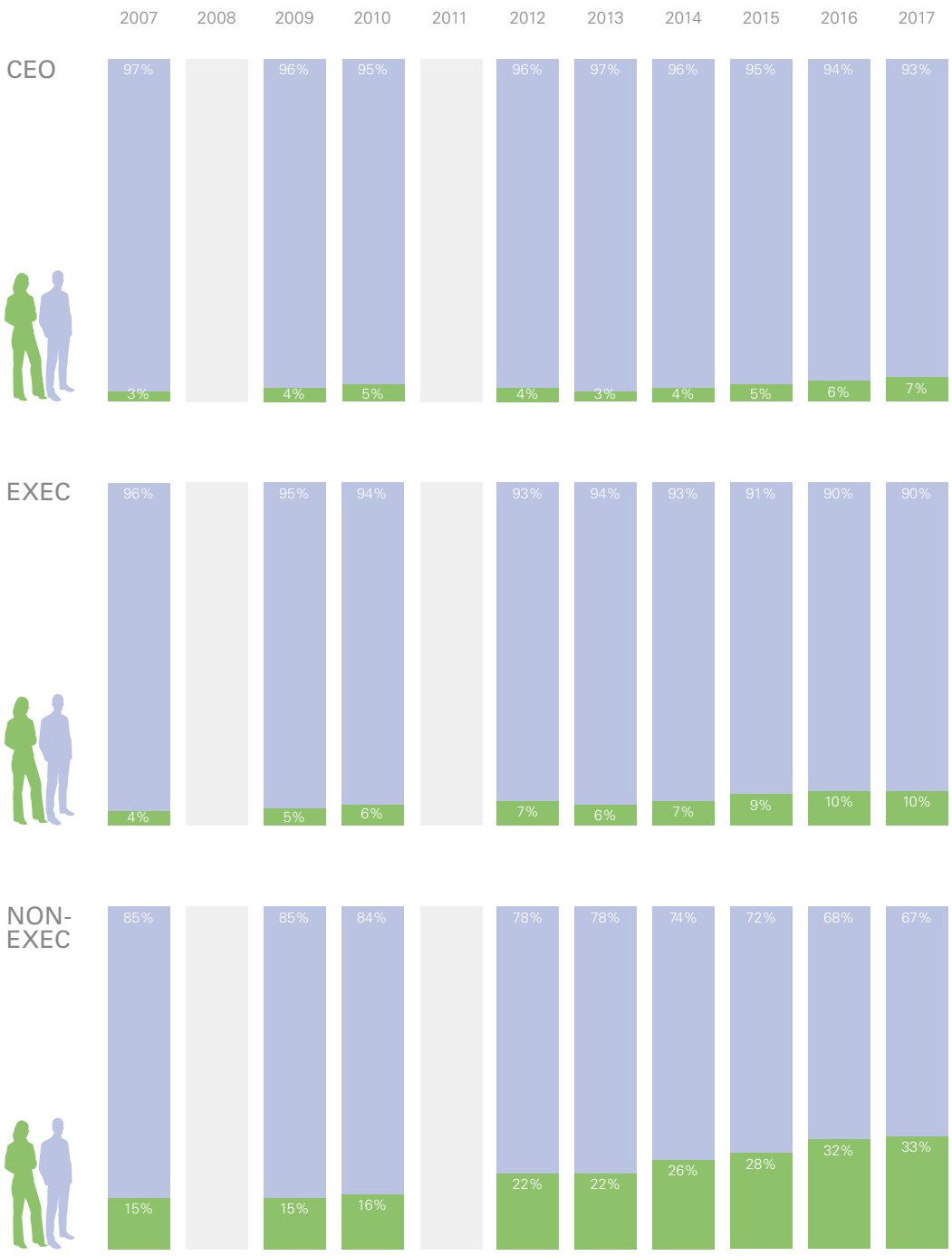


3.4.3 Composition of Boards by Role

The growing representation of women on the boards of FTSE 100 companies is not equally represented across different roles. Women accounted for 33% of NEDs by 2017, rising steadily from 15% in 2007. However, in September 2017 women remained a small minority of both EDs (10%) and particularly as CEOs (7%). These figures are larger than in 2007, when they were 4% and 3% respectively.

Although progress has been made across all roles, the pace of increase has been more rapid for non-executive roles with nearly 2 percentage points progress annually on average. This has not been matched by changes at the CEO level, which can only be qualified as glacial, with an increase of just 0.4 percentage points per year on average.

