Gender Diversity on Boards: The Appointment Process and the Role of Executive Search Firms

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Equality and
Human Rights
Commission

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Equality and Human Rights Commission Research Report Series
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Background and aims of the project

In 2011, only 12.5 per cent of directors of FTSE 100 Boards and 7.8 per cent of directors of FTSE 250 Boards were women. Moreover, only 32 per cent of FTSE100 companies disclosed the number of women directors on their Boards. The business case for gender diversity on boards relates to four key dimensions: improving performance, accessing the widest talent pool, being more responsive to the market and achieving better corporate governance. In February 2011, Lord Davies produced his report on *Women on Boards*, in which he made ten recommendations on how to increase the number of women on the Boards of FTSE 350 companies. The Davies Report (2011: 2) stressed that:

> Government must reserve the right to introduce more prescriptive alternatives if the recommended business-led approach does not achieve significant change.

In accordance with Recommendation 8 of the Davies Report, executive search firms then drew up collaboratively a voluntary code of conduct to address the challenges relating to increasing the appointment of women on FTSE 350 boards.

In October 2011, the Equality and Human Rights Commission (EHRC) commissioned Cranfield's International Centre for Women Leaders to examine the corporate Board appointment process, how it operates in practice and the role of executive search firms (ESFs) in this process. A particular emphasis was placed on what was being done to make Boards more gender balanced. The project aimed to identify good practice in the executive search sector, particularly in light of the most recent efforts around the issue in the UK - the Davies Report and the Voluntary Search Code. The EHRC is keen to support change in this area by encouraging voluntary, rather than mandatory action.

Methodology

The research project entailed two major steps:

- A review of the available literature regarding the Board appointment process, the role of ESFs and the gender-related obstacles in the appointment process.

- Ten exploratory interviews with search consultants from leading ESFs in London.

Key findings

- The Board appointment process remains opaque and subjective, and typically driven by a corporate elite of predominantly male Chairmen who tend to favour those with similar characteristics to themselves.

- This has changed somewhat over recent years as demonstrated by the 30% Club - a group of Chairmen who champion gender diversity on boards.[1] Despite these efforts, non-executive director (NED) appointments are still informed by how much candidates 'fit' with the values, norms and behaviours of existing Board members.

- The evidence reviewed suggests that as intermediaries in this elite labour market, ESFs assess candidates not only on their suitability for the role because of the skills they possess, but also on the subjective judgements of how they fit in with the current Board. Due to the male-dominated nature of corporate Boards, female candidates are likely to be disadvantaged by these practices.

- The search consultants interviewed indicated a heightened awareness of the importance of gender diversity on Boards within their firms and among their clients. The interview findings revealed a number of good practices currently emerging in the search sector. However, it must be noted that these practices did not appear to be embraced to the same extent in all search firms. In addition, findings also confirmed some of the evidence reviewed, pointing to a number of shortcomings in the practices employed by ESFs and other stakeholders in the appointment process.

- Good practices among the ESFs interviewed were grouped around six key aspects:

  o Proactively putting diversity on the agenda in the appointment process.
  o Challenging Chairmen and Nomination Committees when defining the brief, so that more importance is given to underlying competencies as opposed to prior experience.
  o Finding creative ways to expand the talent pool and reach out to female candidates.
  o Ensuring female representation on the long list and the short list.
  o Supporting female candidates throughout the appointment process by taking on developmental and advocacy roles.

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[1] For more information on the 30% Club, see http://www.30percentclub.org.uk/.

o   Supporting Chairmen in handling resistance to female candidates from other Board members.

Recommendations

Based on the evidence reviewed and the interview findings, the report puts forward a number of recommendations for ESFs and other stakeholders in the process:

- **More transparency and documenting of best practice and initiatives around gender diversity by ESFs** are needed. Not all search firms invest the same effort into documenting and formalising best practice **internally**. In addition, ESFs appeared to vary in their endeavours to signal their commitment to the issue of gender diversity on Boards **externally** (i.e. by discussing their diversity initiative with the media, or through coverage on the firm's website or brochures).

- **There needs to a clearer definition of the term 'intrinsics'**, used in the Voluntary Search Code. While 'intrinsics' appears to refer to anything but experience, the interviews revealed a lack of consensus among search consultants as to what exactly is sought beyond experience when assessing candidates. This loosely defined term leaves room for shifting criteria and subjective judgements around 'fit' in the appointment process and may inadvertently disadvantage female candidates. As intermediaries in the executive labour market, ESFs shape how talent is defined and have a responsibility to do so clearly.

- **Search firms, Chairmen and Nomination Committees need to pay additional attention to the interviewing practices employed during the appointment process**. Some of the interviews conducted by Chairmen and other Board members in the appointment process lack rigour and are consequently focused on subjective aspects such as fit and personal chemistry. There is a need for more transparency, rigour and professionalism in the way that Chairmen and other incumbent board members conduct selection interviews.

- **When assessing candidates, Chairmen and Nomination Committees need to shift the emphasis from prior experience to underlying competencies.** Search consultants play a critical role in supporting this shift of mindset among their clients.

- **ESFs need to invest more time into developing relationships with women in the pipeline.** There needs to be a shift in the way that search consultants engage with (potential) female candidates, from relationships which are purely transactional and focused on short-term placements, to relationships which are deeper and focus on the longer-term potential of placing women in NED roles.

- **ESFs and Chairmen need to be more willing to take on developmental roles** during the appointment process and beyond, in order to ensure that there are more women NEDs. For instance, ESFs could provide more guidance and mentoring to female candidates undergoing an appointment process. In addition, once women are appointed, both search firms and Chairmen need to pay more attention to **induction and 'onboarding' processes** and ensure that they are gender-inclusive.

- While we recognise that it is early days for the Voluntary Code, there are ongoing gendered behaviours, judgements and language amongst ESFs. This signals the importance of **ongoing review of the impact of the Voluntary Search Code** to assess whether it is driving change – or whether stronger measures are needed.

- **Investors need to play a bigger role** by putting pressure on companies to have gender-balanced Boards.

- **Board openings need to be publicly advertised** in order to increase the transparency of the appointment process.

- **There needs to be more emphasis on having women in executive roles.** Several ESFs stressed that the executive and non-executive pipelines of female talent are closely related and argued that companies should support women's careers in order to ensure that sufficient women come through at the top of their executive ranks.

1. Introduction

1.1 Background to the report

The lack of gender diversity on UK corporate Boards has been the object of intense scrutiny and debate over the last few years. The business case for having more women at the top relies on two key arguments. First, women's drop-out rates in companies are increasing despite the fact that women have similar or higher educational achievements compared to men. In countries like the US and the UK, there are more women with graduate degrees than men (Higher Education Statistics Agency, 2003). However, the dramatic increase in the number of female graduates in business-relevant degrees is not translated into a proportional increase of female representation in management. This means that companies simply fail to draw from the widest pool of available talent. Second, board diversity has been found to correlate with better corporate performance (Erhardt et al., 2003; McKinsey, 2007). This suggests that there is a business case for having more gender-balanced boards. The Davies Report (2011: 7) also stressed that:

> ... strong stock market growth among European companies is most likely to occur where there is a higher proportion of women in senior management teams. Companies with more women on their boards were found to outperform their rivals with a 42 percent higher return in sales, 66 percent higher return on invested capital and 53 percent higher return on equity.

For over a decade, Cranfield's Female FTSE Report has contributed to this debate by monitoring women's representation on FTSE 350 Boards. A retrospective look over a decade of monitoring revealed a slow pace of change in women's representation on boards (Vinnicombe et al., 2010). Cranfield's International Centre for Women Leaders also worked with the UK's Government Equalities Office in examining obstacles for women on boards (Sealy et al., 2009a; 2009b), and more recently conducted the six months monitoring report following the Davies Review (Sealy et al., 2011).

Several rounds of corporate governance reforms have attempted to address these gender disparities in the UK. The pressure for change is now increasing, due to the fact that several countries are taking legal action to ensure gender-balanced Boards, and mandatory action is being considered at European Union (EU) level. In May 2010, the Financial Reporting Council amended the UK's **Corporate Governance Code** calling for companies to 'pay due regard for the benefits of diversity on the Board, including gender' (p. 13) when selecting non-executive directors (NEDs).

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Subsequently, the new coalition government commissioned a review into women on Boards, led by Lord Davies of Abersoch. This review entailed consultation with a large number of stakeholders, including senior business leaders, search consultants, entrepreneurs, senior women and women's networks, and academic experts. The ensuing **Davies Report**, published in February 2011 (Davies, 2011), examined the business case for gender diversity and the obstacles faced by women in seeking to get onto Boards. The report also put forward ten recommendations, targeting Chairmen, nomination committees, investors, and executive search firms. These recommendations are provided below.

Box 1.1   Summary of recommendations from Davies Report (February 2011)

1. All Chairmen of FTSE 350 companies should set out the percentage of women they aim to have on their Boards in 2013 and 2015. FTSE 100 Boards should aim for a minimum of 25% female representation by 2015 and we expect that many will achieve a higher figure. Chairmen should announce their aspirational goals within the next six months (by September 2011). Also we expect all Chief Executives to review the percentage of women they aim to have on their Executive Committees in 2013 and 2015.

2. Quoted companies should be required to disclose each year the proportion of women on the Board, women in Senior Executive positions and female employees in the whole organisation.

3. The Financial Reporting Council should amend the UK Corporate Governance Code to require listed companies to establish a policy concerning boardroom diversity, including measurable objectives for implementing the policy, and disclose annually a summary of the policy and the progress made in achieving the objectives.

4. Companies should report on the matters in recommendations 1, 2 and 3 in their 2012 Corporate Governance Statement whether or not the underlying regulatory changes are in place. In addition, Chairmen will be encouraged to sign a charter supporting the recommendations.

5. In line with the UK Corporate Governance Code provision B2.4, 'A separate section of the annual report should describe the work of the Nomination Committee, including the process it has used in relation to Board appointments'. Chairmen should disclose meaningful information about the

company's appointment process and how it addresses diversity in the company's annual report including a description of the search and nominations process.

6. Investors play a critical role in engaging with company Boards. Therefore investors should pay close attention to recommendations 1-5 when considering company reporting and appointments to the Board.

7. We encourage companies periodically to advertise non-executive Board positions to encourage greater diversity in applications.

8. Executive search firms should draw up a Voluntary Code of Conduct addressing gender diversity and best practice which covers the relevant search criteria and processes relating to FTSE 350 Board level appointments.

9. In order to achieve these recommendations, recognition and development of two different populations of women who are well-qualified to be appointed to UK Boards needs to be considered:

   a. Executives from within the corporate sector, for whom there are many different training and mentoring opportunities; and
   b. Women from outside the corporate mainstream, including entrepreneurs, academics, civil servants and senior women with professional service backgrounds, for whom there are many fewer opportunities to take up corporate Board positions.

10. A combination of entrepreneurs, existing providers and individuals needs to come together to consolidate and improve the provision of training and development for potential Board members.

11. This steering Board will meet every six months to consider progress against these measures and will report annually with an assessment of whether sufficient progress is being made.

In October 2011, a **six months monitoring report** investigated how FTSE 350 companies have implemented recommendations 1, 2, 3 and 5 of the Davies Report (Sealy et al., 2011). The report found an incremental increase in the percentage of women on boards (from 12.5 per cent to 14.2 per cent), with 22.5 per cent of all appointments since March to September 2011 going to women (21 new female

appointments overall). Despite this slight progress, the report also noticed that the pace of change was too slow for the targets suggested by the Davies Review to be met. Sealy et al. (2011) forecasted that - based on the current pace of change - women would account for only 18 per cent of Board members by 2013 (instead of the recommended 20 per cent) and 21.4 per cent of Board members by 2015 (instead of 23.5 per cent). With regards to the Davies Recommendations, the report observed the following:

- **Recommendation 1: Aspirational targets on Board**. Only 33 FTSE 100 companies and only 17 FTSE 250 companies had set targets for gender diversity on their Boards. In terms of executive committee targets, only 4 per cent of the FTSE 100 companies set such targets and none of the FTSE 250s did so.

