The Quoted Companies Alliance
6 Kinghorn Street
London EC1A 7HW
Tel: +44 20 7600 3745
Fax: +44 20 7600 8288

Web: www.theqca.com
Email: mail@theqca.com

The Quoted Companies Alliance

European Commission
DG Justice / D1
LX 46 – 1/101
B-1049 Brussels
Belgium

JUST-GENDERBALANCE-CONSULTATION@ec.europa.eu

29 May 2012

Dear Sirs,

European Commission – Consultation on gender imbalance in corporate boards in the EU

INTRODUCTION

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

Our ID number for the European Commission's register of interest representatives is 45766611524-47.

The Quoted Companies Alliance Corporate Governance Committee has examined your proposals and advised on this response. A list of committee members is at Appendix A.

RESPONSE

We welcome the opportunity to respond to this consultation on corporate governance standards for companies in the UK and Europe. We support strong corporate governance within the small and mid-size quoted company sector. Our publication, the Corporate Governance Guidelines for Smaller Companies[1], is the accepted corporate governance code, and sets corporate governance standards, for small and mid-size quoted companies in the UK.

We agree with the European Commission's view that it is essential to have high standards of corporate governance with highly effective boards running small and mid-size quoted companies. This must include boards which demonstrate a positive approach to diversity, incorporating factors such as skills, experience, culture and gender. Diversity tends to promote the ability of board members to make appropriate and effective contributions to the company's strategy and the quality of board debate.

Good corporate governance should be created by the companies and by investors promoting their requirements, leading to any issues being effectively addressed, and not through formal regulation by financial authorities. We are concerned that a prescriptive, overly compliant approach, which includes quotas, will not lead to good corporate governance. More thought should be given to influencing the mindset of boards and investors as quality corporate governance is based upon behaviour and mutual trust. Setting quotas and other prescriptive measures could potentially threaten board quality and will

[1] http://www.theqca.com/shop/guides/

not be in the best interests of individual companies and therefore, ultimately the European economy. A prescriptive approach could also have a disproportionate impact on smaller quoted companies.

In our recent QCA/BDO Small and Mid-cap Sentiment Index, we asked companies questions on their policy in recruiting women to their corporate boards. In response, we found that of the companies who had been actively recruiting, 23% had specifically asked recruiters to include within their remit female board members. From the survey it was found that 38% of companies had a short list with female candidates.

These results show that momentum is building and attitudes to the structure of small and mid-size quoted company boards is potentially changing. Good corporate governance is especially important in small and mid-size quoted companies, and it is clear that they are beginning to look to expanding the diversity of their corporate boards.

We are concerned that there seem to be differences within the European Commission as DG Internal Markets and DG Justice both have their own agenda with regards to corporate governance and in particular, women on boards.

The discussions coming from each area are not congruent and are causing confusion for all concerned. We call for further clarity and an aligned and joint response to this issue.

1. **How effective is self-regulation by businesses to address the issue of gender imbalance in corporate boards in the EU?**

Across Europe there has been a healthy discussion on the issue of gender imbalance. There are quite a few countries within the EU where there is an increasing percentage of women on corporate boards. In these countries self-regulation works and is effective.

In the UK, the publication of Lord Davies's report "Women on Boards"[2] highlighted the issue of UK companies with gender imbalances on boards. However, since this report is just over a year old, it is too early to assess the impact of its suggestions and proposals are just beginning to come to fruition. No one has been able to determine yet which proposals are working and which are not. The next step should be to allow them to continue, and determine when fuller data are available whether these voluntary initiatives are working.

Cranfield[3] recently published a review marking the first year anniversary of the Davies Report, where they forecast that 26.7% of FTSE-100 directors will be female by 2015 and that by 2020, 36.9%. This forecast is based on the current rate of recruitment.

We also want to highlight that this issue concerns more than just gender imbalance. There needs to be a general encouragement to have a diverse corporate board that incorporates consideration of people from all backgrounds and ethnicities.

2. **What additional action (self-regulatory/regulatory) should be taken to address the issue of gender imbalance in corporate boards in the EU?**

We are strongly against the idea of EU-wide gender quotas for corporate boards. While we understand why there is a strong motivation to achieve progress quickly, this is likely to be counterproductive and will not promote natural gender balance in the long run. We feel that requiring policies on diversity, based on published, numerical goals will ultimately not be a more effective system. The objective of each company is to achieve a corporate board that incorporates a diverse and focussed mind-set that will give the company a strong base to create shareholder value over the long-term, taking into account the interests of all stakeholders.