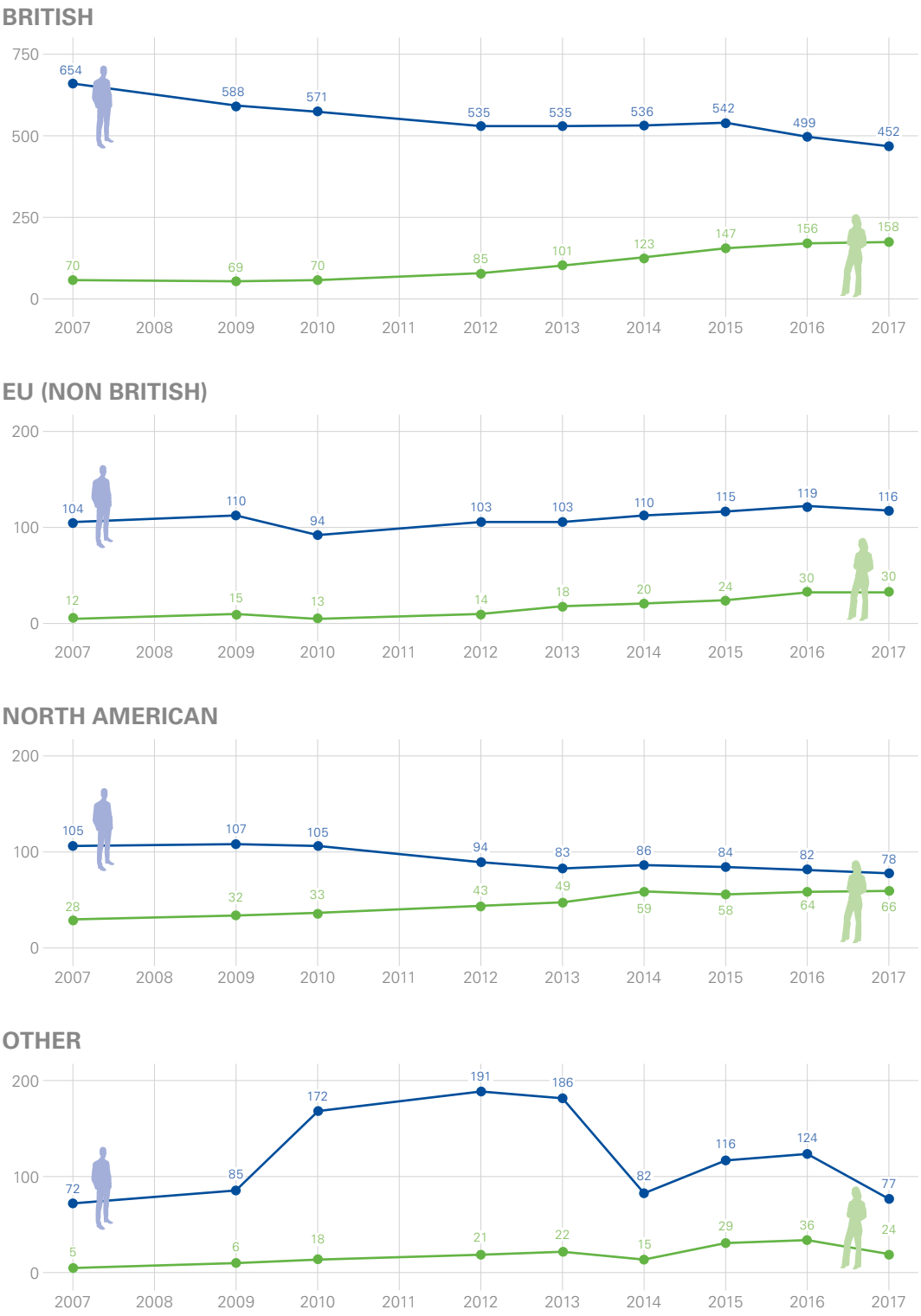
FIGURE 5. COMPOSITION OF FTSE 100 BOARDS BY GENDER AND ROLE 2007-2017



3.4.4 Nationality of Directors

Drilling down into the nationalities of board members shows that in 2007, men were vastly over-represented across all nationalities. Based on available data, by 2017, women's proportional representation had increased across the board but particularly so among North Americans where parity has almost been achieved.

FIGURE 6. NATIONALITY OF WOMEN AND MEN ON THE BOARDS OF FTSE 100 COMPANIES 2007-2017

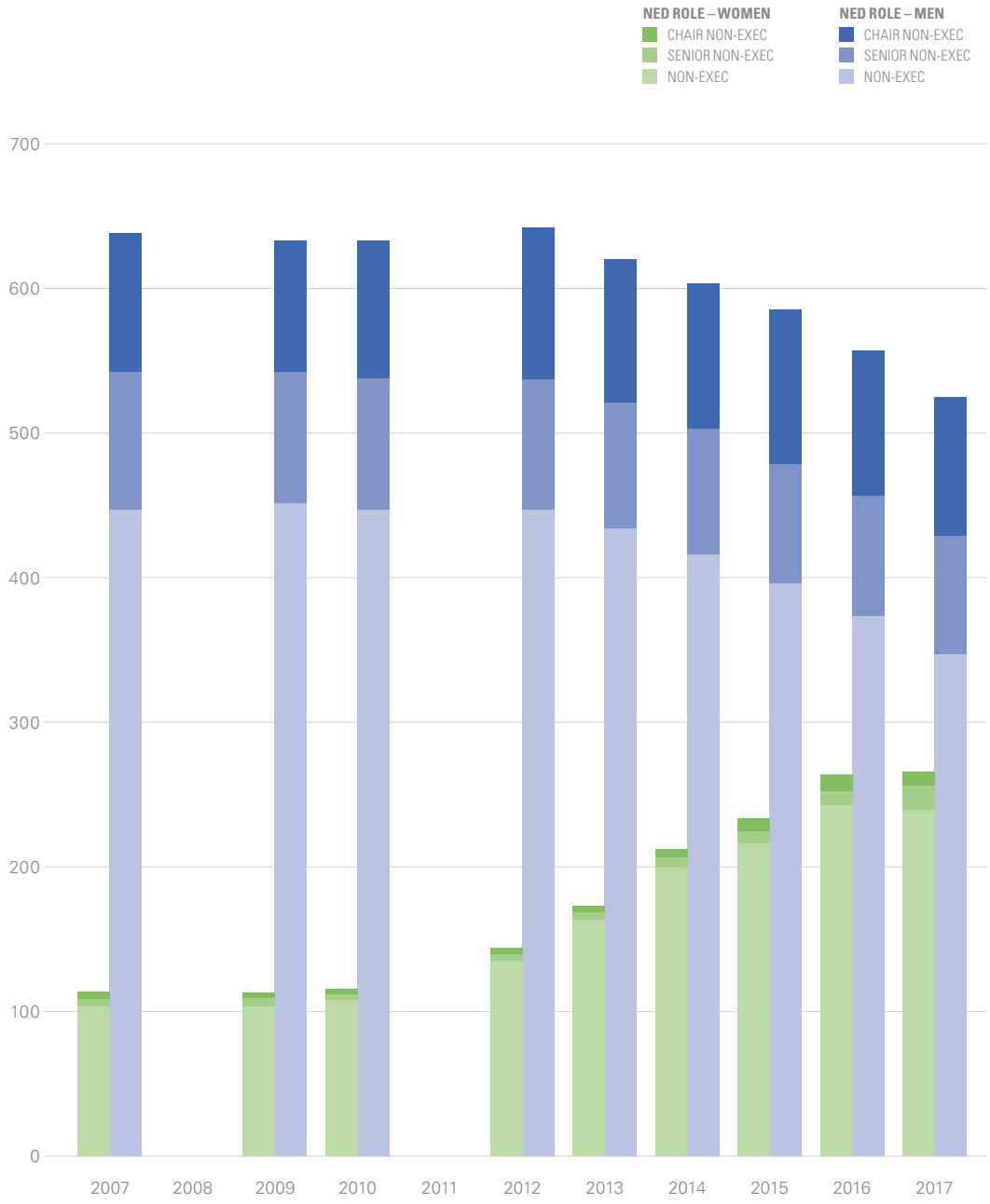


3.4.5 Women's Representation Across NED Roles

The growth of women's representation on FTSE 100 boards has been highest among non-executive positions. Among senior independent director positions and non-executive Chairs of the board, the progress made has been more limited. In 2017, women only accounted for 14% of senior independent directors and 6% of non-executive Chairs, although this has risen from 5% and 1% respectively in 2007. This means that although women's representation as NEDs has increased between 2007 and 2017, their opportunity to have access to more senior roles remains constrained. In 2007 30% male NEDs held SIDs or Chair positions whilst the figure for women NEDs was 6%. In 2017, whilst the overall number of women holding NED positions has risen significantly, the percentage holding SIDs or Chairs has barely moved at 8%. In 2017 34% male NEDs hold SIDs or Chair positions. Women must be considered and developed into these senior positions.

