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918-006

AUGUST 25, 2017

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Increasing Gender Diversity in the Boardroom: The United Kingdom in 2011 (A)

In 2011, there were 1,076 total seats on the boards of Financial Times Stock Exchange (FTSE) 100 companies, the 100 largest companies listed on the London Stock Exchange according to market value. Women occupied only 135, or about 12.5%, of those board seats.[1] This number was strikingly low compared to the levels of female representation achieved in some other European countries; Norway, for example, had imposed a legal quota in 2002 requiring at least 40% of corporate board seats to be filled by women.[2]

Some government and business leaders were determined to increase the gender diversity of UK corporate boards, both as a matter of fairness and equality and as a step towards leveraging the talents of the full population by introducing diverse perspectives into the boardroom. Building on the initial steps taken by Prime Minister Gordon Brown, the coalition government formed in 2010 by the Conservative Party and the Liberal Democrats made the issue a priority. Prime Minister David Cameron, Home Secretary Theresa May and Secretary of Business, Innovation and Skills Vince Cable invited Lord Davies of Abersoch to conduct a formal independent review that would identify the barriers to female representation on corporate boards and develop recommendations for overcoming those barriers. Lord Davies was deeply respected in both the business community and the political arena, as he had been the Chairman and Chief Executive of Standard Chartered as well as Minister of State in the Department for Business, Innovation, and Skills in the previous Labour government. He handpicked a steering board of six others who would join him in carrying out the review. In his view, female underrepresentation in business was an urgent national issue: "The female brain drain in the UK was quite pronounced. It had to be examined in a lot more detail."

At approximately the same time, a group of successful female executives led by Helena Morrissey, the Chief Executive Officer of Newton Investment Management, determined that a coordinated movement driven by the private sector would be essential to progress on the issue of gender diversity in the boardroom. Morrissey and 13 other women founded the 30% Club, an organization with a mission to push the fraction of UK board seats held by women beyond 30%—a critical mass that would represent more than a token female presence and that would give women a strong voice in boardroom discussions. The steering board of the Davies Review and the 30% Club shared the same clear objective

[1] The Female FTSE Index and Report, 2005-2016.

[2] The Davies Review, February 2011, Pg. 22.

Professors John Beshears and Iris Bohnet and Research Associate Jenny Sanford prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

of increasing the number of female corporate board members. It was far less clear, however, what steps they should take to pursue their objective. In the words of Morrissey, the 30% Club founder, "There were a bunch of bright people trying to address this issue, and no one was getting anywhere. I decided that I had to change course to have more impact."

Many others shared Morrissey's frustration with the lack of progress. Professor Sue Vinnicombe, who started a research center at the Cranfield School of Management in 1999 to study women in business, noted that the fraction of FTSE 100 board seats held by women had barely doubled in the approximately ten years since she started tracking such statistics. She recalled a meeting where representatives from a broad range of constituencies expressed their concern: "There is some irony that on Valentine's Day 2010, Gordon Brown invited me to breakfast at 10 Downing [the office of the Prime Minister]. When I arrived, I discovered it was not a one-on-one with the Prime Minister. There were about 30 of us—senior women in the City [the UK financial industry], senior women from executive search firms, the head of the civil service, Lord Davies… We agreed that it was no longer acceptable to have so few women in leadership positions."

Despite the widespread desire to change the status quo, the big question remained: why would it be different this time? Denise Wilson, a former National Grid executive who eventually became the Davies Review steering board's first Chief Executive, recalls the steering board's sentiment: "When the steering group first came together, it was half a dozen of us who were passionate and determined to make a difference, but we didn't quite know what we were embarking on. What we did know, however, was that if we were successful, we could revolutionize the whole of the business environment and transform the opportunities for women across the business world."

If female corporate board membership continued to increase at its 2011 rate, it would take more than 70 years to achieve gender-balanced boardrooms among FTSE 100 companies.[3] The Davies Review steering board and the 30% Club faced an enormous challenge: how could they influence the composition of corporate boards when neither group had formal authority to direct companies to select more female board members?