- **Recommendation 2: Gender diversity metrics**. Only 32 per cent of FTSE 100 companies disclosed the number of women on their Boards, while 28 per cent disclosed the number of women senior executives and 33 per cent the number of women employees. The figures for FTSE 250 companies were much lower at 22 per cent, 10 per cent and 5 per cent respectively.

- **Recommendation 3: Boardroom diversity policies**. Fifty-six per cent of FTSE 100 companies reported having a policy on boardroom diversity; the comparative figure for FTSE 250 companies was 35 per cent. These policies were generally not supported by measurable targets or clear reporting, although a number of companies disclosed their intention to do this in the future.

- **Recommendation 5: Transparency regarding the Board appointment process and how it addresses diversity.** The report found that in line with corporate governance standards set by prior codes, a majority of FTSE 100 and FTSE 250 companies reported on the workings of their Nomination Committees (96 per cent and 88 per cent respectively). Among the FTSE 100 companies, 73 per cent provided reasonable detail about the appointment process and 50 per cent of the FTSE 250s did so. Furthermore, among FTSE 100 companies, 43 per cent addressed the issue of diversity as related to the appointment process but only 10 per cent explicitly referred to gender; among FTSE 250 companies, these numbers were 10 per cent and 7 per cent respectively. Furthermore, 73 per cent of FTSE 100 and 66 per cent of FTSE 250 companies mentioned using executive search firms in the appointment process. Overall, the trends observed in both the FTSE 100 and the FTSE 250 data suggest that while companies endeavoured to provide some transparency into the appointment process and

the internal workings of their Nomination Committees, the majority of companies (particularly in the FTSE 250) need to demonstrate more explicitly their intentions with regard to addressing the issue of gender diversity as related to the board appointment process. This is critical given that the appointment of new directors is the main vehicle through which corporate boards can become more diverse.

The Davies Report also recommended for executive search companies to develop a voluntary code of conduct to address diversity and outline best practice. In July 2011, 20 leading firms in the sector signed the **Voluntary Code of Conduct for Executive Search Firms**. The code sets out seven key principles of best practice that should be followed, ranging from action when accepting a brief from a company to induction. The code also covers succession planning over the medium term; the setting of diversity goals; how the client brief can be defined to balance experience with relevant skills; the value of diverse long lists of candidates; and support during the selection process. Its provisions are summarised below.

Box 1.2   Summary of provisions from the Voluntary Search Code (July 2011)

- **Succession planning**: Search firms should support Chairmen and their Nomination Committees in developing medium-term succession plans that identify the balance of experience and skills that they will need to recruit over the next two to three years to maximise Board effectiveness. This time frame will allow a broader view to be established by looking at the whole Board, not individual hires; this should facilitate increased flexibility in candidate specifications.

- **Diversity goals**: When taking a specific brief, search firms should look at overall Board composition and, in the context of the Board's agreed aspirational goals on gender balance and diversity more broadly, explore with the Chairman if recruiting women directors is a priority on this occasion.

- **Defining briefs**: In defining briefs, search firms should work to ensure that significant weight is given to relevant skills and intrinsic personal qualities and not just to proven career experience, in order to extend the pool of candidates beyond those with existing Board roles or conventional corporate careers.

- **Long lists**: When presenting their long lists, search firms should ensure that at least 30 per cent of the candidates are women – and, if not, should explicitly

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justify to the client why they are convinced that there are no other qualified female options, through demonstrating the scope and rigour of their research.

- **Supporting selection**: During the selection process, search firms should provide appropriate support, in particular to first-time candidates, to prepare them for interviews and guide them through the process.

- **Emphasising intrinsics**: As clients evaluate candidates, search firms should ensure that they continue to provide appropriate weight to intrinsics, supported by thorough referencing, rather than over-valuing certain kinds of experience.

- **Induction:** Search firms should provide advice to clients on best practice in induction and 'onboarding' processes to help new Board directors settle quickly into their roles.

1.2 Aims of the report

In the context described above, the Equality and Human Rights Commission tasked Cranfield's International Centre for Women Leaders to examine the corporate Board appointment process and the role of the executive search firms in making Boards more gender balanced. In its role as the equality regulator, the Commission is keen to add its expertise and support to the objective of increasing the number of women on quoted companies' Boards and increasing diversity of representation generally. The specific aims of this research project are to:

- Examine how the appointment process of non-executive directors operates and what is the role of ESFs in the appointment process; to examine to what extent this process acts as a barrier or enabler to greater diversity on Boards.

- Examine the impact of the voluntary code across the sector and showcase best practice amongst the executive search consultancies, particularly in terms of women being nominated or appointed as non-executive Board directors.

- Contribute to the current debate about gender diversity on Boards by examining Recommendation 8 of the Davies Review directly and to make reference to Recommendations 5 and 7.

1.3 Gender diversity on Boards: an enduring challenge

Despite incremental progress, corporate Boards remain male-dominated world-wide (Vinnicombe et al., 2008). In the UK, the six months monitoring report following the

Davies Review found that the percentage of FTSE 100 Board seats held by women is currently 14.2 per cent (Sealy et al., 2011). The latest Female FTSE Report found that women held 12.5 per cent of directorships on FTSE100 Boards. Women held 117 out of 750 FTSE non-executive directorships and only 18 out of 327 FTSE executive directorships (Vinnicombe, et al., 2010). Furthermore, the report found that women held only 7.8 per cent of FTSE 250 non-executive directorships on Boards. Cranfield's Female FTSE Report revealed slow progress over more than a decade. From 1999 to 2010, women's representation on Boards has only risen from 7 per cent to 12.5 per cent. Figure 2.1 illustrates this plateaued trend. Based on the current average increase of only 5.5 per cent over 12 years, it will take more than 80 years to achieve gender-balanced Boards of directors on UK's FTSE100 companies.

Figure 1.1   Women on FTSE 100 Boards
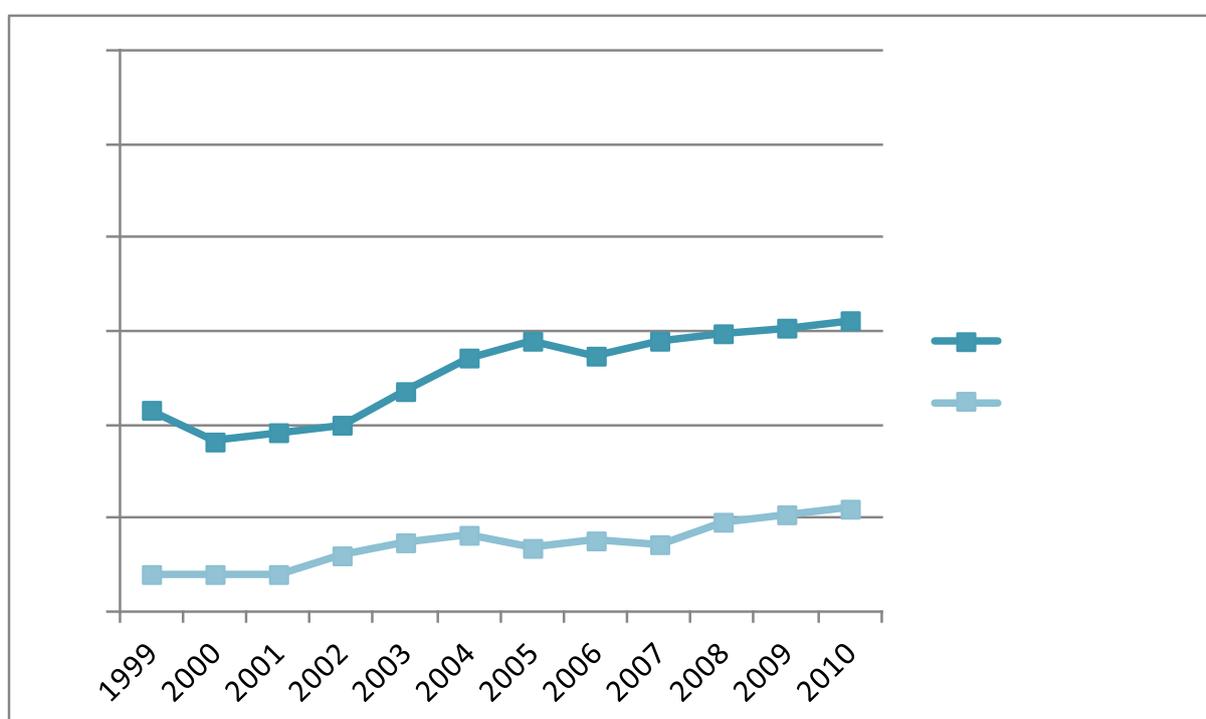
The low percentage of new Board appointments going to women is another indicator of slow progress. From 2004 to 2010, the rate of female appointments ranged from 17 per cent to 13.3 per cent respectively (see Figure 1.2 below). This suggests that despite being a key vehicle for changing the landscape of FTSE Boards, the Board appointment process failed to become more gender inclusive.

Figure 1.2   Female appointments on FTSE 100 Boards
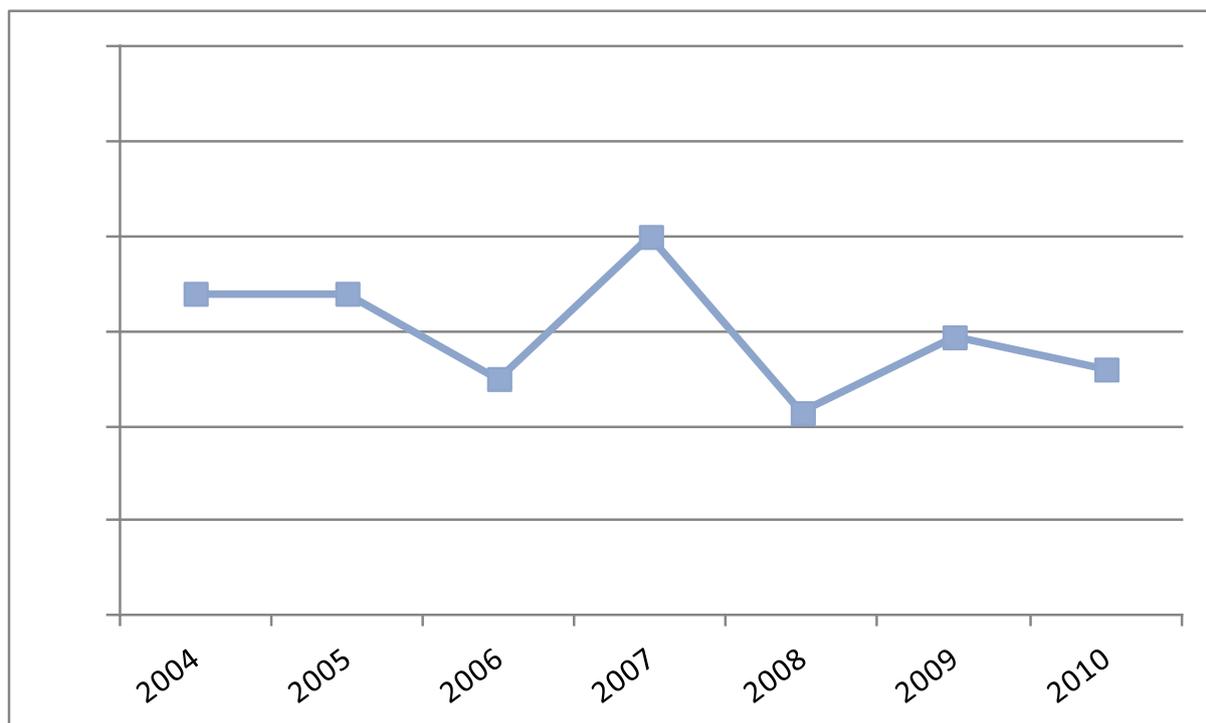
Note: Data on female appointments are available from 2004 onwards only.