FIGURE 7. REPRESENTATION ACROSS NED ROLES

BY GENDER, 2007-2017



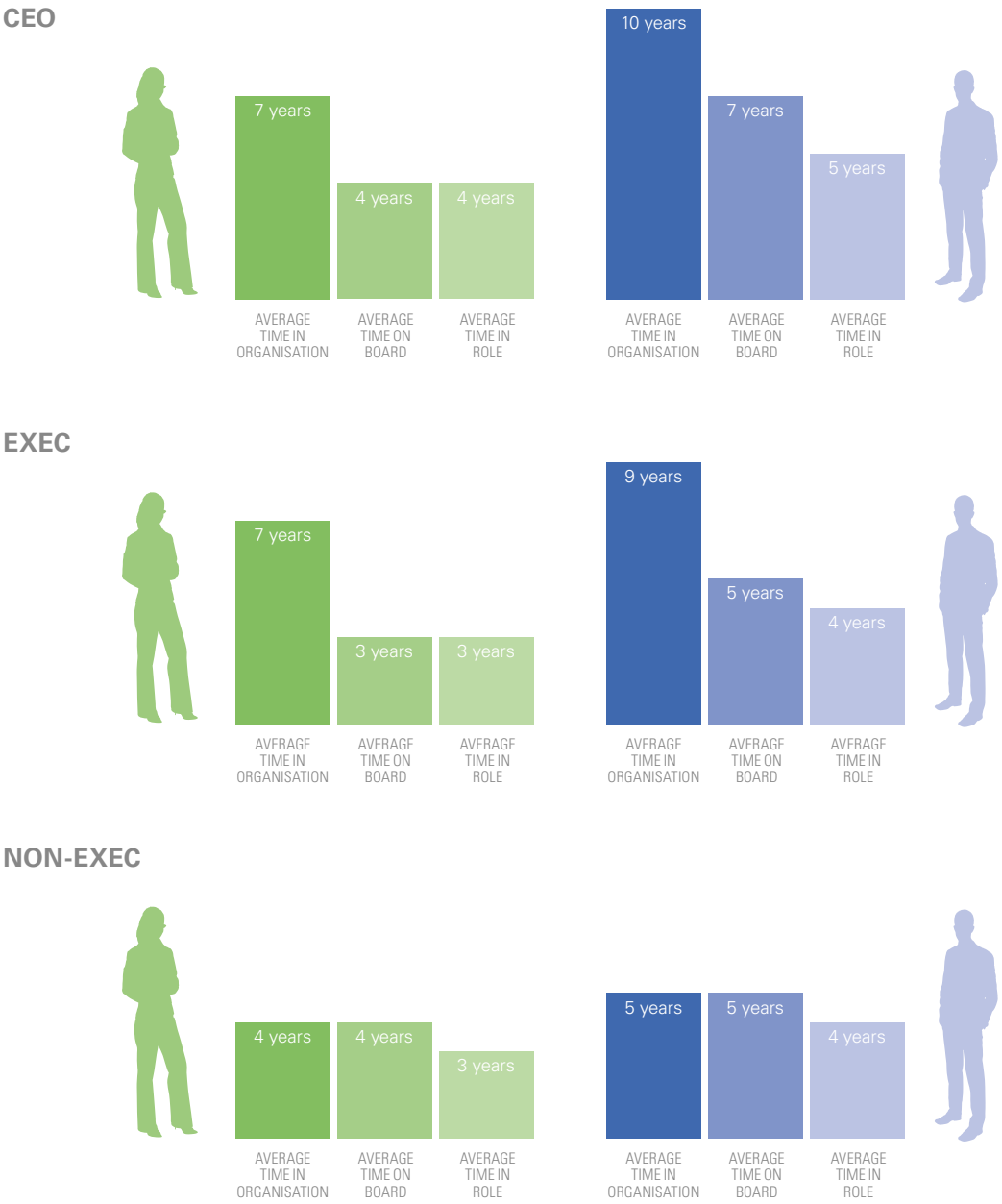
3.4.6 Organisational, Board and Role Tenure

Examining organisational, board and role tenure can provide information about who obtains promotion to more senior positions.

Women's tenure on the boards of FTSE 100 companies is systematically lower than that of men in 2017. Furthermore, it appears that women executives and women CEOs were also less likely in 2017 to have moved role during their time on the board. For example, women CEOs had an average tenure of four years in their current role, which corresponds to their tenure time on the board. In contrast, men CEOs were in their role for an average of five years, having previously held another role on the board in light of an average board tenure of seven years. It appears that women may be more likely to be appointed from the outside into their current roles as CEOs or EDs, while men were more likely to have been internally promoted. Amongst the cohort of female CEOs on September 1st, four of the seven were externally appointed.

FIGURE 8. ORGANISATIONAL, BOARD AND ROLE TENURE

AVERAGE TIME IN ORGANISATIONS, ON BOARDS AND IN ROLES, BY GENDER, 2007-2017



0 4

FTSE 250 COMPANIES

04

There has been a continual, steady progress in the number of women on FTSE 250 boards. Since June 2016 the percentage of women on FTSE 250 boards has risen from 20.4% to 22.8% and 242 companies have at least one woman on their boards. There are still very few women in executive directorships across FTSE 250 boards – 38 in 2017, making 7.7%, less than the 9.8% on FTSE 100 boards.

4.1 FTSE 250 DIRECTORSHIPS 2013-2017

TABLE 5: FTSE 250 DIRECTORSHIPS 2013-2017

	2017	2016	2015	2014	2013
Female held directorships	453 (22.8%)	406 (20.4%)	365 (18.0%)	310 (15.6%)	267 (13.3%)
Female executive directorships	38 (7.7%)	29 (5.6%)	25 (4.6%)	29 (5.3%)	32 (5.4%)
Female non-executive directorships	415 (27.8%)	371 (25.7%)	340 (23.0%)	281 (19.6%)	235 (16.6%)
Companies with female executive directors	37 (14.8%)	26 (10.4%)	23 (9.2%)	27 (10.8%)	29 (11.6%)
Companies with at least one female director	242 (96.8%)	235 (94.0%)	227 (90.8%)	202 (80.1%)	183 (73.2%)
Companies with at least 27% female directors	81 (32.4%)	66 (26.4%)			
Companies with at least 33% female directors	54 (21.2%)	39 (15.6%)			

4.1.2 FTSE 250 Companies with Women in Executive Roles

The number of women in executive roles is at its highest at 38 across 37 FTSE 250 companies. Grainger stands out with two women, Vanessa Simms and Helen Gordon, as CFO and CEO.

Ten women hold the Chief Executive position and 20 women hold the CFO/GFD role.