Background Information on Corporate Boards in the United Kingdom

In the UK, corporate boards performed two key functions: they provided advice and guidance to a company's executive team to help manage the firm, and they monitored the executive team in order to protect the interests of shareholders. Board members were charged with hiring and firing executives, setting the salaries and benefits of executives, establishing strategic objectives for the company, approving annual budgets, evaluating the company's past performance, advising on the company's tactical investment decisions, and communicating the results of these activities to stakeholders.[4] A board's audit committee, remuneration committee, and nomination committee were appointed to oversee the specific processes underlying corporate reporting and risk management, executive compensation, and board member nomination, respectively. A board and its committees were held to the formal and rigorous standard outlined in the UK Corporate Governance Code, a set of guidelines "to help boards discharge their duties in the best interests of their companies."[5]

[3] The Davies Review, February 2011, Pg. 5.

[4] UK Corporate Governance Code 2010, A.1.

[5] UK Corporate Governance Code 2010, "Preface."

The Code stressed the value of transparency, accountability, probity, and focus on sustainable success as the key contributing principles to good governance, and boards were set up to uphold these principles. In general, boards were composed of a chair, the chief executive of the company, one or two additional executives, a senior independent director, and the chairs and members of the board committees.[6] Boards were required to meet regularly and usually held a meeting after each quarter's financial statements were prepared, although additional meetings could be called in special circumstances.

Directors of the largest public companies in the UK, including FTSE 100 companies, were subject to annual election by shareholders, which involved a formal performance evaluation and confirmation to shareholders that "the individual's performance continue[d] to be effective and to demonstrate commitment to the role."[7] The board was also responsible for providing shareholders with information about new candidates up for election.[8] In general, the nomination committee led the board appointment process and made recommendations regarding candidates.[9]

Key Parties

As the Davies Review steering board and the leaders of the 30% Club contemplated how to increase female representation on corporate boards, both groups quickly realized that they would have to take into account the perspectives and interests of many different parties in order to reach their objectives. Several groups had the potential to influence the national discourse on gender in the workplace, and each of these groups could play a role in increasing diversity in the boardroom.

Women in Business

For many women in business in the UK, the issue of gender in the workplace was intensely personal. Morrissey, the 30% Club founder, recalled:

> I had experienced issues earlier in my career that were clearly linked to my gender, such as being passed over for promotion right after the birth of my first child. The explanation was that there were doubts about my commitment. My approach in response was to put my head down and focus on the business. With hindsight, I now see that I was trying to prove my worth in a male-dominated industry. Investment management shouldn't have this problem, since it is a very results-driven profession, but there was not a lot of progress. It was very frustrating to me.

Wilson had endured similar challenges before she joined the Davies Review steering board: "I had worked in heavily male-biased industries. I had earned both stars and scars, and I knew just how tough it was for serious women to get to the very top."

For Professor Ruth Sealy, who became the lead researcher responsible for Cranfield's annual Female FTSE Index and Report in 2007, the challenge was summarized nicely by the heading of an article that a woman who happened to be sitting across from her on a train was reading: "'Why Doesn't Work

[6] UK Corporate Governance Code 2010, A.1.2.

[7] UK Corporate Governance Code 2010, B.7.2.

[8] UK Corporate Governance Code 2010, B.7.2.

[9] UK Corporate Governance Code 2010, B.2.1.

Work for Women?' That's such an excellent question, and it became an all-consuming research interest for me."

Even among female business leaders who had not paid much attention to gender issues early in their careers, there was recognition that women faced important obstacles in the workplace. Melanie Richards, a partner at KPMG and later Vice Chair of KPMG's United Kingdom business, described her motivations as one of the 13 women who founded the 30% Club with Morrissey: "I was in the category of women who hadn't personally experienced or maybe noticed anything gender related. After I made partner, I started to recognize that whether I liked it or not, I was a role model, and whether I liked it or not, I had a responsibility. I started to embrace that responsibility."