Following the Davies Review, 22.5 per cent of all FTSE 100 Board appointments went to women between March and September 2011 (Sealy et al., 2011). Among these 21 new female appointments, 18 were non-executive directorships and three were executive directorships. While this trend is encouraging, the increase remains insufficient to meet the targets suggested by the Davies Report, pointing to the need for further action.

Gender diversity on European Boards

Compared with other European countries, the UK has been a pioneer of monitoring gender diversity on Boards and has had a sustained public debate around this issue for over a decade. However, in recent years, several European countries have taken much bolder action and have seen more substantial increases in the number of women on Boards. Approaches to increasing gender diversity on Boards among European countries broadly fall within two categories: corporate self-regulation instruments such as Corporate Governance Codes (UK, Austria, Denmark, Germany, Sweden and Poland) and national mandatory legislation or targets (Norway, Spain, Iceland, Finland, Italy, Belgium and the Netherlands).

In 2003, Norway passed a compulsory quota law requiring a minimum 40 per cent of Board members to be of either sex; the law passed into action in 2006, with

sanctions imposed in 2008. The 40 per cent requirement has already been met. In January 2011, the French parliament passed legislation imposing a 40 per cent female quota on the Boards of CAC40[2] companies by 2017, with an intermediary target of 20 per cent within three years. In 2007, Spain required that each gender must account for at least 40 per cent Board members by 2015. The Netherlands imposed legislated Board quotas in 2010, without setting a target date for compliance. Italy required in 2011 that for listed and state-owned companies, at least 33 per cent of their Board members should be women by 2015. Quotas are currently being considered in Sweden as well. Viviane Reding, EU Vice-President and Justice Commissioner, has threatened to pass legislation mandating that women make up at least 30 per cent of Board membership by 2015, and 40 per cent by 2020, unless numbers improve (Catalyst, 2010).

In terms of actual Board demographics, Figure 2.3 displays the percentage of women on Boards across 18 European countries, as of 2011. While it can be tempting and instructive to make international comparisons, it must be stressed they are also to some extent imprecise, given the country-specific corporate structures and the different listings used. For instance, FTSE 100 listing includes UK's top 100 corporations, while the CAC40 includes France's top 40 companies.

Figure 1.3   Women on European Boards
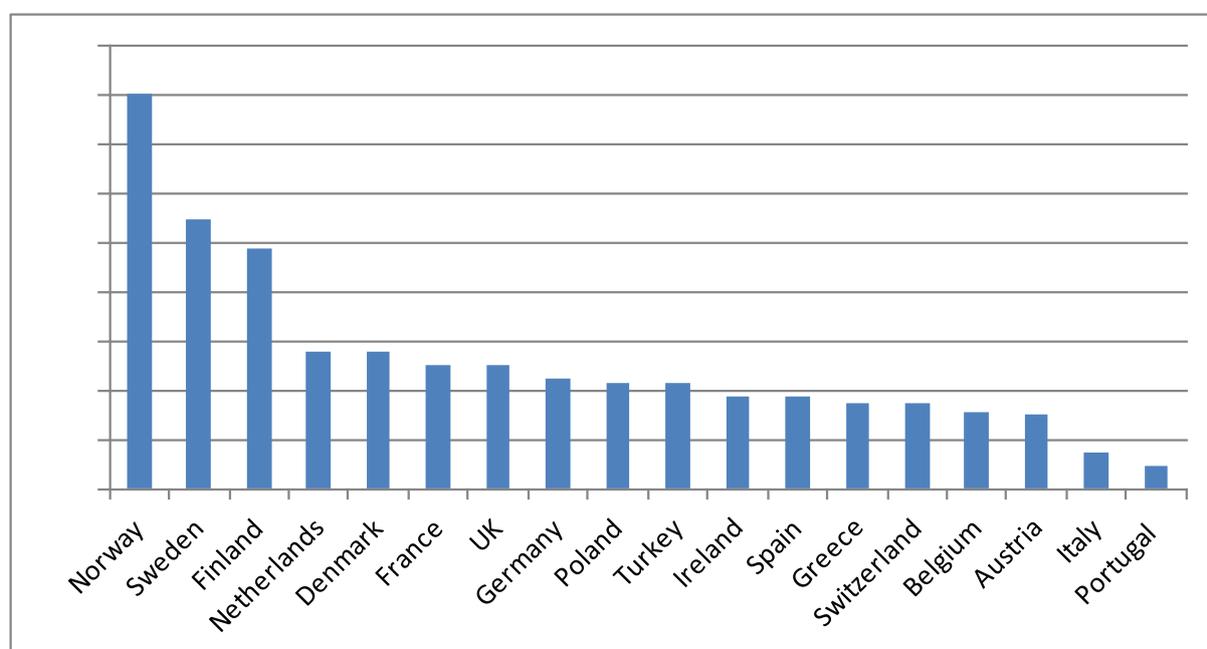
Source: Catalyst, 2011.

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2   Benchmark stock market index representing 40 of the largest 100 companies officially listed in the Paris Bourse.

On the data shown above, the UK currently fares better than many European countries, but lags behind Norway, Sweden, Finland, the Netherlands, Denmark and France. Given the accelerated pace of change and reform in countries embracing more forceful legal action, the UK stands the risk of falling behind in the cause for increased gender diversity on Boards and the business benefits that this can bring, especially in difficult economic times.

Key obstacles to gender diversity on Boards
The causes of this ongoing gender imbalance on Boards are complex and intertwined. While there is extensive research exploring the various factors impacting the gender composition on Boards, here we aim to provide a high level outline of these obstacles, based on a number of reviews in the field (Vinnicombe et al., 2008; Terjesen et al., 2009; Sealy et al., 2009a).

- **Perceptions of the pipeline**

A common assumption in accounting for the lack of Board diversity is that there simply are not enough qualified women in the pipeline. Women are often assumed to lack the necessary skills to sit on Boards, or not to aspire to Board directorships. However, a plethora of research actually suggests that persistent gender stereotypes create biased judgments about the competence of potential or actual female Board directors, or about the suitability for top corporate roles. Concerning UK's FTSE Boards specifically, women directors were found to possess more human capital compared to their peers - specifically, they were more likely to hold MBA degrees, to have multiple sector experience (private, public, voluntary, governmental) and to have international experience (Singh et al., 2008). The Female FTSE Report highlighted a pipeline of women sitting on corporate Boards and at executive committee levels below the FTSE 100 Boards, growing from 1,877 in 2008 to 2,551 in 2010 (Sealy et al., 2008; Vinnicombe et al., 2010). Additionally, Cranfield produced a '100 Women to Watch' list, accompanying the 2009 and 2010 Female FTSE Reports.

- **Social capital**

Social capital refers to the relationships between people and the mutual obligations and support that these relationships create (Brass, 2001), emphasising the value of social networks and relationships, reciprocity, trust, and shared social norms. Relationships and social capital was found to be a critical factor for the career progression of managers and executives in general (Morrison et al., 1992 in Tharenou, 2003), and for access on corporate Boards in particular (Sheridan and Milgate, 2005; Singh, 2008). However, it is more difficult for women to build social capital due to the natural tendency of the male-dominated corporate elite to exclude

demographically dissimilar others (Ragins and Sundstrom, 1989; Tsui et al., 1992). In addition, women were found to be less instrumental in the way they leverage on their social networks (Ibarra, 1997), to shun self-promotion and impression management (Singh et al., 2002) and to avoid engagement in organisational politics compared to their male colleagues, especially in masculine organisational cultures (Doldor, 2011). These informal behaviours and relational factors underpinning the accumulation and deployment of social capital are critical in gaining access to Boards, but create a disadvantage for women due to the behavioural differences quoted above and to the fact that women tend to be in structurally less powerful organisational roles.

- **Board appointment process**

The Board appointment process was often criticised for its subjective and exclusionary nature. The literature highlighted several key obstacles for women in the appointment process: lack of awareness of available directorships; unclear selection criteria and unconscious bias in the selection process; lack of diversity on current Boards and Nomination Committees; excessive importance of social capital and personal reputations; and selection practices emphasising fit with existing (typically male-dominated) Board cultures, rather than actual skills. These obstacles will be discussed in further detail in subsequent sections of this report.

- **Boardroom cultures**

In addition to tangible aspects such as Board size, structure and composition, 'soft', intangible elements such as the quality of Board meetings, information sharing, critical debates and interpersonal dynamics are essential for the good functioning of Boards (Van den Berghe and Levrau, 2004; Roberts et al., 2005). Some studies found corporate Boards to be old boy's clubs (Kanter, 1977), defined by an argumentative atmosphere and politicking (Ward et al., 2007; Singh, 2008). Eagly and Carli (2007) described how the segregated nature of teams and networks in organisations exposes women to old-boys networks, competitive behaviours, a long-hours culture and informal events often related to masculine activities, thus creating non-inclusive gender cultures in which women became tokens. These cultures make it difficult for women to build the relationships and the trust needed to effectively operate on Boards.

- **Cultural context**

Gender demographics on Boards are inevitably influenced by the broader national context in which companies operate. This entails different cultural beliefs and values toward women and work, but also distinct political actions in this area. Drawing on data from 43 countries, Terjesen and Singh (2008) found that higher proportions of women on Boards correlate with better female representation in management roles

and legislature, and smaller pay gaps. Sealy et al. (2009b) examined initiatives meant to increase Board diversity in four countries (the UK, Norway, Spain and the Netherlands) and observed that the nature and the success of these initiatives hinged upon their alignment with the cultural and political context in which action was taken. Therefore, evidence suggests that broader cultural factors (cultural norms and values, political systems, gender equality trends in the labour market) have an impact not only the proportion of women on Boards, but also on the measures taken to increase it.

1.4 Methodology

This research was conducted between November 2011 and January 2012 and entailed two main stages. The first stage consisted of a desk-based review of evidence regarding the Board appointment process and the role of ESFs, with an emphasis on gender. The second stage consisted of interviews with leading ESFs.

Literature review

The literature review focused on the role of executive search consultancies in the appointment of non-executive directors on corporate Boards. These boundaries were dictated by the fact that both the majority of the available evidence and the recent regulatory efforts (Davies Review, Voluntary Search Code) have focused on NEDs on corporate Boards. The review covered key academic research pertaining to the Board appointment process in general, and to the obstacles faced by women on Boards in particular. The review also examined evidence on the role of ESFs in the appointment process. Most of the material reviewed was drawn from academic publications, namely journal articles accessed through electronic databases and published books. In addition, we examined grey literature by including relevant practitioner or policy reports. Overall, over 80 sources were reviewed.

Exploratory interviews

The empirical research consisted of semi-structured interviews with ten consultants in leading search firms in London. Semi-structured interviews were considered a suitable method of investigation given the short time frame of the project and the need to explore in depth the practices of ESFs. All of the ten interviews were conducted in ESFs which led the establishment of the Voluntary Code. A complete list of the firms included in the sample is provided in Table 1.1. The sample selection was based on the need to capture best practice as opposed to representing the variance across the sector. Given that all the firms included were signatories of the Voluntary Search Code, it was deemed that this sample selection would enable us to identify examples of good practice in the field. However, it should be emphasised that

these better practice firms are not necessarily representative of the sector as a whole.