TABLE 6: THE 37 FTSE 250 COMPANIES WITH FEMALE EXECUTIVE DIRECTORS

Rank	Company	Female Board %	No. Fem. Directors	No. Fem. EDs	Executive Roles	Sector	Women in Executive Roles
1	ASCENTIAL PLC	57.1%	4	1	CFO	Media & Entertainment	Amanda (Mandy) Jane Gradden
2	JUPITER FUND MANAGEMENT PLC	55.6%	5	1	CFO	Speciality & Other Finance	Charlotte Jones
3	ROYAL MAIL PLC	50.0%	4	1	CEO	Transport	Moya Marguerite Greene
7	COUNTRYSIDE PROPERTIES PLC	42.9%	3	1	Group CFO	Construction & Building Materials	Rebecca (Becky) Jane Worthington
7	ENTERTAINMENT ONE LTD	42.9%	3	1	ED	Media & Entertainment	Margaret O'Brien
7	REDROW PLC	42.9%	3	1	GFD	Construction & Building Materials	Barbara Mary Richmond
7	SENIOR PLC	42.9%	3	1	GFD	Aerospace & Defence	Bindi Jayantilal Foyle
13	AGGREKO PLC	40.0%	4	1	CFO	Business Services	Carole Cran
13	HALMA PLC	40.0%	4	1	Group Talent & Communica-tions Director	Engineering & Machinery	Jennifer Suzanne Ward
20	BROWN (N.) GROUP PLC	37.5%	3	1	CEO	General Retailers	Angela Lesley Spindler

Rank	Company	Female Board %	No. Fem. Directors	No. Fem. EDs	Executive Roles	Sector	Women in Executive Roles
20	CLOSE BROTHERS GROUP PLC	37.5%	3	1	Head of Legal Affairs/General Counsel	Speciality & Other Finance	Elizabeth Anne Lee
20	GRAINGER PLC	37.5%	3	2	CFO, CEO	Real Estate	Vanessa Simms, Helen Christine Gordon
20	RIGHTMOVE PLC	37.5%	3	1	FD	Media & Entertainment	Robyn Perriss
19	ROYAL DUTCH SHELL PLC	33.3%	4	1	CFO	Oil & Gas	Jessica Rodgers Uhl
20	WETHERSPOON (J.D.) PLC	37.5%	3	1	ED	Leisure & Hotels	Susan (Su) Alina Cacioppo
32	ALFA FINANCIAL SOFTWARE HOLDINGS PLC	33.3%	2	1	CFO	Software & Computer Services	Vivenne (Viv) Maclachlan
32	ASSURA PLC	33.3%	2	1	CFO	Real Estate	Jayne Cottam
32	CARD FACTORY PLC	33.3%	2	1	Group CEO	General Retailers	Karen Rachael Hubbard
32	PENNON GROUP PLC	33.3%	2	1	CFO	Utilities – Other	Susan Jane Davy
32	UBM PLC	33.3%	3	1	CFO	Media & Entertainment	Marina May Wyatt
54	ALDERMORE GROUP PLC	30.0%	3	1	Chief Risk Officer	Banks	Christine Palmer
54	DIXONS CARPHONE PLC	30.0%	3	1	Regional CEO	Telecommunica-tion Services	Katie Bickerstaffe
54	ONESAVINGS BANK PLC	30.0%	3	1	CFO	Banks	April Carolyn Talintyre
54	VICTREX PLC	30.0%	3	1	GFD	Chemicals	Louisa Sachiko Burdett
54	VIRGIN MONEY HOLDINGS (UK) PLC	30.0%	3	1	CEO	Speciality & Other Finance	Jayne-Anne Gadhia
63	PAYPOINT PLC	28.6%	2	1	FD	Business Services	Rachel Elizabeth Kentleton
77	WILLIAM HILL PLC	27.3%	3	1	CFO	Leisure & Hotels	Ruth Catherine Prior
82	CYBG PLC	25.0%	3	1	COO	Banks	Deborah (Debbie) Anne Crosbie
82	DOMINO'S PIZZA GROUP PLC	25.0%	2	1	CFO	Leisure & Hotels	Rachel Claire Osborne
82	LANCASHIRE HOLDINGS LTD	25.0%	2	1	Group CFO	Insurance	Elaine Whelan
82	MCCARTHY & STONE PLC	25.0%	2	1	CFO	Construction & Building Materials	Rowan Baker
82	NEX GROUP PLC	25.0%	2	1	Group CFO	Speciality & Other Finance	Samantha (Sam) Anne Wren
111	BTG PLC	22.2%	2	1	CEO	Pharmaceutical & Biotechnology	Dame Pamela (Louise) Makin
111	FDM GROUP (HOLDINGS) PLC	22.2%	2	1	COO	Software & Computer Services	Sheila May Flavell
111	PROVIDENT FINANCIAL PLC	22.2%	2	1	Chairwoman (Executive)	Speciality & Other Finance	Manjit Wolstenholme
132	TALKTALK TELECOM GROUP PLC	20.0%	2	1	CEO	Telecommunica-tion Services	Tristia Adele Harrison
188	SSP GROUP PLC	14.3%	1	1	CEO	Food Producers & Processors	Kathryn (Kate) Elizabeth Swann
210	DRAX GROUP PLC	12.5%	1	1	Group CEO	Electricity	Dorothy Carrington Thompson

0 5

BOARD EVALUATORS PROJECT

05

5.1 BACKGROUND TO THE STUDY

In 2011 the Financial Reporting Council amended the Code of Corporate Governance, introducing elements of reporting on board and senior management diversity in companies' annual reports. Over the next three years, as part of the Davies Review, we measured compliance levels on diversity reporting[1]. Such compliance should now form a part of a company's board evaluation. Earlier this year, the Hampton-Alexander committee questioned whether the board evaluator community plays a role in encouraging gender balance in the boardroom and progress towards the 33% target for FTSE 350 boards by 2020. Recognising the evaluator community has rare and privileged access to Chairs, their boards, and witnessing the impact of diversity, we conducted 11 interviews with board evaluators, operating independently or within firms that offer wider sets of services, to ascertain their views on this.

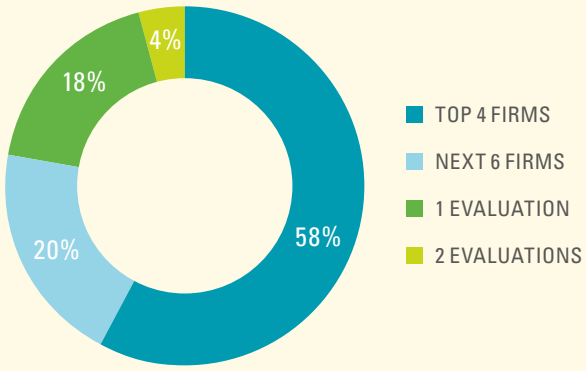
With grateful thanks to Louise Tilbury, Practitioner Research Fellow at University of Exeter Business School, for her time and assistance with the board evaluators' research.