The challenges confronting women in business persisted despite previous attempts to overcome them. Wilson summarized the initiatives at her former employer:

> At National Grid, from the late 1990s onwards there were a series of programs aimed at helping women succeed, and they did not work out as hoped. We were in the "fix the women" space, offering confidence development classes for young women and other such programs, without really understanding the complexities of the issue. When I tried to promote really good women in the organization, it was dispiriting and exhausting. There was always a counter-suggestion of a male who could do better, and it proved difficult to sponsor women and bring them up. Women were being passed over merely because they weren't of that certain male mindset or didn't have that certain male way of carrying themselves. It was a desperate waste of talent.

Morrissey explained that her own past experience with programs aimed at enhancing women's careers was similarly discouraging: "Early in 2005, I helped to set up a women's development network. Unfortunately, we did not have a lot of success. We were able to provide great support, but four years later, nothing really seemed to be changing. There was no evidence of women returning after maternity in greater numbers, no evidence of improved promotion practices, and no evidence of women becoming more present at the top table."

Many female business leaders concluded that gender bias was deeply entrenched and would be extremely difficult to thwart. In Morrissey's words, "There may be less overt bias than there used to be, but unconscious or implicit bias is still very prevalent." Wilson's assessment echoed this view: "Before I joined the Davies Review steering group, I thought my experience was the result of a sectoral issue. The sector I chose to work in was oil and gas, which was dominated by a stereotypical male culture. As the steering group started its work, however, I quickly realized that sector doesn't matter. Gender bias is a generic issue, and it's far more widespread and complex than you or I ever imagined."

The fight against gender bias in the workplace was an uphill battle, but Morrissey was determined to attack the problem: "No one asked me to do anything about female representation—I just felt a desire. Young women started coming to me asking for my advice, and I wanted them to have fewer knocks than I had suffered."

Men in Business

There was a wide spectrum of views among men in business on the issue of the gender composition of UK corporate boards. Lord Davies recalled the initial response to the work of the Davies Review steering board:

> What we did in those first few months was to put together a team, and we started to engage with the various stakeholders: chairmen, headhunters, women, government, business,

> boards, institutions, owners, and so on. The reaction to begin with was horrendous. We spoke with the stakeholders and simply told them the facts. Shareholders did not seem to care about diversity. Headhunters said they see no supply. The chairmen blamed the headhunters. There were certain types of men who said, "I don't understand why you are stirring this up. What is your motive?" I had no hidden motive. I believe in this subject passionately. I believe that diverse thinking in the top team leads to better results. You need a blend of different skills around the table, whether in sport or in business, and certainly in boards.

Wilson, based on her conversations with board chairs as a member of the Davies Review steering board, estimated that almost one-third of FTSE 100 chairs were initially resistant to the idea of increasing gender diversity. One reason for their resistance was the desire to protect their autonomy in running boards as they saw fit. In Wilson's words, "The attitude in 2011 from some FTSE Chairs was: 'Over my dead body will anyone tell me who should be on my board. This is my preserve.'" These chairs were accustomed to a system that allowed them considerable power over board composition. Sir Roger Carr, the chair of Centrica and a proponent of increased female representation on corporate boards, highlighted a second reason for resistance: "For some chairs, gender diversity really was something they never wanted to see adopted. There were a few senior members of the business community who truly believed that women should not become significant in boardrooms. There weren't many, but there were some."

Other board chairs were deeply committed to increasing the number of women on UK corporate boards. Many of the leaders in this group believed that increasing female representation would improve a board's effectiveness. Carr explained, "I had worked most of my life on all-male boards, which are not always the most productive. When I had mixed groups in an operational environment, the dynamics changed, and we became more effective." Sir Win Bischoff, the chair of Lloyds Banking Group and another proponent of gender diversity in the boardroom, described his reasoning:

> I had seen, when I was chair at Citi during the financial crisis in 2008, that in thinking about risks and governance and the broader responsibilities of boards, few of us had enough differentiated views that would question the conventional view. I had also seen, after serving on the Citi board and some other boards, that the women who were on boards were often willing to express different views in a way that allowed the board to debate without putting other people's backs up. I took the view from personal experience that female representation on boards, particularly in terms of thoughtfulness about risk, was invaluable. Going through the financial crisis, being more thoughtful about risk and asking questions about it would have been helpful.