Table 1.1 Study sample: executive search firms
1. Boyden 2. Egon Zehnder 3. Heidrick and Struggles 4. JCA Group 5. The Miles Partnership 6. MWM Consulting 7. Russell Reynolds Associates 8. Sapphire Partnership 9. Spencer Stuart 10. Zygos Partnership

The interview questions generally explored how ESFs and their clients have engaged with the Voluntary Code, what are their attitudes and reactions to the code, and how the code's provisions shaped the nomination and appointment of (female) non-executive Board directors. Interviews were conducted face-to-face and lasted one hour on average. All of the interviews were recorded and transcribed professionally, while ensuring confidentiality. Using the interview transcripts, a thematic analysis was conducted in order to capture best practice in the sector, illustrated by mini case studies throughout the report. When reporting the findings in Chapter 3, we have anonymised both the search firms and the consultants interviewed.

1.5 Structure of the report
This report is structured as follows:

Chapter 2 provides a review of key available research and reports regarding the Board appointment process and the role of ESFs, as related to the issue of gender diversity on Boards. The chapter starts by discussing the role and structure of corporate Boards in section 2.1, distinguishing between executive and non-executive director roles. In section 2.2 we review corporate governance reforms in the UK. Section 2.3 summarises academic evidence regarding key stakeholders and decisive factors in the Board appointment process. Section 2.4 reviews the available evidence on the role of ESFs in the appointment process. Finally, section 2.5 highlights the specific challenges faced by women in the Board appointment process and in relation to the activity of ESFs. We conclude the review of evidence in section 2.6.

Chapter 3 presents the findings from the exploratory interviews conducted with executive search consultants. The chapter discusses the positive impact that the Code and the Davies Review have had in terms of raising awareness and concern for gender diversity on Boards in the private sector, as well as the views of search consultants regarding the Voluntary Search Code (sections 3.1 and 3.2). Furthermore, the chapter identifies a range of good practices among executive search firms, which can be mapped onto the various stages of the Board appointment process. First, it discusses the Board opening in the context of succession planning (section 3.4), raising the potential need for more diversity on Board (section 3.5) and defining the brief (section 3.6). Second, it considers searching for candidates (section 3.7) and putting together the long list and the short list (section 3.8). Third, it examines supporting candidates (section 3.9) and emphasising 'intrinsics' or competencies throughout the appointment process (section 3.10). The chapter ends by drawing out what happens after an actual appointment is concluded, discussing the role of induction and Board cultures (section 3.11).

Chapter 4 concludes the report by summarising the findings of the literature review and of the exploratory interviews conducted. The chapter highlights current best practice in the executive search sector (section 4.1) and puts forward a number of recommendations for ESFs and other stakeholders in the appointment process, intended to make the appointment process more inclusive (section 4.2). Recommendations made by the search consultants interviewed are also summarised separately (section 4.3). Finally, the chapter also identifies evidence gaps relevant to both practice and theory in the field (section 4.4).

2.   The Board appointment process

2.1   Role and structure of Boards

As one of the main mechanisms of internal governance, Boards of directors have three essential functions: legitimising (enforcing legal requirements), directing (setting the overall corporate strategy) and overseeing executive management (ensuring competent and efficient management) (Bilimoria and Piderit, 1994). In Western economies, corporate Boards usually have one of three structures: unitary, two-tier or mixed.

Box 2.1 Corporate Board structures

'Board structures can be grouped into three main types:

*   The **Unitary System**, as in the UK, USA, Canada, Australia, Italy and Spain. This is where there is a single Board made up of executive management and non-executive directors. In the UK, in particular, the Chairman is usually non-executive.

*   The **Two-Tier System**, compulsory in Germany, Austria and Norway, a majority of Boards adhere to this system in Denmark, Finland, Netherlands and Switzerland. This consists of a supervisory board of outside directors and a separate management board of executive directors, each meeting separately. In Europe, 38 per cent of companies adhere to this system.

*   A **Mixed System** of two Boards (an executive and a non-executive meeting separately, but where some executive directors sit on the non-executive board, in particular the Chairman and the Chief Executive, as in the majority of companies in France, Sweden, Belgium and Portugal.'

Source: Heidrick & Struggles (2009: 5).

The Anglo-Saxon unitary Board system stipulates that Boards be composed of executive (inside) and non-executive (outside) directors. Executive directors (EDs) are full employees of the company, concerned with the day-to-day running of the business and are often promoted from within the company, while non-executive directors (NEDs) are appointed from outside, with the overall aim to provide an independent perspective on the corporate governance decisions made by the Board.

NEDs typically fulfil three roles (Weir and Lang, 2001; Tricker, 1984; McNulty and Pettigrew, 1996; Dixon et al., 2005):

- Performance monitoring: ensuring that executive directors pursue shareholder value.

- Strategy development: formulation of strategy and allocation of resources.

- Conflict resolution: mediating decisions in the areas of Board remuneration, Board processes and hiring and firing of Board members.

NEDs work for the Board, attending Board meetings and meetings of any Board committees of which they are a member. In the UK, Boards typically meet 10 times per year, with NEDs expected to engage in extra preparatory work for these meetings, plus additional work for any Board committees. While this time commitment varies tremendously, a Russell-Reynolds report (2011) estimated that on average NEDs on UK's FTSE-listed companies must dedicate half a day per week to this role - less for a smaller company, more for a larger one. Similarly, another report estimated that NEDs of UK PLC boards typically spend 17-30 days a year working for their Board (Life in the Boardroom Survey, 2012). NED positions are remunerated. In 2009, among the top 50 FTSE[3] companies, average pay for an NED was £80,000 per annum (Heidrick & Struggles, 2009). A more recent report observed that median NED fees across FTSE companies range from £1,300 per day for small companies to £1,800 per day for larger ones (Russell-Reynolds, 2011). However, remuneration is not the only factor motivating individuals to take up NED roles. Additional benefits of holding NED roles typically include developing business acumen through exposure to new areas of business and growing or preserving one's standing in the top business community.

In the UK, Boards of public limited companies (PLCs) are required to include an Audit Committee, a Remunerations Committee and a Nominations Committee, who provide 'checks and balances' on the Board's behaviour. These committees define how different members of the board are mandated and organised to carry out specific functions, projects or programmes assigned to the board. The Nominations Committee, in particular, is charged with managing the process of recruiting new Board directors when necessary, under the oversight of the Chairman. These are the key corporate stakeholders typically charged with defining the specifications of new Board openings. In addition, the Board appointment process may also involve

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[3] Financial Time Stock Exchange.

executive search consultants as external parties responsible for identifying suitable candidates. Incumbent Board members are also involved in the interviewing process of potential NEDs.

The differences in the roles fulfilled by executive and non-executive directors are paralleled by differences in the appointment process for these two types of Board directors. In terms of process, the appointment of executive directors relies almost exclusively on fairly formal internal promotion processes, while the appointment of non-executive directors calls for the involvement of external parties. As such, research and policy on the Board appointment process has typically focused on the non-executive appointments, a focus adopted by the current report as well.

2.2   Regulatory attempts regarding the Board appointment process

Over the last two decades, the appointment process of NEDs on UK Boards has been criticised as a flawed process and has been the focus of several waves of reform. The UK takes a voluntary rather than a mandatory approach to boardroom governance and behaviours, aiming 'to set a global standard for good practice in corporate governance' (Heidrick & Struggles, 2009: 44). This regulation is overseen by the Financial Reporting Council (FRC) and has been guided by a code of conduct which has undergone a number reviews over the past 20 years. The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The **UK Corporate Governance Code** (referred to as 'the Code') is a set of principles of good corporate governance aimed at FTSE-listed companies and require that these PLCs disclose how they have complied with the Code, and explain where they have not applied the Code - in what the Code refers to as 'comply or explain'.[4] The Code adopts a principles-based approach in the sense that it provides general guidelines of best practice. This contrasts with a rules-based approach which rigidly defines exact provisions that must be adhered to. The Code is essentially a consolidation and refinement of a number of different reports and codes concerning good corporate governance, which we review below.

The Cadbury Report 1992

Today's Code has its roots in the publication of the Cadbury Report in 1992. Produced by a committee chaired by Sir Adrian Cadbury, the Report was a response to major corporate scandals associated with governance failures in the UK (Cadbury, 1992). Initially limited to preventing financial fraud, Cadbury's remit was expanded to corporate governance generally. Hence the final report covered financial, auditing

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[4]   Listing rule 9.8.6(6) - see p.14 of the June 2010 Combined Code of Governance.

and corporate governance matters, and made the following three basic recommendations:

- The CEO and Chairman of companies should be separated.

- Boards should have at least three non-executive directors, two of whom should have no financial or personal ties to executives.

- Each Board should have an audit committee composed of non-executive directors.

Greenbury Report 1995

In 1995, Sir Richard Greenbury set up a review into executive compensation, in response to public anger at the time over spiraling executive pay, particularly in public utilities that had been privatised. This produced the Greenbury Report, which recommended some further changes to the existing principles in the Cadbury Code:

- Each Board should have a remuneration committee composed without executive directors, but possibly including the Chairman.

- Directors should have long term performance related pay, which should be disclosed in the company accounts and contracts renewable each year.

The Combined Code

Greenbury recommended that progress be reviewed in three years and so in 1998 Sir Ronald Hampel chaired a third committee. The ensuing Hampel Report suggested that all the Cadbury and Greenbury principles be consolidated into a 'Combined Code'. It added that:

- The Chairman of the Board should be seen as the 'leader' of the non-executive directors.

- Institutional investors should consider voting the shares they held at meetings, though compulsory voting was rejected.

- All kinds of remuneration including pensions should be disclosed.

The Higgs Review and Tyson Report, 2003

Thus far, prior reports had said very little about the role of the non-executive directors or their appointment. In 2003, the Higgs Review, commissioned by the then

Secretary of State at the Department of Trade & Industry (DTI), Patricia Hewitt, provided critical assessment of boardroom practices and effectiveness. The review by Derek Higgs (a merchant banker) examined the roles and responsibilities of NEDs. Ms Hewitt commissioned an additional report by Laura Tyson (then Dean of London Business School) on the recruitment and development of NEDs. Both reports called for more diversity in the talent pools from which NEDs were recruited, acknowledging that the majority of NED board appointments were made informally, through personal contacts. They also recommended increased transparency of appointment processes. The DTI encouraged companies and executive search firms (ESFs) to review both their criteria for board appointments and the process by which such appointments were made (Singh and Vinnicombe, 2004). These recommendations were integrated into the 2003 Combined Code, with clear recommendations for a rigorous, fair and open appointments process, to promote meritocracy in the boardroom and ultimately to raise the standard of corporate governance.

The Higgs Review and Tyson Report both showed that increasing diversity of directors would be desirable but also problematic, in that sourcing of diverse talent requires the opening up of both the methods and criteria for selection. However, they recognised that increasing the diversity of NEDs' backgrounds, skills and experiences would enhance the effectiveness of Boards by engaging a wider range of perspectives and knowledge to bear on issues of company performance, strategy and risk (Tyson, 2003). For this reason, the two reports stressed the important role played by ESFs in tapping into a more diverse pool of candidates. But successive annual Female FTSE Reports produced by Cranfield School of Management revealed that progress to increase diversity of ethnicity or gender has not been in keeping with the recommendations of Higgs or Tyson.

UK Corporate Governance Code
After a number of years with incremental increases in the diversity of directors of PLC Boards, the revised UK Corporate Governance Code came into effect in June 2010. For the first time, it included a principle which explicitly acknowledged the value of diversity in the boardroom (Supporting Principle B.2), which states that:

> ... the search for candidates should be conducted and appointments made on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender.
> (Financial Reporting Council (FRC), 2010: 13)

Several of the recommendations formulated by the Davies Review (2011), which reported in February 2011, targeted the Board appointment process.[5] The report encouraged the FRC further to amend its Code and encouraged ESFs to play a more proactive role in increasing gender diversity through the appointment process.

