Gender Diversity

Diversity on boards and within an organisation is important to ensure that a company is sustainable. There is growing evidence that more diverse boards result in better performing companies, diverse teams make better decisions, and gender balanced companies attract and retain better talent. This leads to better investment returns and financial outcomes for investors. There is a link between better risk/return profiles and a diverse board.

This evidence led Border to Coast to become supporters of the 30% Club Investor Group. The group engages with companies to promote gender diversity. It has had successful meetings with companies that are now actively looking to increase female and ethnic diversity at board level.

Border to Coast believes that this matter can have a material financial impact on investment outcomes.

Background

A report by the Equality and Human Rights Commission (2008) suggested that at the then current rate of change it will take more than 70 years to achieve gender-balanced boardrooms in the UK's largest 100 companies.

The Davies Review was set up in 2010 as the UK Government looked to promote gender equality on the boards of listed companies. Davies reported that corporate boards perform better when they include the best people who come from a range of perspectives and backgrounds. Boards should be made up of competent high calibre individuals who together offer a mix of skills, experiences and backgrounds. Board appointments must always be made on merit, with the best qualified person getting the job; however, given the long record of women achieving the highest qualifications and leadership positions in many walks of life, the poor representation of women on boards, relative to their male counterparts, has raised questions about whether board recruitment is in practice based on skills, experience and performance.

Evidence suggests that companies with a strong female representation at board and top management level perform better than those without and that gender-diverse boards have a positive impact on performance. Boards make better decisions where a range of voices, drawing on different life experiences, can be heard. That mix of voices must include women.

The Davies Report (c. 2011) recommended:

- FTSE 100 should be aiming for a minimum of 25% female board member representation by 2015.
- Companies should set targets for 2013 and 2015.
- Companies should fully disclose the number of women sitting on their boards and working in their organisations.
- Investors should pay close attention to the recommendations from the report when considering re-appointments to a company board.

Davies Review 2015

- Women on boards was now at 25%; a huge improvement over the five-year period from the original report.
- Increased the target to 33% by 2020, with the support of the Government.
- Focus on stakeholders (which includes shareholders) working together to ensure increasing numbers of women represented at C-suite level.

Hampton Alexander Review

In February 2016, the government set up the Hampton Alexander review which focused on increased female representation on FTSE boards and women in senior executive positions, continuing the work of Lord Davies.

Hampton Alexander Review 2017

- Almost all FTSE 350 companies in scope provided data about the gender balance in their senior executive teams, a huge improvement.
- Still a long way to go to meet the 33% target of women in senior leadership positions by 2020.
- The number of women on FTSE 100 Executive Committees and their Direct Reports remains static.

The Davies Report recommended that executive search firms draw up a code of practice to address gender diversity in relation to board appointments at FTSE 350 companies. A code of conduct has been set up with 45 firms signed up to it.

Hampton Alexander 2018- Overall progress is encouraging:

- Number of women on FTSE boards >30% for first time
- Increase in women on FTSE 250
- Women on FTSE 100 Exec Committees is greater than 21%

However:

- 5 all-male boards in FTSE 100
- 45 all-male boards in FTSE 350
- 75 male-dominated boards in FTSE 350

A number of boards are dragging progress down by believing having one woman on the board is sufficient. The gap between companies working to improve gender diversity and those doing little is marked. Some companies are failing to make their businesses more resilient

The Davies Review and the Hampton Alexander Reviews (both Government backed) support the increase in female representation on boards with targets of 30% of women on boards by 2020. This is not a case of positive discrimination but of changing the way recruitment searches are conducted and encouraging companies to improve board composition. There are good female candidates out there but previous methods of recruitment, involving the ‘old boys network’, have not identified them.

We agree that it should always be the best candidate who gets the job.

For companies that are lagging, not making any effort to change, and not responding to engagement, the tool left to us as a shareholder is to exercise our voting rights by voting against the chair of the nomination committee.

Research on diversity

MSCI research demonstrated that companies with more women on boards delivered a 36% better return on equity. Credit Suisse research (2014) showed since 2005 companies with at least 1 female board member have averaged 14.1% vs 11.2% for all male boards. Since 2005, companies with at least 1 female director have returned a compound 3.7% above their male-only counterparts.