Many of the board chairs who were committed to improving gender diversity were also motivated by an intrinsic desire to do what was right and by personal connections to women who struggled to have the same opportunities as their male counterparts. Sir Roger Carr spoke publicly about his daughter Caroline Carr, head of talent management at Goldman Sachs, and also involved in the 30% Club: "I've always believed that companies were mad not to promote female talent; why would you waste half of the talent pool? It's even more apparent when you see your own capable and ambitious daughter—and her friends—suffer frustrations in the workplace which they shouldn't."[10]

[10] Margareta Pagano, "Margareta Pagano: Sir Roger Carr champions bright daughters in Vince Cable women on boards battle," April 1, 2015, *International Business Times*, http://www.ibtimes.co.uk/margareta-pagano-sir-roger-carr-champions-bright-daughters-vince-cable-women-boards-battle-1494533#.

Executive Search Firms

The process of filling corporate board seats in the UK often relied heavily on executive search firms, or headhunting firms. One report found that 73% of FTSE 100 companies used executive search firms in the appointment process.[11] To identify a person to nominate for a vacant board seat, an executive search firm worked with the board chair and the nominating committee to articulate the desired qualifications for the new board member, drew up a list of candidates, and conducted initial interviews.[12] In an effort to find the ideal candidate, the search process to fill a given board seat was treated as a unique event, and candidates were often evaluated at least in part on the basis of how well they "fit in" with the existing board members. The boardroom is an environment where people must collaborate closely to make critical business decisions, so it is natural to assess a candidate's ability to work with other board members as part of the appointment process. However, Dr. Elena Doldor of Queen Mary University of London, who conducted a review of the top headhunting firms in 2012, argued that judging candidates by how well they "fit in" put female candidates at a disadvantage because the existing board members were predominantly men: "The recruitment process was exclusive and built around fit and chemistry—subjective criteria. When search firms interviewed women, they found that the women did not look like, sound like, or act like what they knew."

Executive search firms and incumbent boards were supposed to collaborate closely in the appointment process, but they did not always share the same perspective, especially regarding the reasons behind low female representation on boards. Sealy, the lead researcher for Cranfield's Female FTSE Index and Report for several years, explained that "the board chairs pointed fingers at the search firms—'the search firms don't provide us with diverse slates'—while the search firms pointed fingers at the board chairs—'the chairs don't want diversity.'" Doldor observed the dynamics of this relationship: "Headhunters very pragmatically assessed where the client was, and they would push a bit for change as long as it did not jeopardize the client relationship. They would be advocates for change when the context allowed, and they would stay silent otherwise. There were some that were genuinely committed and would push the envelope carefully, but they would remind the firm that they did not make the final decision."

Sealy and Doldor also pointed out that the community of executive search firms was insular, with approximately a dozen firms responsible for 80% of the major board appointments each year. Wilson, based on her interactions with the executive search firms as a member of the Davies Review steering board, agreed with this assessment: "There was a strong relationship among the dozen or so search firms that had cornered the market for filling board positions and the chairs. They would churn out the same candidates, most of whom were male, time after time. Chairs did not pressure them to do otherwise, as some chairs were benefitting by being nominated to join other boards."

While executive search firms played an important role in shaping the board recruitment process, the recruitment process also relied heavily on personal friendships. One study conducted in 2003 found that almost half of all surveyed non-executive directors were recruited via personal contacts, and that only 4% had received a formal interview. In Wilson's words, "The chair might say to the other board members, 'Fred's retiring. Who knows someone who can replace Fred? Send me some names.' A lot of appointments ended up being filled through the boys' network." In an effort to make the appointment process more rigorous, the Corporate Governance Code was revised in 2010 to require companies

[11] Elena Doldor, Susan Vinnicombe, Mary Gaughan and Ruth Sealy, "Gender Diversity on Boards: The Appointment Process and the Role of Executive Search Firms," *Equality and Human Rights Commission* Research report 85, Pg. 4.

[12] "Gender Diversity on Boards: The Appointment Process and the Role of Executive Search Firms" Pg. 26.

selecting a new board member to use an external search firm, conduct open advertising, or explain in the annual report why the first two recruitment methods were not used.[13]

Researchers and Journalists

Even though researchers and journalists were not directly involved in the process of selecting the members of corporate boards, they nonetheless had the potential to influence gender diversity in UK boardrooms.