In May 2011, the FRC issued a consultation document which sought views on whether the Code should be revised in such a manner. The following October, the FRC announced its intention to strengthen the principle on boardroom diversity introduced the previous year, its press release stating:

> Following public consultation, the Financial Reporting Council announced in October that it intends to amend the UK Corporate Governance Code to require companies to report on the board's policy on boardroom diversity, including gender, on any measurable objectives that the board has set for implementing the policy, and on the progress it had made in achieving the objectives. In addition, the FRC will amend the Code to identify the diversity of the board as one of the factors to be considered when evaluating its effectiveness. These amendments will formally apply to financial years beginning on or after 1 October 2012, at the same time as other proposed changes to the Code in which the FRC will consult in early 2012, but the FRC has encouraged companies voluntarily to apply the amendments with immediate effect.

In addition, the FRC (2011: 5) stated that:

> An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a Chairman or a non-executive director.

Baroness Hogg, Chairman of the FRC, commented:

> The changes we made to the Code last year reflected the FRC's view that gender diversity strengthens board effectiveness by reducing the risk of 'groupthink', making fuller use of the talent pool and keeping companies in touch with their customers. The changes we are announcing today, which were strongly supported in our consultation, will reinforce the Code's principles by requiring companies to report on measurable objectives and progress in this important area. We believe this gives a further opportunity to show that Britain's 'comply or explain', Code-based approach can

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[5] See page 2 of this report for Lord Davies' recommendations.

deliver a flexible and rapid response and is therefore preferable to detailed legal regulation, and we urge companies to demonstrate this as quickly as possible.

(FRC press release, 2011).

As a result of the Davies recommendations, ESFs adopted a **Voluntary Search Code,** in July 2011. Although so far regulatory attempts have not led to mandatory legislation in the UK, pressure is currently mounting for visible progress to be achieved through non-mandatory solutions. Short of that, Lord Davies (2011: 2) reminded the report's audience that:

> Government must reserve the right to introduce more prescriptive alternatives if the recommended business-led approach does not achieve significant change.

2.3 Key stakeholders and decisive factors in the Board appointment process: evidence from existing research

Academic research on the Board appointment process has also surfaced a number of critical processes and key stakeholders in the appointment process of NEDs, bringing additional insight into the issues tackled by corporate governance legislation and reform. Extant research regarding the appointment of directors tends to focus more on the demographics of appointed directors and their impact on firm performance (Dalton et al., 1998; Zahra and Pearce, 1989) and less on the appointment process per se. The relatively low number of empirical investigations into Board processes is in part explained by the difficulty in gaining access to members of the corporate elite (Pettigrew, 1992; Zahra and Pearce, 1989). While most of the available evidence is from Anglo-Saxon countries and particularly the UK, comparisons can be made between the UK and the US due to a similar Board structure - a unitary corporate Board and a mix of executive directors (inside) and NEDs (outside directors).

In the UK, an empirical study (35 interviews and 50 surveys) investigating the appointment process of NEDs on FTSE 350 companies, found a traditional process dominated by the Chairman and/or the CEO with token consultation of the full Board (Gay, 2001). While the study indicated that companies had set up Nomination Committees and were increasingly using ESFs, almost half of the sample felt that the process was still dominated by one or two individuals. The process was evidenced to be more formal, professional and open, yet the 'old boys' network' was clearly still influential. Gay (2001) suggests that although more Nomination Committees were set up as a result of the Combined Code, these committees received less attention

than the audit or remuneration committees. Dulewicz and Herbert (2008) also found evidence that despite the appointment of a new director having the greatest perceived impact on Board performance, the Nomination Committee was ranked lowest in terms of the thoroughness with which its performance was judged.

In one of the first comprehensive empirical studies in the field (80 interviews and 2,000 questionnaires), Lorsch and MacIver (1989) examined director appointments over a three year period in large industrial and service companies in the US manufacturing sector. The authors found that traditionally, the selection of directors was the exclusive responsibility of the CEO and this sense of ownership was exemplified by how often one heard the CEO refer to 'my Board'. However, their study also noticed that the appointments process increasingly moved away from being the exclusive responsibility of the CEO (also the Chairman in the US) due to the emergence of Nomination Committees. This was seen to instil greater confidence in the investing public and maintain an image of objectivity. Although 84 per cent of the interviewees sat on corporate Boards with Nomination Committees, 55 per cent of respondents indicated that the CEO was still the main source of nominations and that the Nomination Committees had limited influence in the process compared to the CEO. Furthermore, the study indicated that CEOs had a preference for other CEOs on their Boards which often led to the appointment of directors who had similar experiences, were demographically similar and sympathetic to them. This reflects Useem's (1984) landmark study evidencing the existence of a director community. Combining in-depth interviews and multiple data sources, this study found that Board members shared remarkably similar attitudes and beliefs regarding their roles and were highly conscious of themselves as a distinct community with shared values.

These findings are supported by O'Neal and Thomas (1996) in their empirical studies of Boards of directors (1992-95) involving 80 CEOs, executive and non-executive Board directors within 40 companies (including 14 Fortune 500 companies)[6] spanning 23 industries. Interviewees indicated that the task of identifying the qualifications of a new director lay with the Chairman first and the Nomination Committee second, reflecting the increased role of Nomination Committees in appointments. The final decision was often made by the Chairman and the list of candidates was restricted to personal referrals from the Chairman and other Board incumbents. This appointment process resulted in a Board whose members were chosen from a narrow and homogeneous pool of candidates, driven by director's personal, social, professional and business networks. Directors

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[6]   This is the annual ranking of America's largest 500 corporations.

suggested that a more objective selection of directors would increase the effectiveness of the Board.

The literature suggests that although Nomination Committees, supported by an ESF, are in place in many FTSE-listed organisations, they are the least developed of the Board's committees, meeting irregularly without a clear understanding of their role in the appointment process. Further, the Chairman, as recommended by the Combined Code (2003), is the Chair of the Nomination Committee and remains a dominant influence on who actually gets appointed to the Board (Pye, 2000). Some have argued that the increased use of Nomination Committees has had little effect in seeking to broaden the talent pool targeted for new appointments. On the contrary, Pye and Camm (2003) observe that companies may gain a tick in the governance box and implement recommendations which make structural changes, without paying attention to process and behavioural implications.

In a longitudinal study of corporate directors in 12 large UK organisations, Pye (2000) found that in 1989 NEDs were allies of the Chairman or had connections with the 'right networks' and it was not uncommon to find Ambassadors or wives of politicians on corporate Boards. In 1999, all of the Boards in Pye's sample had a nomination committee and it was commonplace to have ESFs involved in NED appointments. However, despite an increased degree of formality in the appointment process, knowing the person, relying on the unspoken rules of elite membership and 'gut feel' played a significant part in the selection of NEDs. In addition, between 1989 and 1999, Boards were found to be smaller in size and to have a greater number of NEDs. This placed greater emphasis on the 'value added' by each member, typically understood to mean previous relevant executive experience of NEDs. Pye (2001) also pointed out that in making Board appointments, directors take into account the personal style, energy, and relationships of potential NEDs. The Chairman was found to play a significant part in 'conducting the NED ensemble' and bringing forward potential names for consideration; despite more time being invested in identifying potential candidates, prior relationships and reputational capital remained the decisive factor when it came to choosing between a director who was known to the Chairman and one who was not. Other studies confirmed this enduring tendency to recruit known individuals from interlocking networks of corporate Board directors (Pye, 2005).

In addition, there is considerable literature on managerial selection suggesting that social fit and conformity to the norms of social interaction among top managers is a primary criterion for selection (Kristof-Brown, 2000), trends which may be extrapolated to the dynamics of the corporate Board. Useem and Karabel (1986)

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suggest that access to the corporate elite is restricted to those individuals who have elite social and educational credentials and who are demographically similar to incumbent members of the power elite. In a comparative study of directors of the top 100 companies in the UK and France, Maclean et al. (2006) found that the appointment of new directors entailed considerable reputational risk from an individual, Board and company perspective, which increased the need for perceived fit of new directors as a comfort factor (Hill, 1995).

A qualitative study of Chairmen in 16 FTSE100 companies also suggested that the 'old boys' network' style of recruitment deemed to be prevalent in 1999 had greatly diluted in identifying potential NEDs by 2010 (Vinnicombe et al., 2010). Chairmen commented on how the quality of candidates had risen and how the process had become more rigorous over the past few years, entailing a thorough review of the skills, competencies and experience required when there is an NED vacancy on a Board. Most Chairmen talked about the task of not only replacing the skills and knowledge of departing NEDs, but also of taking the opportunity to review NED requirements in the context of current business priorities and challenges for the company, and in the light of the mix of skills and experience already in existence around the boardroom table. In addition, Chairmen also discussed the increasingly important role of search consultants. These findings suggest that from Chairmen's perspective, an increased focus on skills represents an improvement in the practices surrounding the Board appointment process.

However, despite an increased focus on skills, Gaughan (2011) found that in the search and selection for a NED candidate, Chairmen also seek out direct and indirect contacts or connections in the corporate elite to reference candidates' reputation. In her qualitative study exploring how senior executives obtain their first FTSE 100 NED appointment, Gaughan found that as custodian of the Board culture, Chairmen inquired about individuals' reputation, in order to ascertain candidates' values and asses how much these fit with the values of the Chairman and the current board. The study found that individuals gaining their first appointment onto a FTSE 100 Board had established personal reputations and built a network of connections that vouched for that reputation in the eyes of the Chairman. The greater the 'connectedness' of a candidate in the corporate networks and the closer these connections were to the Chairman, the easier it was to establish the alignment of values. Gaughan found that ultimately, the litmus test on the alignment of values between the Chairman and candidate was the social interviewing process that concludes the appointment process. The referencing data and the fit established in the interviewing process by social validation need to 'stack up' for the individual and leave the Chairman in no doubt that his or her reputation, and by association the

Board's reputation, will benefit from the appointment of the selected candidate. These findings suggest that although board appointment practices became more objective due to an increase focus on skills and a relative professionalisation of the selection process, intangible and subjective factors such as fit judgements still play a significant role in the process.

Box 2.2   The Board appointment process: key themes from the literature

- The key parties involved in the appointment process are the Chair of the Nomination Committee, the candidate and the ESF member. Following regulatory efforts, the importance of the Nomination Committee has increased and the role played by the CEO has decreased.

- The process of appointing NEDs has become more formal in response to changes in corporate governance; however, the process remains dominated by one or two individuals and the old boys' network, who remain influential in referrals and nominations.

- The Board appointment process is often driven by a homogeneous elite group of individuals at the top of the FTSE 100 companies. As the corporate elite, they restrict access to those individuals who do not fit with the values, norms, and behaviours of the existing members. The social psychological process of fit seems central in the appointment process, yet it remains an elusive concept likely to trigger exclusionary practices.

2.4   The role of executive search firms in the Board appointment process

Various regulatory attempts aiming to improve the Board appointment process have put forward executive search consultants as a third party meant to add objectivity and transparency to the process; equally, ESFs were repeatedly called upon to tackle the issue of diversity in the appointment process (Higgs, 2003; Tyson, 2003; Davies, 2011). The recent debate around gender diversity on UK boards identified ESFs as key stakeholders in changing the landscape of women on boards. As a result of the Davies Report, 20 leading search firms in the UK drafted the Voluntary Search Code, laying down principles of best practice that should be followed in order to make the appointment process more inclusive. These principles ranged from action when accepting a company brief to induction on newly appointed directors on boards.