Board evaluations became part of the Code of Corporate Governance (the Code) after Sir Derek Higgs' (2003) review of corporate board effectiveness[2]. In the ensuing 15 years, a small industry has developed around meeting these needs. In 2009, the Walker Review[3] recommended that external evaluations should be undertaken at least every three years, with internal evaluations undertaken annually. Walker stopped short of recommending a code of practice for board evaluators, although he strongly encouraged them to professionalise. More recently, the heterogeneity of backgrounds and approaches of board evaluators has been highlighted[4], and the industry categorised into the 'behavioural' and the 'procedural'.[5]

Today, only 4.6% of all FTSE listed companies declare non-compliance with the triennial external evaluation requirement[6]. In line with earlier years, Grant Thornton 2017 data on corporate governance show that four board evaluators dominate with 58% market share. The top 10 firms had 78% of the market. In what is often described as a 'long tail' distribution, 18% of board evaluations were conducted by firms doing only one FTSE 350 evaluation that year. [N.B. In this report we are only concerned with listed PLCs – the evaluators interviewed may additionally be active in other ownership structures, e.g. private, family-owned, or private equity firms, charities and public sector organisations].

FIGURE 9. BOARD EVALUATORS' MARKET SHARE OF FTSE 350 COMPANIES IN 2017

Source: Grant Thornton 2017



5.2 FORMAT OF THE EVALUATIONS

Chairs, along with the Company Secretary, will choose the form of the board evaluation to fit with the context, challenges and lifecycle of the individual board. Heterogeneity of approach is a key feature of the board evaluation industry, a result of the bespoke service they provide. From data driven survey work, to ethnographic observation and one to one interviews, each firm has developed their unique approach to the task of board evaluation.

Broadly, the main elements of the board review are:

- A review of literature, financials, strategy papers, previous reviews, board packs
- Survey/questionnaire of board and key non-board executives
- Interviews with key players, NEDs and EDs. The scope can be widened to include industry regulators, investors and other stakeholders
- Observation of board meeting(s), committees, dinners; two board meetings if dual listed
- A report to Chair and Company Secretary on the board paperwork and processes
- A report to Chair on dynamics, alignment and behavioural elements
- A report to the board, including discussion and action points
- Follow up with the board on action points over the course of the year

The emphasis placed on each element will determine the nature of the evaluator's report. In practice, the outcome of survey-based evaluation and the observational evaluation will be quite different: from *"holding up a mirror"* to *"making the best better"*.

"I've seen some very effective questionnaires … if we're coming in perhaps on the back of an internal evaluation … it gives you a foundation to build from."

"But people like some data … something that tells them more than just we said this. We got a score of 4.5 on this and we got a score of 7.9 … And then people have that to compare with others. But then of course you can't do that because there's no absolutes."

"But over the years the focus has switched away from processes and become much more about relationships, culture, the dynamics in the boardroom, attitudes."

There are also signs that Chairs and evaluators are self-selecting. All evaluators distanced themselves from the notion of *"tick box"* or *"boiler plate"* evaluations. Some said they would not work with Chairs who did not allow full access to papers or board observations, in order to protect their reputation as evaluators. Others were more pragmatic, talking about striking a balance between what they would like and what the Chair wanted. Although the ABI[7] identified experience, credibility and independence to be of key importance, our interviewees all named *trust* as the key variable when selecting a board evaluator.

With such a variety of approaches comes a large range in cost and interviewees discussed costs to client from under £50k to well in excess of £200k, depending on the range and depth of content. Participants discussed that the different types of methodologies, approaches and experience of the board evaluators could be seen as both a strength and a weakness of this young industry. It is therefore imperative that a Chair understands what s/he is buying – *caveat emptor*.

"… perhaps that's where we, as an industry, have more that we could do to really explain the differences and the qualities that come, and perhaps the different circumstances when things would work most effectively."

5.3 IS THERE AN OVERT FOCUS ON DIVERSITY IN BOARD EVALUATIONS?

The Code requires evaluation against diversity reporting. We asked board evaluators at which points in their discussions with Chairs and Company Secretaries did diversity arise. Some Chairs see diversity from a compliance point of view and work hard not to go under 25% women on their boards. Some focused on the diversity of skills required on the boards (e.g. digital), or representative geographical diversity, where relevant to their location or markets. The more sophisticated understanding of diversity, demonstrated by a number of the evaluators, focused on the importance of diversity of board composition and dynamics. For these evaluators, it was their *"responsibility to make sure it is on the agenda"* and if not, that this *"needed unpicking"*, in terms of understanding and dealing with the Chair's resistance to the diversity discussion.

"Have we got the right cast of characters around the table? The question there is about what are the skills required to be on this board, and then diversity comes up right there."

Best practice was described in terms of the Chair's ability to combine the need for diverse skills and diverse characteristics. Evaluators were able to contribute suggestions for how such gaps might be filled. However, a balance needed to be struck between clever recruitment and asking the impossible, e.g. several evaluators mentioned the rise of *"geek girl"* to advise on digital matters. However, trying to meet too many agendas with one individual is not realistic.

"We need IT skills, we need marketing skills, so he said if we can get a woman who's got IT skills and marketing skills that would be great wouldn't it? So, we'll get three ticks in one person … we'd never ask for a man who could do IT and marketing but you think if you can combine all that in a woman wouldn't that be wonderful. Come on, let's get real. You're setting a much higher standard."

"It's having people round the board table that have different backgrounds and different experiences, and have come from different environments because your clients are not all from one gender, or one ethnicity, or one class."

5.4 HOW DOES GENDER DIVERSITY AFFECT BOARDROOM BEHAVIOURS, CULTURE AND EFFECTIVENESS?

Some evaluators demonstrated a deep understanding of the impact of group composition on boardroom behaviour, culture and effectiveness. These evaluators were extremely clear about the considerable benefits of a critical mass of diversity (usually numbering three) in the boardroom. A minority argued it was difficult to attribute such changes to the presence of individuals. The point made by a number of evaluators is that the focus of import is not on individual's behaviour but the difference it makes to the group's behaviour and dynamic.

"Group dynamics is critical to board effectiveness and that always comes back to composition."

"Without a doubt, dynamics is probably one of the biggest areas that we talk about because it's inevitably the critical topic as to the effectiveness of the board … what creates dynamics, and then are the voices around the table heard, are they balanced, what is the contribution or not, and why is that the way that is? So either why does it work well or why does it not work well is sort of the core question … that leads you effectively into then what's the composition that's creating the dynamics."

5.4.1 Changing Behaviours

Whilst most evaluators we interviewed were aware of stereotypes and resistant to generalisations, they were also able to make them. These generalisations were consistent across interviews and correlated to the academic research on 'token' behaviours and in-group/out-group dynamics. These included descriptions of women board members as *"men in skirts"* or *"superstars"*. With one women present there may be *"a little less swearing"*, but there is still *"substantial pressure on her to tolerate"* inappropriate jokes and comments. *"With two women on the board, the Chair will often get their names mixed up. He never gets the male names mixed"*; on boards where there are three, *"women become authentic and by definition their contribution increases"*.