Cranfield University issued a report earlier this year – *The Female FTSE Board Report: Busy going nowhere with the female executive pipeline*, supported by Aviva and the Government Equalities Office. There has been good progress at FTSE companies; since October 2017 the percentage of women on FTSE 100 boards has increased from 27.7% to 29%, meaning that if the current pace continues it is possible to reach the targeted 33% by the end of 2020. There has been disappointing progress on the FTSE 250 boards. The percentage of women on the boards has risen from 22.8% to 23.7% and the number of companies with at least 33% women on their boards has increased from 53 in 2017 to 59 this year. There are only five women holding CEO positions and 19 holding CFO/FD positions. If we see FTSE 250 as the pipeline for FTSE 100 then this picture is not encouraging.

Sue Vinnicombe CBE, professor of women and leadership at Cranfield School of Management said, "FTSE 350 companies need to treat gender diversity as seriously as they treat sales, risk management, and innovation; otherwise nothing will change."

Asset managers & asset owners

Other large asset owners and asset managers are voting on gender diversity.

LGIM made a public statement. Their stance is to vote against board Chair (not Nom Com Chair) if less than 25% women on boards. They also want greater transparency on diversity across the organisation. In 2017 LGIM voted against 37 board chairs or chairs of nomination committees because of a lack of diversity, up from 11 in 2016. LGIM's annual Corporate Governance Report states: "We consider a company's workforce as important as its financial assets and expect that better policies and disclosures regarding diversity should be developed.'

BlackRock has governance as a continued priority with increased focus on diversity, seeing board diversity as an investment issue. As well as decision-making boards have an important role in setting the culture of a company. A diverse board is a visible commitment to employees, customers, and other key external partners, to leadership best practice. Diversity in leadership gives a company a competitive advantage.

USS has unveiled its voting policy for 2019 which includes strengthening the escalation approach for voting on director re-elections where a lack of diversity is evident. USS will vote against or abstain on the Chairman and/or members of the nomination committee if there is no woman on the Board and the company has not disclosed a timeframe for appointment. If no improvement, USS may vote against the Chairman of the Board in subsequent years.

LAPFF

LAPFF supports the principle of diversity and encourages boards to select new board members from a diverse pool of candidates; expecting companies to extend their search beyond the boards of other listed companies. LAPFF would like to see companies set their targets for the percentage of female representatives at the executive committee level and two levels below, as well as disclosure against these targets to measure progress against an established time frame. It is a supporter of the 30% Club.

In February 2014 LAPFF issued a Diversity Strategy which included adopting the following voting position:

- Vote against the Chairman of the Nomination Committee if there are no women on the Board
- Abstain on the Chairman of the Nomination Committee if female representation on the Board is less than 25%

More recently LAPFF put a paper to the Business Meeting on gender diversity at technology companies recommending engaging with the laggards in the sector.

Proxy advisers

Glass Lewis updated UK voting guidelines for 2019 state:

While Glass Lewis values the importance of board diversity, believing there are a number of benefits from having individuals with a variety of backgrounds serving on boards, we generally do not base voting recommendations solely on strict board diversity quotas. However, when a board fails to make progress towards best practice prevalent in the market and has not disclosed any cogent explanation or plan to address the issue, we may recommend voting against the nomination committee chair. Further, when boards of large companies subject to diversity policy disclosure requirements fail to nominate any women to the board or disclose a coherent board gender diversity policy to address this issue, we may recommend voting against the nomination committee chair on that basis alone.

Border to Coast Corporate Governance & Voting Guidelines

The revised Corporate Governance & Voting Guidelines contain a more detailed section on diversity to take account of voting across global markets. Specifically, for the UK reference is made to voting against nomination committee chairs where there are less than 30% of women on the board. The reason for this is that companies have had sufficient time to increase gender diversity. Ways left to influence and change behaviour include engagement and using voting rights.

The current Corporate Governance & Voting Guidelines has a section about diversity which states:

"Diversity

Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent. Companies should consider candidates from all racial and religious backgrounds and look to increase the level of female representation on boards in line with best practice; a diversity policy should also be disclosed in the Annual Report.

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The new policy exert is below:

"Diversity

Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

We will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board."

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Author: Jane Firth, Border to Coast Head of Responsible Investment, 17th December 2018