The six months monitoring report following the Davies Review found that 73 per cent of FTSE 100 and 60 per cent of FTSE 250 firms reported in their Annual Reports that they used executive search firms in their Board appointment process (Sealy et al., 2011). Despite the fact that ESFs have become institutionalised risk-management agents in the Board appointment process (Faulconbridge et al., 2008), there is limited academic evidence on how ESFs impact the process of corporate Board appointment and the resulting consequences for women.

Steps in the executive search process

Jenn (2005) described the senior executive search process as encompassing a few typical stages:

- Contracting (initial meeting, proposal letter from ESF to client and signature of the contract)
- Brief profile sent by client
- Search (internal, within existing database, and external)
- Drafting a long list of candidates
- Screening and interviewing of candidates by head-hunter
- Short-listing candidates
- Client interviews with candidates
- Referencing
- Negotiation of contract
- Placement
- Follow-up

Similarly, Faulconbridge et al. (2008) suggested that a search process usually entails mapping the market and using the firm's database to search for suitable candidates, as well as sourcing or collecting recommendations about potential candidates through contacts. Additionally, these authors stress that nowadays search firms describe their service as added value beyond merely providing a list of candidates, stressing the relational skills required to persuade originally uninterested candidates to consider a specific role.

This suggests that executive search entails a salesmanship dimension requiring relational and impression management skills deployed by search consultants in the interaction with both the client organisation and the candidates (Finlay and Coverdill, 2007). Khurana (2002) described three roles that ESFs play in the appointment of CEOs: coordination (managing the actual selection and appointment process); mediation (facilitating trust and gradual commitment between the corporate client

and the candidate); and legitimation (providing a level of professionalism in order to legitimate a fairly opaque and discrete process).

The nature of the executive search process
The economic success of search consultants depends on the extent to which they can make themselves credible to companies in offering something special. Due to the experiential characteristic and intangibility of the service, successful search consultants concentrate on the management of the client relationship in order to create a favourable impression of the service. In this context, they can be seen to rely on impression management techniques (Clark, 1995). Finlay and Coverdill (2007) suggested that search consultants are opportunistic and seek their own interests to fill a position as painlessly as possible. These studies indicate that the higher managers rise in an organisation, the more it is that they are evaluated on the basis of social skills and that final decisions are made on the basis of 'chemistry', a highly subjective evaluation of a candidate.

Other authors have described elite labour recruitment as a network process wherein executive search consultants 'gate-keep' executive movement, suggesting that the 'old boys' network is replaced by the 'new boys' network which is run by executive search consultants (Faulconbridge et al., 2008). Faulconbridge et al. argued that ESFs control the elite labour market via two forms of power relations: one in the labour management process, by mediating the relationship between candidates and client organisations; and another one in the labour market itself, by promulgating definitions of talent and thus determining who does and who does not qualify as a talented candidate.

Charan (2005) noted that the activity of executive recruiters hinges to a great extent upon the Board's ability to define the criteria for the role. This requires a good functioning of the nomination committee and without that, recruiters may play a significant role in defining the criteria themselves. However, Charan argued that 'no executive recruiter can grasp the subtleties of a client's business as well as the client can' and that loose definitions of the required skills could make recruiters over-emphasise the role of chemistry and personality when judging candidates.

Clark (1992) suggested that executive search consultants see the process of identification and selection of candidates as a highly subjective process where two factors are considered: (1) the suitability of the candidate for the job (i.e. do they have the skills to do the job?) and (2) the acceptability factor (i.e. can they see this personality functioning successfully within a particular organisation?). From this perspective, their role is to find a suitable and acceptable candidate, where

acceptability is judged on the perceived fit with the organisation and the interviewer. Furthermore, Khurana (2002), in an ethnographic analysis of CEO selection, argued that search consultants rely on words like 'chemistry' to describe CEO qualities elevating individuals they associate it with and discounting those who are not perceived to possess it. Khurana also commented that they rely on imperfect candidate information to judge clients belonging to the old boys' network. The author argued that executive selection is a 'social matching' process where search consultants filter candidates by seizing upon the readily identifiable characteristics such as previous position or employer and those with the most desirable characteristics at the top of organisations get selected. This process of 'social matching' where executive search consultants are driven by concerns of social desirability rather than productivity creates a closed system of top-tier executives.

In addition, in an ethnographic study on the US executive search process, Hamori (2004) suggested that appointments are as much a function of the attributes of the appointed person, as a function of the experience and personal biases of the search consultant. The executive search consultant was found to impact the process and placement in many ways, depending on how (s)he assesses the initial need to its ties with discussion groups or networks and personal preferences. In a more recent study of a multinational search firm, Hamori (2010) conducted 44 in-depth interviews and examined the records of 2,000 executives from over 800 corporations, mostly US-based. The findings suggested that the firm tended to target large, reputable, high-performing companies, so individual executives were more likely to be on the list of the search firm if they already worked in well known organisations. In addition, individual executives were targeted on the basis of their job title rather than their accomplishments. The study offered evidence that the executive search firm tended to help individuals move between industries, but not across functions or into new roles. Overall, this study demonstrated that executive search firms tend to be risk-averse and not very creative in the way they place senior executives on the recruitment market.

A similar criticism was formulated by Charan (2005) who commented that in search of a CEO, executive search consultants are sometimes driven by the 'usual suspects bias'. Similarly, Khurana (2002) argued that in order to come up with 'defensible' candidates, search firms tend to focus on a narrow and highly visible pool of executives, paying more attention to the prestige of the organisations in which these candidates hold roles, rather than their actual performance in those roles.

Selection practices among executive search consultants

The literature seems to suggest that executive search consultants recruit and select candidates through a process of social matching which is influenced by their own preferences, experience and contacts and where the assessment of candidates is based on the highly subjective concept of fit. Broader literature on recruitment and selection also suggests that attitudes and interpersonal perceptions are critical factors in this process. Selection, considered from this viewpoint, is more about establishing a relationship between the organisation and the candidate. In particular, research into the concept of person-organisation fit provided insights into some of the mechanisms underlying selection as a social process.

Person-organisation fit underlies perceptions of 'chemistry' (Chatman, 1991) and is often ascertained based on organisational value congruence (Cable and Judge, 1997) and congruence between applicant and recruiter values (Adkins et al., 1994). However, some scholars have pointed out that despite its intuitive appeal, the concept of fit evades precise definition (Rynes and Gerhart, 1990). Drawing on previous literature, they summarised some elements associated with person-organisation fit as opposed to person-job fit: (a) fit goes beyond the job related factors, (b) fit becomes relevant once the applicant has been deemed suitably qualified to do the job, (c) fit is firm-specific and (d) fit is most commonly assessed through interviews, because most of the attributes associated with fit are interpersonally demonstrated and evaluated. Fit was identified to be an important factor in the context of executive recruitment, which was often described as a subjective process. Employing interviews are the prime assessing ground, despite their low validity and reliability (Robertson and Makin, 1986; Clark, 1992).

Chatman (1989) argued that selection practices such as the interview serve a subtle function for recruiters in that it helps them to screen out the people who are not compatible with the organisation. Arvey and Campion (1982) suggested that interviews are likely to trigger 'similar to me' effect and personal liking bias. All of these highlight the susceptibility of recruiters to make biased judgements about candidates in their decision making process.

In addition to the use of interviews, ESFs employ informal methods to gather information about the candidates, typically in the form of referencing. Gaughan (2011) found that in the Board appointment process of first time NEDs, much like the Chairmen, the ESFs carry out their due diligence along similar informal lines in social networks. Interestingly, her exploratory study also showed that in the eyes of Chairmen, the added-value of ESFs consisted in offering another source of informal vetting of candidates, via referencing.

> **Box 2.3   The role of ESFs in the appointment process: key themes from the literature**
>
> - Following corporate governance reforms, ESFs are increasingly used and perceived as risk-management agents in the Board appointment process; more recently, they have been called upon to contribute to increasing gender diversity on boards. However, there is currently limited evidence regarding the important role played by ESFs as intermediaries in the elite labour market. The power of ESFs consists not only in mediating the relationship between corporations and Board candidates, but also in contributing to defining what talent means in this context, and thus who qualifies as a talented candidate or not.
>
> - Search consultants assess candidates not only on their suitability for the role in terms of their skills, but also on the basis of subjective elements such as personality, values, and potential chemistry or fit with the targeted organisation or Board. Interviewing and referencing are common practices informing these fit judgements among search consultants. Consequently, the outcome of an appointment process may be significantly influenced by the preferences and biases of the search consultant.
>
> - Search firms tend to be conservative in the way they ascertain the value of candidates, being guided by job titles and employer organisations, rather than the actual accomplishments of candidates. They also adopt risk-averse strategies when placing senior executives on the market, by helping individuals move across industries, but rarely into new roles.

2.5   Gender-related obstacles in the Board appointment process

Among policy makers and practitioners, several rounds of corporate governance reform acknowledged that the Board appointment process needed to be more gender inclusive. In particular, the Davies Review demanded that companies explain how their Board appointment process relied on the work of the nomination committee, the use of executive search firms and what was being done to increase gender diversity through the appointment process. The six months monitoring report that followed the Davies Review found that in line with good corporate governance practice, 96 per cent of the UK's FTSE 100 companies had a section in their Annual Reports that gave details on the work of their nominations committee (Sealy et al., 2011). Almost three-quarters gave reasonable detail regarding the transparency of their process (e.g. specifying the parties involved, the fact that there was a brief

defining the role, etc) and 73 per cent stated that they engaged an external executive search firm in the appointment process. **However, despite the amendment mentioning diversity in the 2010 Corporate Governance Code, only 43 per cent of FTSE 100 companies addressed diversity and only 20 per cent specifically mentioned gender diversity in relation to their appointment process. These figures were even less encouraging among FTSE 250 companies.**

These trends observed in both the FTSE 100 and the FTSE 250 companies suggest that companies have endeavoured to provide some transparency into the appointment process and the internal workings of their nomination committees. Nevertheless, the majority of companies (particularly in the FTSE 250) have failed to demonstrate explicitly their intentions and practices with regard to addressing the issue of gender diversity as related to the Board appointment process and the role of the nomination committee (Sealy et al., 2011). This suggests a relative disconnect between the abstract intention of tackling diversity and the concrete Board appointment practices among FTSE 350 companies. A relatively small body of research charting women's experiences in the appointment process sheds some light into what are the challenges women face in the process, in general, and in relation to the work of executive search firms, in particular.

Experience

The lack of supply or qualified female candidates is often quoted as an explanation for the lack of women on Boards. Surveys of chief executives and Chairmen in several countries in the 1990s revealed that women were generally perceived to lack the qualifications and experience required from directors (Morrison and Von Glinow, 1990; Ragins et al., 1998; Pye, 2001). A survey of US and Canadian top women executives indicated that women saw as key career facilitators the following factors: exceeding performance expectations; developing a managerial style that men are comfortable with; and having influential mentors or networks. In terms of barriers, stereotyping was considered the most pervasive, followed by exclusion from male networks and unwelcoming organisational cultures. Unlike women, their male CEOs considered that women do not advance because they lack the adequate skills and experience and because of not having been in the pipeline long enough (Catalyst, 1996). Similarly, a recent survey of over 700 corporate directors (Heidrick and Struggles, 2011) found that men and women explained the gender disparity on Boards differently: while men emphasised the pipeline deficit, women said that a major obstacle was the prevalence of closed traditional networks in the appointment process. This suggests that the assumption that women lack sufficient qualifications is a simplistic and inaccurate explanation for the gender imbalanced nature of Boards.