We strongly believe that the European Commission should be basing its approach on the "comply or explain" approach. This method allows small and mid-size quoted companies the flexibility to self-regulate and yet be accountable publicly and to investors for their corporate governance structure.

[2] http://www.bis.gov.uk/assets/biscore/business-law/docs/w/11-745-women-on-boards.pdf
[3] http://www.som.cranfield.ac.uk/som/dinamic-content/research/documents/2012femalftse.pdf

Experience has shown that "comply or explain" is an effective approach, and suitably flexible given the differences between companies, sectors and so on.

We recommend to the European Commission that companies should be required to disclose their approach to boardroom diversity. Included in this disclosure should be a timeframe, agreed between the company and its shareholders, within which the company is intending to change its structure. Examples of best practice for such disclosure should be widely disseminated to aid disclosure. This is already in practice under the UK Corporate Governance Code[4].

Our view is also that each national government should be addressing the issue of gender imbalance on corporate boards by supporting initiatives aimed at encouraging positive efforts to broaden the pool of eligible candidates. A formal board recruitment process and an explicit mandate for external search consultants to consider and draw candidates from a more diverse pool of talent (e.g. candidates from non-traditional backgrounds, experienced professionals at sub-board level and applicants from overseas markets) will encourage boards to recruit diversely.

We feel that there should be no fixed time set on the implementation of potential proposals. We would recommend that the current proposals and initiatives be given time to work.

3. **In your view, would an increased presence of women on company boards bring economic benefits, and which ones?**

We believe that a diverse corporate boardroom that has a wide ranging selection of board members will bring economic benefits. It is therefore likely in our view that a corporate board will benefit most if it has a diverse selection of board members, based on considering and recruiting a range of members from an appropriate pool of candidates, including consideration of those with differing gender, race and background. The economic benefits should include improved sustainability and profitability of the business, together with an improved boardroom decision making process.

Gender diversity in the corporate boardroom should be mirrored by an improved attitude to diversity throughout a company and its different employee levels. Building improved attitudes to diversity, and seeing a positive result, throughout a company will take time but we believe this will create a more genuine and sustainable result than simply implementing rigid quotas.

Whilst it is important to point out that gender diversity in boards is an important issue, the idea of diversity as a whole should not be overlooked. Gender is just one part of diversity that needs to be discussed, but there is much more.

4. **Which objectives (e.g. 20%, 30%, 40%, 60%) should be defined for the share of the underrepresented sex on company boards and for which timeframe? Should these objectives be binding or a recommendation? Why?**

In the UK, there is an organisation called the 30% Club[5]. This organisation supports the concept of having at least 30% of an underrepresented gender on the corporate board but does not believe in set quotas. The 30% Club's objective is bringing more women onto UK Corporate boards. It is their goal that by 2015 to have 30% of boards being female. We feel that this is an acceptable, flexible and therefore a strong platform for future development.

It is not easy to place a timescale on the implementation of these proposals if they are to result in sustainable, long term change. Underdeveloped, ill thought out and rigid proposals could result in confusing, unstable and negative changes to the boards of companies in the short term, at a time when companies are at their most vulnerable in the economic cycle. For example, companies may feel that they are obligated to employ a person from the underrepresented sex and in that case, it might not be best person who sits on the board. Such situations can also damage the credibility of other, able women on boards who achieved their position on merit, but risk being varied as "the token woman" if quotas are imposed.

[4] http://www.frc.org.uk/documents/pagemanager/corporate_governance/uk%20corp%20gov%20code%20june%202010.pdf

[5] http://www.30percentclub.org.uk/

From our most recent QCA/BDO Small and Mid-cap Sentiment Index, 28% of the companies surveyed had appointed women to their board in the last year. We see evidence that behaviour is already changing in a positive way, without an aggressive and prescriptive approach.

5. **Which companies (e.g. publicly listed / from a certain size) should be covered by such an initiative?**

Provided it is in the parameters we have set out in our response above, there is no reason why the initiative should not apply to all publicly quoted companies. Each company should have their own policy on diversity, published together with an explanation of how the company is implementing its own objectives.