Evaluators gave examples of Chairs demonstrating gender-aware behaviour. Good Chairs will be concerned that women are bringing all of themselves into the boardroom to maximise the potential of diversity, and recognise that a diverse range of men is also good for the culture. However, one evaluator pointed to the struggle that some Chairs face with *"post diversity"* boards – they are unsure whether they should expect women and men to behave in the same way and whether they can talk about it.

Limiting expectations were raised within two particular contexts: the appraisal of performance and the roles women took on. For example, one evaluator described how a woman might be described as either *"aggressive"* or *"ineffective"* depending on how often she spoke. When these assessments were challenged, e.g. the comparison made to a male colleague, or by rating the quality of infrequent contribution, male board members were able to recognise the double standards they were holding. There were also examples of women allocated the 'people' role on the board; evaluators could challenge whether this was always appropriate. Women's membership of important committees was also seen as critical for having influence on the board. Several evaluators mentioned the particular strength of female SIDs, acting as go-between for the CEO and Chair, and *"having the Chair's ear"*. Crucially, however, it was also noted that the SID role, when performed in this way, would not be viewed as a Chair in waiting.

5.4.2 Managing Culture

The Chair is the biggest influence on the culture of the board. His or her actions signal whether the boardroom is a safe place to explore and question ideas, and challenge in a supportive environment. Tangible artefacts can also impinge on culture, such as the shape of the boardroom table. Best practice suggests that this should be round, in order to reduce hierarchy, to enable eye contact between all board members and to facilitate a more inclusive culture.

"In the boardroom it's all about challenge and support, and striking a good balance. I think with a woman, the nature of challenge can change but also the degree of support, because they can be far more empathetic than men."

Some evaluators stated that women may be more likely to place an emphasis on *"good culture"*. For example, by thinking about risk holistically, *"getting beyond the financials"*, discussing how a certain strategy will impact on reputation, internally and externally. Another example from an audit committee is thinking about audit holistically, not just about processes. If there is a culture of integrity in the organisation, that provides assurance for the board beyond the focus on good process.

"Because there's only so much you can do through processes and systems, and so if you don't have people behaving properly, because the culture says this is the way we behave, you'll always get a rogue operator … there's a cultural side and you can't always catch it in processes and systems and audits."

5.4.3 Influencing Effectiveness

Some evaluators stated the degree of focus on diversity was dependent on the Chair's interest. Others actively took the challenge to the Chair, framing it directly in terms of effectiveness through dynamics. Unsurprisingly, this was mostly evaluators with a more behavioural focus. These evaluators particularly focused on the dynamics of debate and decision-making.

Voice: The role of the Chair is paramount in determining how effectively diversity improves decision-making. For example, when considering voice (who is heard, is there a dominant voice, does everyone make a contribution?), whether a board benefits from the different voices around the table is a function of how well the Chair manages contributions. How good is s/he at *"encouraging people, giving people a voice?"*

"…it's balancing the voices to make sure you get to hear from everyone."

Another example of voices being heard was mentioned by some of the evaluators, as an example of ineffective behaviour.

"… if Jane makes a great point and it doesn't land, and 30 minutes later John says the same point they'll say, yeah, John's made a great point here. There's another one around the table says, John, Jane made that point half an hour ago and you ignored it and now you make it and you're taking credit for it, why don't you listen? And you have wasted 30 minutes in getting to that point, the second time. You know, you've got to be as direct as that ..."

Challenge: Most of the evaluators were very clear that a reasonable level of challenge was critical for good decision-making and that diversity around the board table was often a prerequisite.

"A board's got to have some tension in it and that tension has to be positive rather than negative, but if it's all harmonious and everyone says, what a wonderful board, we have great board meetings, we all agree about everything, you think, well are you actually touching the sides? Are you just going down the middle road and never questioning what might happen at the margin?"

"… board members, NEDs, they're friends of the company but they're also there to challenge. If you don't get enough challenge, you don't actually get to the heart of issues."

A number of the evaluators suggested that male directors (EDs and NEDs) may feel more comfortable being challenged by a female. However, there was no consensus on why that might be – whether it was the age or ego of the male or simply the different style of challenge used by the female.

"Generally speaking, executives feel far more comfortable with the style of questioning that women tend to adopt. So you can have a male NED and a female NED ask the same question. Women ask it, it's bristly and asked in such a way that the men are oh yes and explain. It's a really good attribute that women have … Quite often they come across as softer but there's a real hard edge."

Quality of debate: Evaluators also recognise that the quality of debate can be improved by diversity. One described how when a group is homogenous *"they speak in half-sentences"*. 'Diverse' individuals are likely to counter this: e.g. one evaluator described how an NED in a financial services firm could use the fact that they came from a mining background to stop and ask for clarification.

"Where there are people who are outside the club, they would speak in full sentences, they will elaborate more on the points, they will have a fuller discussion. It doesn't necessarily mean that they will tolerate other views, but it means the views are aired and if the out-of-the-club directors are properly empowered, they can question and contribute."

The evaluators were clear that plurality of voice, challenge and quality of debate all contribute to board effectiveness through better decision-making:

"Decision-making becomes more robust if you have women there … they bring a different perspective. If an organisation is thinking of doing a big acquisition, the men will be all over the numbers, the strategy, whereas the women might say well what's the cultural fit going to be like? Of course some women are finance directors and they'll do that, but still they'll ask different questions. They bring a different perspective on risk."

5.5 HOW CAN BOARD EVALUATIONS SUPPORT THE CHAIR?

Our research supports the key relationship between the Chair and the evaluator in improving board effectiveness. Three areas were identified where evaluators can support Chairs to improve their practice: the use of feedback in the boardroom; the importance of good induction and managing contributions; and the pipeline of diverse talent.

5.5.1 Feedback in the Boardroom

Most evaluators said that feedback by and for Chairs, in general, was problematic. Evaluators often offer to give feedback to individual directors, rather than leave it with the Chair. Frequently these directors state they have never previously had any meaningful feedback. The Chair receives feedback either from the evaluator or via the SID. It is still not uncommon for the Chair never previously to have received feedback. Most evaluators believed the lack of feedback expertise to be a function of a lack of experience. Today's younger directors have experienced 360 degree feedback for much of their careers and therefore are often better at both giving and receiving feedback. Several evaluators also stated their belief that male Chairs of a certain age find it easier to accept feedback from female evaluators.