Indeed, while research generally indicates that the interrupted nature of women's careers makes the acquisition of human capital difficult, several studies on women on Boards suggest that the issue of experience is more complicated. Due to the fact that gender stereotypes cast doubt on women's ability to succeed in typically male roles, women must offer provide unambiguous proof of competence in order to be considered as competent as, or more competent than, men. Suggesting a potential double standard of competence for women on Boards of directors specifically, Singh et al. (2008) noticed that newly appointed women in the FTSE100 companies had better educational credentials then men. This is supported by earlier studies in the US and Canada where women directors were shown to be exceptionally qualified (Mattis, 1993; Burke,1993).

Beyond simply quantifying and comparing the qualifications of male and female Board directors, other studies have indicated that men and women tend to be preferred for different Board roles. Bilimoria and Piderit (1994) provided evidence that on the Boards of Fortune 300 firms, men are preferred for membership in compensation, executive, and finance committees, and women are preferred for membership in public affairs committees. Additionally, there is a widespread assumption that NEDs must have prior executive or Board experience, which narrows the pool of potential candidates to current or previous CEOs or executive directors, a pool where there are very few women (Pye, 2001). A qualitative study with Chairmen of FTSE 100 companies revealed that there is a division of opinion as to whether candidates need to have had previous experience in an executive level operational role with profit and loss (P&L) accountability, in order to be a credible candidate for a Board (Vinnicombe et al., 2010). Some Chairmen were more relaxed about this than others with several emphasising the importance of drilling down on skills during the skills audit 'otherwise there is a temptation to say you need P&L experience'. One Chairman was very clear about not needing P&L experience in every NED prior to appointment as 'you can teach people that'. Another said that:

> I don't think that every NED has to tick every box at the basic level, as
> long as the Board in aggregate has sufficient of those skills.
> (Vinnicombe et al., 2010: 42).

Several Chairmen cited examples of women (and men) whom they had appointed to their Boards without PLC experience at all. Describing one such example a Chairman said:

> She had a fantastic overview of the business scene…..the international
> scene and was very, very sensitive to the public mood – a huge amount of
> emotional intelligence if I can put it that way.
> (Vinnicombe et al., 2010: 43)

Another Chairman voiced the opinion that companies might think about taking a few
more risks with NED appointments in this context:

> NEDs are only here for 21 days a year as opposed to 220 (for Executive
> Directors). It should therefore be slightly easier to take a risk.
> (Vinnicombe et al., 2010: 43)

The Davies Review (2011: 5) encouraged companies to expand the talent pool by
drawing on more diverse backgrounds, namely:

> .... women from outside the corporate mainstream, including
> entrepreneurs, academics, civil servants and senior women with
> professional service backgrounds.

This recommendation stresses the need to go beyond traditional definitions of
desirable experience for Board directorships. The six months monitoring report
following the Davies Review observed progress in this respect, with fourteen (67 per
cent) of the new female appointees having no prior FTSE 100 or FTSE 250 Board
experience. Three of the newly appointed female directors had HR backgrounds,
again suggesting a breaking of the stereotypical background to being a Board
member. Reflecting the trend in the FTSE 100, 20 (72 per cent) out of the 28 FTSE
250 new female directors have had no previous FTSE 350 experience (Sealy et al.,
2011).

Interpersonal dynamics
In addition to the issue of experience, another category of obstacles women face in
the appointment is related to the nature of interpersonal perceptions and dynamics
involved in the selection process. The 'similarity – attraction paradigm' suggests also
that similarity leads to liking between individuals (Byrne, 1971). Individuals and
groups have a natural tendency to drive out diversity by surrounding themselves with
similar others (Milliken and Martins, 1996). This socio-psychological mechanism has
a significant impact on the selection process for Board directors. Schultz (2003)
argued that fear of diversity and excessive recruitment of friends are among the most
common mistakes corporations make in creating and using their Boards. Similarly,
recruiters were found to have better interactions with people they like and have

similar personalities to themselves (Kristof-Brown, 2000). In a quantitative study of 413 Fortune/Forbes 500 companies in the US industrial and service sectors, Westphal and Zajac (1995) explored how social-psychological factors play out in the recruitment of new ED and NED directors. Their study evidenced that CEOs or Board members (depending on who was more powerful) favoured new directors who were demographically similar. The authors invoked the similarity-attraction principle (Byrne, 1971) and self-categorisation theory (Tajfel and Turner, 1986) in order to account for this tendency to recruit in one's own image.

Additionally, there is evidence that a number of practices employed by organisations and ESFs in the appointment process fail to foster diversity. Some authors have drawn attention to the fact that selecting candidates on the basis of person-organisation fit may impact diversity negatively (Cooper-Thomas and Anderson, 2002). Finlay and Coverdill (2007) argued that the focus on fit and chemistry may be perpetuating inequality patterns due to gender bias. Heilman (1983, 2001) examined fit and sex-role stereotyping in developing a model of lack of fit and found that a presumed lack of fit was created when stereotypes were applied to women candidates and the job was sex-typed as masculine. In summary, the literature suggests that women may be disadvantaged in the Board appointment process by the tendency of key stakeholders, including search consultants, to prefer similar others and to make fit judgements which are negatively impacted by ongoing gender stereotypes.

With regards to the activity of ESFs specifically, a qualitative study of the pipeline of women directors in FTSE100 companies found that very few female participants reported having been approached by search consultants for potential NED appointments (Sealy et al., 2008). The accounts of women in the pipeline suggested that women would be more prepared to put their names forward for Board appointments if the search consultants sought out and encouraged them more. The women directors who reported having good relationships with search consultants had clearly invested a lot of time and energy in building the relationship.

Social capital
A third category of obstacles identified in the literature is related to the importance of social capital in the Board appointment process. Social capital refers to the relationships between people and the mutual obligations and support that these relationships create (Brass, 2001), essentially signalling the role of social connections for professional success. In a qualitative study using interviews with NEDs on FTSE Boards, Singh and Vinnicombe (2006) found that having a background in banking was critical to gaining a NED position and, in particular,

having personal connections through work with the Chairman or CEO was very important. This suggests that being known by existing members of the corporate elite is critical to gaining a NED position. These findings are consistent with Burke (1997) who surveyed 280 Canadian women and found that the most common method of gaining a nomination was being recommended by a member of the Board or the CEO. Confirming survey results in the US (Mattis, 1993) and Canada (Burke, 1997), Sheridan and Milgate (2005) found that in Australia, business expertise and business contacts were critical to getting a Board position, for both men and women. However, women also mentioned that high visibility and family contacts were important for their nomination on Boards. This suggests that social ties might signal a public acknowledgement of women's expertise that reassures Nomination Committees to open up Boards to women. Social capital can therefore legitimate human capital.

Several authors have commented that the importance of social capital in the appointment process poses a problem for women due to the fact that high-powered corporate networks tend to be male-dominated (Burgess and Tharenou, 2002; Singh and Vinnicombe, 2004; Eagly and Carli, 2007). Research on corporate directors suggests that there is significant social cohesion among the 'inner circle' of the corporate elite, formed by corporate Board directors, CEOs and Chairmen (Useem, 1984; Domhoff, 2002). The social cohesion of the inner circle has been attributed to high levels of demographic homogeneity, common social ties, shared attitudes and similar ways of behaving, resulting from attendance at the same elite educational institution, membership in exclusive social clubs and shared upper-class backgrounds (Useem, 1984; Palmer and Barber, 2001; Domhoff, 2002). Accordingly, the literature on corporate elites posits that persistent norms of conduct for directors can ultimately be traced to director-selection processes that tend to restrict entry into the corporate elite to demographically similar individuals who share certain elite social and educational credentials. **Research suggests that women and ethnic minorities are disadvantaged in obtaining Board positions in large organisations due to the impenetrable and homogenous nature of corporate elites** (Domhoff, 2002; Zweigenhaft and Domhoff, 1998; Hillman et al., 2002).

The literature also that suggests Board members are often brought into the corporate suite in order to add value to the governance function through their broader connections in the community. From the perspectives of social exchange and reciprocity, Board members are appointed on the basis that they will share information and resources with the broader set of contacts in the network. Women are a structurally less powerful social group and the few women corporate directors are often in the less powerful positions than their male counterpart (Bilimoria and Piderit, 1994). As such, women are disadvantaged by this assumed exchange, as

the social capital they dispose of does not gain them access to the inner circle of the corporate elites. In a study on Board appointments, Westphal and Stern (2007) found that directors who did not have the elite credentials for the inner circle, could enhance their social capital 'by engaging in social influence tactics toward colleagues who control access to Board positions' (Westphal and Stern, 2007: 282), thus securing the necessary recommendations. However, the study showed that in order to be successful, women and minority groups need to engage in a higher level of ingratiation, compared to their white male colleagues.

Box 2.4	Gender-related obstacles in the appointment process: key themes from the literature

- The literature suggests that in the appointment process, companies employ a narrow definition of experience, essentially seeking candidates with prior Board or executive experience. This restricts the access of qualified female candidates, whose backgrounds might not fit this narrow profile.

- An array of interpersonal dynamics represent potential obstacles for women in the appointment process, chiefly to recruiters' preference for similar others and a focus of fit and personal chemistry.

- Social capital and relationships were found to be critical in the appointment process. Social ties facilitate awareness of Board vacancies and informal support through referencing and sponsorship via corporate elite networks. Due to the male-dominated nature of corporate elites, women have fewer opportunities to accumulate and deploy social capital.

2.6   Conclusion

Despite several rounds of corporate reform, the lack of women on Boards is an enduring phenomenon both worldwide, and in the UK. The Board appointment process was found to be one of the factors accounting for this persistent gender imbalance.

The literature reviewed indicated that the **process of appointing non-executive Board directors** has become more formal in response to changes in corporate governance, with Nomination Committees and executive search firms playing a more prominent role. However, the process remains dominated by a few individuals belonging to a male-dominated corporate elite, who tend to restrict access to dissimilar others, who do not fit with the values, norms, behaviours of the existing

members. The social psychological process of fit seems central in the appointment process, yet it remains an elusive concept likely to trigger exclusionary practices. **Executive search firms** play a significant role as intermediaries in the elite labour market. Search consultants assess candidates not only on their suitability for the role in terms of their skills, but also on subjective elements such as personality, values, and potential chemistry or fit with the targeted organisation or Board. Interviewing and referencing are common practices informing these fit judgements. In the few available studies, search firms were found to be conservative and risk-averse in the way they ascertain the value of candidates and place them on the executive market.

The emphasis on fit and chemistry among both corporate stakeholders and ESFs represents an obstacle for qualified **female candidates**, who are deemed to 'fit the profile' less often than their male counterparts. Women are also disadvantaged by a narrow definition of the experience needed to sit on a Board. The criticality of social capital and referencing in the appointment process also represents a potential obstacle for women.

3.   Interview findings

The empirical part of this research consisted of semi-structured interviews carried out with ten consultants in leading search firms in London. In particular, we sought to understand how the Code impacted the practice of executive search firms (ESFs) in terms of making the appointment process more gender-inclusive and to identify examples of best practice in this respect. The majority of these firms led the establishment of the Voluntary Search Code and all of them were signatories to the Code. Several of the consultants interviewed ascertained that the search firms included in the sample carry out approximately 80 per cent of non-executive appointments on FTSE 100 Boards, thus confirming the relevance of our sample. The analysis of the interviews revealed several themes which convey the experience of ESFs with the Board appointment process, particularly following the Davies Review and the Voluntary Search Code. We report these themes and best practice cases in several sections below, providing illustrative quotes from the interviews. For confidentiality purposes, all responses have been anonymised by randomly assigning numbers from 1 to 10 to the search firms included in the sample (ESF1 to ESF10).