As you will know, small and mid-size quoted companies are the engines of growth of each member state economy. In order to encourage growth in this important sector, legislative proposals must be put forward to reduce, not increase, the burden on these companies. For the reasons discussed above, quotas for small and mid-size quoted companies are unlikely to result in truly diverse boardrooms and the increased burdens will not help support their growth.

6. **Which boards/board members (executive / non-executive) should be covered by such an initiative?**

As stated above, diversity is imported for all levels of the organisation, including all types of board members.

In the Lord Davies review, it is stated that the reason for low levels of women on the corporate boards is due to the low level of women in senior management positions. This is further evidence that there needs to be more development in the pool of talent and recruitment, to encourage and identify suitable and qualified female candidates. This pyramid issue needs to be the priority, rather than rigid quotas. Building a positive platform for women throughout an organisation will lead to more well qualified women on corporate boards.

7. **Should there be any sanctions applied to companies which do not meet the objectives? Should there be any exception for not reaching the objectives?**

This should be applied by each member state, but we emphasise that the current initiatives and proposals must be given time to achieve their goals. If sanctions are implemented before the full effect of the current self-regulatory initiatives, then this could have be to the detriment of the quality of corporate governance in the future.

It is much better that companies change their behaviour, potentially because they recognise the social and commercial benefits, promoted by positive investor influence and their requirements, rather than force companies into a reactive legislative approach that just “ticks boxes” without resulting in genuine, sustainable and long-term change.

If you would like to discuss this in more detail, we would be pleased to attend a meeting.

Yours sincerely,

Tim Ward
Chief Executive

APPENDIX A

QUOTED COMPANIES ALLIANCE CORPORATE GOVERNANCE COMMITTEE

Edward Beale	Western Selection Plc
Tim Bird	Field Fisher Waterhouse
Dan Burns	McguireWoods
Anthony Carey	Mazars LLP
Richard Chin	Oriel Securities Limited
Louis Cooper	Crowe Clark Whitehill LLP
Madeleine Cordes	Capita Registrars Ltd
Edward Craft	Wedlake Bell LLP
Kate Elsdon	PricewaterhouseCoopers LLP
Nicola Evans	Hogan Lovells International LLP
David Fuller	CLS Holdings PLC
Clive Garston	DAC Beachcroft LLP
Tim Goodman	Hermes Equity Ownership Services
Nick Graves	Burges Salmon
David Isherwood	BDO LLP
Kate Jalbert	The Quoted Companies Alliance
Colin Jones	UHY Hacker Young
Dalia Joseph	Oriel Securities Limited
Derek Marsh	China Food Company PLC
Claire Noyce	Hybridan LLP
James Parkes	CMS Cameron McKenna LLP
Anita Skipper	Aviva Investors
Julie Stanbrook	Hogan Lovells International LLP
Jacques Sultan	The Quoted Companies Alliance
Eugenia Unanyants-Jackson	F&C Investments
Melanie Wadsworth	Faegre Baker Daniels LLP
Tim Ward	The Quoted Companies Alliance
Cliff Weight	MM & K Limited

APPENDIX B

THE QUOTED COMPANIES ALLIANCE (QCA)

An independent organisation funded by its members, the Quoted Companies Alliance champions the interests of small and mid-cap size companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

The Quoted Companies Alliance is governed by an elected Executive Committee, and undertakes its work through a number of highly focussed, multi-disciplinary committees and working groups of members who concentrate on specific areas of concern, in particular:

- taxation
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies;
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

The Quoted Companies Alliance is a founder member of European**Issuers**, which represents quoted companies in fourteen European countries.

Quoted Companies Alliance's Aims and Objectives

The Quoted Companies Alliance works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

Lobbying the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

Promoting the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

Educating companies in the sector about best practice in areas such as corporate governance and investor relations.

Providing a forum for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:
    - corporation tax payable of £560 million per annum
    - income tax paid of £3 billion per annum
    - social security paid (employers' NIC) of £3 billion per annum
    - employees' national insurance contribution paid of £2 billion per annum

The tax figures exclude business rates, VAT and other indirect taxes.

For more information contact:
Tim Ward
The Quoted Companies Alliance
6 Kinghorn Street
London EC1A 7HW
020 7600 3745
www.theqca.com