At a basic level, the publication of systematic data on the lack of female representation on boards increased national awareness of the issue. Starting in 1999, the annual Female FTSE Index and Report released by Vinnicombe and her collaborators tabulated the number of board positions filled by women and the number filled by men. Each year, the report and its ensuing media coverage reinvigorated the public discourse on the gender composition of boards.[14]

Researchers and journalists also laid the conceptual groundwork for techniques to increase female representation by analyzing the causes of the lack of gender diversity. Doldor noted, "To make progress, you need to keep asking what the deeper problems are, and when you understand the problems with the underlying structures and processes, you can start to address them." Doldor and colleagues analyzed the institutions that impeded the selection of female board members in a report for the Equality and Human Rights Commission.[15]

For advocates of increased female representation on boards, research provided indirect evidence in support of the argument that greater gender diversity would improve board decision making. In one laboratory study, groups with a higher proportion of females exhibited higher collective intelligence in problem solving and brainstorming tasks.[16] Journalists communicated this argument to a broader audience by invoking dramatic examples, such as the disastrous consequences of "'group-think' by the boards of the collapsing banks during the financial crisis [of 2008], on which there were few or no women."[17] However, there was no direct evidence based on data from real-world corporate boards that greater board diversity had a positive *causal* effect on company performance.

Voices from *The Guardian*, *The Telegraph*, *The Financial Times*, and *The Observer*, among many others, criticized the absence of progress on the issue of board gender diversity. Richards, the 30% Club co-founder, noted the importance of the UK press in swaying public opinion and warned of the media's unforgiving nature: "If they're against you, they are really against you. But if they're with you, they're a hugely powerful tool."

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[13] UK Corporate Governance Code 2010, B.2.4.

[14] Female FTSE Index and Report, 2005-2011, https://www.cranfield.ac.uk/SOM/Research-Centres/Global-Centre-for-Gender-and-Leadership/Female-FTSE-Index-and-Report.

[15] Elena Doldor, Susan Vinnicombe, Mary Gaughan and Ruth Sealy, "Gender Diversity on Boards: The Appointment Process and the Role of Executive Search Firms," Equality and Human Rights Commission Research report 85.

[16] Anita Williams Woolley, Christopher F. Chabris, Alex Pentland, Nada Hashmi, and Thomas W. Malone, "Evidence for a Collective Intelligence Factor in the Performance of Human Groups," *Science* 330 (2010): 686-688.

[17] Denise Kingsmill, "Denise Kingsmill: Women must get aboard," *Management Today*, February 1, 2011, http://www.managementtoday.co.uk/denise-kingsmill-women-aboard/article/1050509.

Creating a Social Movement

Wilson described the conundrum facing the Davies Review steering board as they embarked on their quest:

> British business does not like to be told what to do by government—or by anyone, for that matter. Early on, we held a public consultation, an open process for soliciting comments on the question of whether we should recommend quotas for female board membership. As part of an extensive consultation process, we received many thousands of responses, of which 2654 were individual in-depth written responses, yet only 11% said they wanted quotas. Overwhelmingly, there was a desire to make the process voluntary, particularly from businesses. We were reluctant to jump to recommending quotas, but at the same time, we realized we had to have something that was more than just a lecture on the value of diversity. We needed some teeth.

Should the Davies Review steering board recommend that the UK government enact gender quotas for corporate boards, in spite of the vehement opposition to the idea in the business community? After all, "the reason this all got started was because we had the threat of a 40% quota from Brussels [the European Union] by 2020," Vinnicombe explained. If not, what steps should the steering board take to increase female representation on corporate boards? How would the steering board succeed without the force of law behind its recommendations?

The founders of the 30% Club faced an even more challenging problem. How would they increase the number of women on boards without even a formal government directive to make recommendations? Morrissey and her co-founders were intimidated by the task: "Effectively, we had to create a social movement." What strategy should they pursue to move the needle on gender diversity in the boardroom?