5.5.2 Induction

Evaluators stated that good induction was important for all new directors. However, this was especially true for first-time NEDs or those for whom it was their first FTSE 100 board. This is more likely to be the case for 'diverse' candidates. Evaluators spoke of ensuring Chairs support the new director and help them find their voice, enabling them to make the contribution for which they were hired. Chairs also need to manage the extant board directors, to adapt their behaviours to include the new director, making sure *"corridor conversations"* are also raised in meetings. To reap its full potential, diversity needs to be managed and some evaluators were clear in the support they could give to Chairs in this.

"… appoint a female non-exec director for whom it would be their first non-exec role. They're an up and coming fabulous executive but a lot to learn and my point to the Chairman on the board is to say, she's going to need some support. Your expectation needs to be managed as to she will bring specific expertise, which is what you've asked for. But her contributions won't yet be broader. Are you prepared for that and are you considering that for the dynamic of the team? Because what you don't want is all the board sit there and say, well she's not contributing in the way we want her to … So you need to be very thoughtful about managing the rest of the board around that expectation. Then what are you going to do to actively help her to grow so that her contribution will equally grow as she becomes more established, more experienced and more knowledgeable."

"I suppose a lot of senior members are quite wary of women in the boardroom and the idea of the person from the wrong side of the tracks: this IT guy who hasn't been to Oxbridge, or probably didn't have a degree, but had gone to technical college and was brilliant, and that sort of, he wouldn't fit, or she wouldn't fit and saying well it's not about them adapting to you, you've got to adapt to them."

5.5.3 The Pipeline of Diverse Talent

Evaluators commented on the tendency to acknowledge 'potential' in men but only 'performance' in women. Contrasts in the available pool of candidates for men and women on boards were made. While men may make up 70% of appointments there is a very large pool from which to choose. Women make up the minority of appointments but competition for those places is correspondingly less. Some evaluators suggested a need to think broadly about where the women can be found, acknowledging that their career paths may be different from a traditional male, as it recognised that, for now, there is a finite number of women in corporate executive roles.

"So the big challenge is how do you appoint a first time NED to your board? If a 44-year old woman hasn't had the experience of being on a board, what's the best proxy for understanding if they'll be any good?"

This is where good advice and support from experienced board evaluators can be invaluable – ensuring good objective appointment processes for *"untested"* board members.

"And if you do all that you've got a much better chance of getting diversity into the boardroom and first time appointments. If we rely solely on people who have got the experience, you can't move the needle."

By educating Chairs on how to increase the likelihood of success, evaluators can help increase diversity through successful succession and talent management. A number of the evaluators originated from (but are no longer in) the search industry and therefore are potentially more comfortable in taking this role. Succession was also spoken about below board levels, in terms of managing talent up through the organisation:

"Visibility of the internal sort of pool of individuals and where they may have their succession. So it's sort of CEO and top team and whether there's succession into there, and do [the NEDs] have visibility of who they might be."

And when asked to what extent diversity was a consideration, the general consensus was that *"if there's an absence of diverse candidates it's commented upon [by us] as being either a problem or a disappointment"*.

Some evaluators pointed out biased assessments of behaviour in boardroom discussions – e.g. how a *"standout"* female member of the executive committee was harder to recognise as a potential CEO successor because she was less well known than her male colleagues. They had all been promoted through to ExCom, whereas she had been externally appointed. This is of particular interest given that we know from previous research[8] that significantly more men are promoted to ExCom positions and that women are more likely to have to move firms to get to reach that level.

SUMMARY

Focusing on the softer side of board evaluations – the dynamics, culture and behaviours – our interviewees were able to influence Chairs about the benefits of a critical mass of diversity, how to identify and recruit the optimal composition, and how to obtain the best from a diverse board in terms of debate, decision making and effectiveness. Best practice means Chairs must leave their comfort zone, to recruit directors with skills relevant to today's fast moving world. Good board evaluators are able to provide challenge and support to Chairs as they pursue continuing improvement of the board as a high performing team.

5.6 OUR RECOMMENDATIONS

Most board evaluators were clear about the behavioural benefits of a critical mass of diversity in the boardroom. But, motivation for behavioural change sits with the Chair. For this reason, increased transparency around the Chair's actions and engagement with the process are likely to be a more effective lever than regulation of the content of the board review. Ultimately the Chair is responsible for the composition, dynamics, culture and behaviours on the board and corresponding quality of debate, decision making and effectiveness. Any recommendations should promote the highest possible levels of trust, challenge and support from the evaluators to the Chair.

5.6.1 The Role of the Financial Reporting Council

Evaluators recognised that it was the FRC's role to oversee board effectiveness and that they could do more to regulate the board evaluation industry. A number of suggestions were made, from closer monitoring of board evaluation reports, to actually commissioning board evaluations in certain cases. There was respect for the bespoke nature of board evaluation, based on the judgement of the Chair and Company Secretary, alongside recognition that this approach gave permission for complacency where real improvement was not being sought.

"... but there's no absolute measure of board effectiveness, and different boards need different types of effectiveness for different situations."

"If the FRC really wanted to be policeman of this, they would read the board reviews, because it's a requirement to have a board review … They could almost appoint the board effectiveness reviewer to the [weaker] companies … as opposed to allowing the company to choose."

A number of the evaluators felt that the 'old-style' operational reviews (i.e. *"are the board papers right, is the agenda well set, do we have enough meetings a year?"*) are *"necessary but not sufficient for a good board"*. One evaluator gave the example of a well-known British bank board before the financial crash saying:

> *"It's very easy to have a board that ticks all the boxes of operation of excellence but is not making good decisions or is not leading an organisation well."*

However, there was agreement that the content of the evaluation must remain confidential if it is to be honest and useful to the Chair: disclosure of content could push the evaluation back towards a more procedural compliance format. However, there may be value in sharing what actions have been taken following the evaluation.

On the understanding that behavioural reviews are more likely to comprehensively address issues of diversity, we recommend that the FRC considers if board evaluation disclosure in the Annual Report should include information on whether a behavioural or a procedural external evaluation was undertaken in addition to a summary of actions taken since the evaluation.

5.6.2 Evaluating the Evaluators

In response to Walker, the board evaluation industry developed a Code of Conduct, which was never formally adopted. Given the structure of the industry, with the 'long tail' of non-specialist providers, addressing the standards for the main players who are already operating at a high level of expertise, may not be an effective mechanism for change. One of our interviewees suggested a 'kitemark' for board evaluation providers that adhere to a minimum set of standards, to overcome information asymmetry about the quality of the board review when the Chair is procuring services.

> *"It's a difficult one because … do we have a kitemark that says we're good enough to do this? Are we evaluated on what we do to say we're good enough to do this or we're not good enough to do it, whatever it might be."*

> *"… because there's no standard set. If you take the comparison to the auditors, there's a Code of Conduct. If you're auditing a company there are certain things that you've got to do and you'll be held to account if you don't do them. On board effectiveness there's no, we might have written a Code of Conduct, but there's no absolute set of requirements."*

There was a sense that best practice was *"…moving from the hard to the soft, it is increasingly developing the softer side of what makes individuals effective on a board and what makes a group effective as a group"*.

There was also a strong belief that good quality in-depth feedback was also key *"It's individual feedback, it's group feedback and review six months later that make the difference"*. The behavioural elements of effective boardroom dynamics was where the greatest impact of a diverse board could be experienced. However, like diversity generally, the full beneficial effects are only experienced if that diversity is well-managed.

We recommend that the board evaluation industry adopts minimum standards for reviews, in the form of a Code of Conduct, kitemark or other method by mutual agreement. The minimum standards should address the areas raised in this report, on diversity and dynamics, culture and behaviour, on feedback, induction and the talent pipeline.

Acknowledgement

We would like to thank sincerely the 11 participants in this study. Interviews ranged from 60-90 minutes, producing 300 pages of transcripts. The summary above reveals high-level initial findings, necessarily limited by space. We will continue to develop this study with a larger sample over the next 12 months. Interviewees were from the following organisations: Advanced Board Excellence, Boardroom Review, B. P. & E. Global, Independent Audit Limited, Independent Board Evaluation, JCA Group, Lintstock Limited, Manchester Square Partners.

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CONCLUDING REMARKS

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The 2017 Female FTSE Report reveals that the pace of change has once again picked up, in terms of the percentage of new board appointments going to women (1:3) and, assuming momentum is maintained, we could be back on track for the FTSE 100 companies to hit the target of 33% women on their boards by 2020. Last year there was considerable concern about a "Davies effect", which has led to some sectors levelling off at 25% women on boards. The FTSE 250 still faces a stretch of 10 percentage points to increase from 22.8% to 33% by 2020, if it is to hit its target. It is important to realise, across the FTSE 350, that it is not "job done" and that the Davies' 25% target was only ever a stepping stone to greater gender parity.

This year we conducted a retrospective analysis of our data 2007-2017. We have seen some impressive progress – for example the percentage female NEDs in the FTSE 100 has risen from 15% in 2007 to 33.3% today. However, the percentage of those female NEDs holding Chair or SID positions has hardly increased. In addition, the percentage of female executives remains at below 10% and we still have only six female CEOs. Progress continues to be made in the FTSE 250 and there are now only eight remaining all-male boards.

In addition this year we conducted a qualitative study looking at the possible role of board evaluators in supporting the progression to more gender diverse boards. Conscious of the rare and privileged access board evaluators have to Chairs and their boards, we also gathered data on the impact of boardroom composition. Most evaluators were extremely clear about the considerable benefits of a diverse board, particularly once it hits a critical mass of three women. This was evidenced through the dynamics of debate and decision-making. Evaluators can advise Chairs on how to optimise the benefits of a diverse board, providing challenge and support, particularly in the areas of feedback, induction and developing a diverse pipeline of talent, in the pursuit of highly effective team performance.

We crudely divide board evaluations into those focused on more procedural reviews and those engaging with behavioural elements, and recommend that the Financial Reporting Council considers that disclosure in the Annual Report should include information on which type of external evaluation was undertaken, in addition to a summary of actions taken since the evaluation.

We also recommend that the board evaluation industry adopts minimum standards for reviews, in the form of a Code of Conduct, kitemark or other method by mutual agreement. The minimum standards should address the areas raised in this report, on diversity and dynamics, culture and behaviour, on feedback, induction and the talent pipeline.

Our findings are unique in terms of behavioural insights into the dynamics of the boardroom and we hope will encourage more Chairs to strive for, and more investors to insist on, maximising the benefits of a critical mass of boardroom diversity.

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Susan Vinnicombe CBE, is Professor of Women and Leadership at Cranfield University, School of Management and also held the Deloitte Ellen Gabriel Endowed Chair in Women's Leadership at Simmons College, Boston, USA from 2013-2016. Her particular research interests are gender diversity on corporate boards, women's leadership styles and the issues involved in women developing their managerial careers. Susan has been elected as Fellow of the British Academy of Management and has been presented with the British Academy of Management Richard Whipp Lifetime Achievement Award in 2017. Susan has also been honoured by The International Alliance of Women (TIAW), who awarded her the TIAW World of Difference 100 Award in 2013, which recognises those who have made a significant contribution to the economic empowerment of women. Susan was a member of the Davies Steering Committee and is now a member of the Advisory Board of Sir Philip Hampton/ Dame Helen Alexander's review on the lack of women in the executive pipeline and that of Sir John Parker's Review of the lack of ethnicity on FTSE 100 boards. Susan is Vice Patron of the charity Working Families. Susan was awarded an OBE in the Queen's New Year's Honours List in 2005 and a CBE in the Queen's Birthday Honours List in 2014 for services to gender equality.

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With global expertise on women on corporate boards, Ruth's research areas include Women in Leadership; Board Composition; Role Models; and various aspects of Corporate Governance. Ruth is a member of the Division of Occupational Psychology Board Effectiveness Group and the NHS Women on Boards Steering Committee. In her previous role as the Deputy Director of the International Centre for Women Leaders, Cranfield School of Management, Ruth was the lead researcher of the annual Female FTSE Report from 2007, co-authoring similar reports in Hong Kong and India and presenting the findings to both academic and practitioner audiences, globally. Her doctoral research considered the importance of role models for female directors in investment banks, and how organisational demography may affect their work identity formation and career aspirations. Ruth has published widely in academic and practitioner spheres, including co-authored papers, winning Best Paper awards at both British Academy of Management and American Academy of Management Conferences. She is a Chartered Member of the Institute of Personnel and Development, a member of the British Psychological Society Division of Occupational Psychology and the British Academy of Management. Prior to becoming an academic, Ruth was the Managing Director of a specialist holiday company, which she sold to a larger tour operator. She then worked for a number of years as a Business Psychology Consultant, before joining academia.

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Anne Laure Humbert has been a Senior Research Fellow at the School of Management at Cranfield University since July 2015. She initially studied Mathematics and Statistics at the National University of Ireland Maynooth, followed by a PhD in Statistics, Gender and Entrepreneurship at Trinity College Dublin. She has been a Senior Lecturer at Middlesex University London and Visiting Scholar in several European universities. She also worked at EU level on the development of the Gender Equality Index.

Anne has done extensive work in the area of women and/or gender within the economy and society, with a focus on work and organisations, entrepreneurship, and the integration of work and life. She is particularly interested in applying advanced quantitative methods to comparative social and economic analysis. Her expertise is in gender equality research at national and EU levels, policy analysis and assessment, and gender statistics. Anne is a regular public speaker on gender equality and she enjoys the opportunity to make connections between theory, practice and activism.

ENDNOTES

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