3.1   Increased concern for gender diversity on Boards

All participants felt that the Davies Review and the subsequent Voluntary Search Code were successful in raising **awareness of the issue of gender diversity on Boards,** across the corporate world and the search sector. As the quotes below illustrate, in the eyes of many search consultants, the key benefit of this was that the Code and the Davies Review legitimised conversations about diversity between Chairmen and search firms:

> There's a huge increase in companies recognising they need to do something about it; much more so in the FTSE 100, although the FTSE 250 is following. [....] What Davies [Review] has done I think is give search consultancies the confidence and almost the permission to look at things a little differently. And equally it's given some of those Chairmen permission to engage, or dare I say, to push their search firms: 'Frankly, why is this an all male list? It's sort of inexcusable in this day and age'. So it's given both sides almost a language and a reason to engage in it and I think that alone has helped quite a bit.
> (ESF1)

> We hold as a matter of course in our normal daily business regular Chairmen's lunches and Chairmen's dinners, dinners with chief

executives, with finance directors, and Nomination Committees and SIDs [Senior Independent Directors]. And with that audience we have seen the whole issue of diversity and women on Boards go from being something like 'Oh, for goodness sake, let's not talk about that' to 'We need to talk about this. Can you explain to me why I got a letter from the Prime Minister?' [...] 'Can you explain to me why the search industry has developed this code?' 'Oh yes let me talk to you about this.' [...] I'm hugely encouraged by seeing the discussions, the change of attitude.
(ESF6)

Participants commented that the perceived change in attitude among Chairmen was chiefly related to more interest in the issue of women on Boards, and did not always entail full commitment to addressing the issue. As one interviewee put it, 'many Chairmen are still huffing and puffing' and resisting change, but at least they cannot claim to be unaware of the public debate and pressure around the lack of women on Boards:

Mervyn [Davies] has done a brilliant job of making this [gender diversity] front of mind. No Chairman in the FTSE 100 and now the FTSE 250, is unaware of the need to have women on their Boards, no-one. They're either pro it or you know, have mixed views, or against it. But they are 110 per cent aware of it.
(ESF7)

In terms of concrete action, search consultants reported a mixed landscape, whereby some companies are actually willing to change their practices, while others are paying lip service to the cause of diversity on Boards:

They're pushing us much harder to get gender balance. It's not just us in some cases, it's almost too far the other way. It's very mixed though, some organisations are really grasping the nettle and getting on with it, others are, paying lip service to it, they're not really doing it.
(ESF10)

However, all interviewees said that in recent months they had experienced, in various degrees, an **increased demand of female candidates**:

And today, almost certainly, most people will say 'and we'd love a woman'. I mean, 95 per cent of these assignments are 'and we'd love a woman'.
(ESF9)

A few participants also commented on an **increased rate of female appointments** within their firms, but only two of them provided actual figures in this respect:

> In the last twelve months, 28 per cent of our appointments onto Boards have been female, which is significantly higher than a year ago. [A year ago] it was either 10 per cent or 12 per cent.
> (ESF9)

> Somewhere around the 30-33 per cent of all our non-exec appointments had been to women over the last two or three years.
> (ESF1)

3.2 Perceptions of the Voluntary Search Code

We asked participants about how they perceived the Voluntary Search Code, which emerged in September 2011 as a response of the executive search sector to the Davies Review recommendations. The Search Code was drafted by leading search firms in London (all of them included in the presented study), with 20 search firms signing up to it. All participants saw the Voluntary Search Code as a positive step in responding to the Davies Review and in trying to increase women's representation on Boards. It was felt that the Code signalled that the executive search sector is committed and willing actively to contribute to the debate and action around women on Boards. However, some consultants felt that the real impact was due more to the Davies Review rather than the Voluntary Search Code:

> I think Mervyn's made more of a difference than the code, probably, insofar that he's really been banging the gong and people are more careful to make sure that there are always at least 30per cent of women on long lists.
> (ESF2)

Several participants commented on that fact that the Code **formalises existing good practice**, rather than drives fundamentally new ways of conducting executive search. Commenting on how stretching the Code was perceived to be, one participant noted:

I wouldn't describe it as transformational for us, which doesn't mean it might not be for somebody else. [...] I was one of the core drafters of the code, and in putting it together we felt like we were by and large crystallising current good practice, rather than creating something fundamentally different.
(ESF5)

Two interviewees were more vocal about the fact that the Code was **quite lenient**, arguing that the handful of firms who were asked to draft the Code are those who have a relative monopoly over the executive search market, thus being inevitably tempted to preserve the status quo. One participant said that: 'it did feel a little bit like the fox was being asked to come up with the security arrangements for the chicken coop'. The quotes below illustrate this criticism:

I think it could have gone much further and I think the best firms were already doing it, and I wish it had been more aggressive. But it is a good start. I worry that it's not enough search firms may know how to sign up to it, and that the process for monitoring is a bit opaque. [...] To me, the code doesn't have much in the way of teeth. And, obviously, executive search is not a profession with an abundance of regulations, nor do I think it's feasible to have this, but I think we need more transparency.
(ESF3)

For my mind, the voluntary code was a bit washy-washy and a bit soft and some (...) would have pushed it much more, but it's a first step - the fact that we have one, the fact that it only took us two months.
(ESF6)

Despite its shortcomings, the Voluntary Code was seen to legitimate discussions around gender diversity between search consultants and their clients:

The nice thing about the Code of Conduct is you can actually use it as an excuse to educate and to explain why one is educating. We've signed up to this, it's our duty to tell you some things and to ask you to consider some things.
(ESF8)

3.3 Views on the pipeline of women directors

The conversations with search consultants revealed various views regarding the pipeline of women who could be appointed on Boards. Participants commented on the fact that Chairmen are increasingly willing to reconsider the type of profile needed for NED positions, with less emphasis being placed on prior Board experience. To the extent that the pipeline of directors is being redefined, very few search consultants believed that there is a dearth of sufficiently qualified female candidates. Only one participant saw female appointments as being by default developmental:

> [Companies should] think about how they're going to grow and develop in the role, rather than just what they would like now. That's really important for women on Boards because in almost every case, there are going to be male candidates with more impressive experience.
> (ESF5)

However, the majority of the search consultants interviewed stressed that there is **no shortage of qualified female candidates**. Instead, they suggested that misconceptions about the pipeline stem from (a) a narrow definition of the qualifications required to become a Board member and (b) the inability to access a wider pool of talent:

> I have no inhibitions that the calibre and quantity of the female pipeline has never been stronger. And many women are putting their hands up, who would not have in the past.
> (ESF3)

One interviewee made an interesting point regarding the evolution of the pipeline, in the context of an increased demand of women directors across Europe. This perspective invites companies to reflect on their Board appointment process in the context of a war for female talent:

> At the moment I don't think the supply piece is an issue funnily enough, despite what everybody says. Apart from, very, very narrow roles, but by and large I don't think it's an issue. The question is - will it become an issue when the requirement across Europe is for 30-40 per cent [women on Boards]? And that will happen over the next five years. Will the pipeline grow as fast as the demand?
> (ESF1)

3.4   Succession planning

The Voluntary Search Code recommended that search firms assist Chairmen and Nomination Committees in developing succession plans that will enable them to handle individual Board appointments by considering the Board in its entirety. This is in order to determine the balance of experience and skills required for the good functioning of the Board. The accounts provided during the interviews suggested that all of the search firms included in the sample embrace this principle, by encouraging the key stakeholders in the process (Chairmen, nominations committees) to consider how the skills sought in potential candidates match or complement the set of skills already available on the Board:

> I think certainly in the older days they used to start with the 'who do we want?' rather than the 'what do we need?' And therefore it's what often leads to what we would call 'the parade of the usual suspects' because if they're already known then let's go for them. So I think for a start it is really focusing on what are the issues facing the company? What does the company need over the next three to five years? What are the skills around the table and therefore what skills around the table are you going to need in the future? So looking at it that way rather than either 'who do we want?' or even a sort of 'well we're replacing this person, so how do we find a person just to replace that, like for like?' Thinking slightly more holistically about it and then doing what I would call a very thorough search, not just who do we know already who meets that spec, but how might we look sort of more broadly?
> (ESF1)

Board effectiveness reviews, mentioned by two participants as part of their firms' mandate, appeared to provide an additional opportunity to discuss succession planning and to assess the needs of the Board more holistically. However, these reviews did not appear to be a common service among the firms included and some accounts suggested that Board reviews are a controversial service offered by search firms:

> It might also come out of a Board effectiveness review when you actually look at the balance and structure of the Board and you say you've got lots of people who've got a certain set of skills and not other skills. Or you're a company with 50 per cent of your revenue from outside the UK, and all your Board members are British.
> (ESF9)

3.5   Putting diversity on the agenda in the appointment process

One provision of the Code suggested that search firms explore with their clients the necessity and appropriateness of setting diversity goals in the appointment process. As indicated before, many participants felt that the Davies Review and the Voluntary Code succeeded in opening a dialogue between Chairmen and search consultants around the issue of gender diversity on Boards. Most accounts suggested that this conversation is typically initiated by Chairmen in a straightforward manner, and sometimes raised by the search consultant. All search firms appeared keen to address diversity needs when raised by Chairmen, but not all of them seemed ready to raise the issue when there was not a particular request for female candidates.

Box 3.1   Good practice: ESFs proactively putting diversity on the agenda

Two firms appeared to be particularly proactive in their efforts to put gender diversity on the agenda. While all other participants mentioned exploring the possibility of tackling gender diversity when they were commissioned to fill a specific Board vacancy, two of the search consultants interviewed said that their firms had proactively approached Chairmen, inviting them to consider jointly how they could increase the number of women on their Boards. The first example is ESF9, which simply targeted Chairmen of companies with all male Boards, thus alerting them to the issue, as well as offering support to address it:

> Particularly in the last twenty-four months, we've been saying to every one of our clients: 'Are you going to get to 25 per cent in two or three years time? And, if not, how are you going to do it?' And actually what we've done, one of our proactive activities is to write to every single Chairman of a Board where they have no women on the Board saying 'You have no women on the Board, do you have a search out? Here are some examples of the women that we place on Boards. Do you want to see our Top 25 list?' So we actually proactively go to them and say 'You need to start thinking about this'.
> (ESF9)

The second example is a search firm which organised a 'Women on Boards' event, and then sent all attendees a follow-up letter offering support in identifying women potential Board directors. The take-up was encouraging:

> But the women on Boards event is a very good example because everyone who came to that has had a follow-up letter from me, and in the

follow-up letter from me was 'how can we help you introduce more women onto your Boards?'. Several have come back and said 'look we're really interested to talk to you about it'.
(ESF10)

These examples demonstrate more proactive strategies that ESFs can employ in order to raise the issue of gender diversity with their corporate clients, beyond the limited opportunities provided by specific Board appointments. This proactive approach signals that some of the better practice search firms are committed to increasing the number of women on Boards, and able to support their clients in this respect.

3.6 Defining the brief

The analysis of the interviews indicated that from the perspective of search consultants defining the brief is a **critical aspect of the appointment process**, as this defines the parameters of the all subsequent steps in the process. The Voluntary Code (2011: 3) required that in defining the brief:

> ... search firms should work to ensure that significant weight is given to relevant skills and intrinsic personal qualities and not just proven career experience, in order to extend the pool of candidates beyond those with existing Board roles or conventional corporate careers.

Although consultants found that more companies are committed to the abstract principle of diversity on boards, they also felt that companies were reluctant to re-examine their actual recruitment preferences and practices, particularly when defining the brief:

> I have found that people say they want diversity, but then they don't want to compromise in any shape in form [regarding the brief]. And there's no need to compromise on calibre, but they might have to compromise in some areas on technical expertise maybe or something like that.
> (ESF8)

Box 3.2   Good practice: pushing back on the initial brief

Several search consultants argued that having a well-defined and well thought through brief often entails pushing back on the initial specifications if necessary. This requires search consultants to walk a fine line between having to please and at the same time having to challenge the client:

> There's no magic to it, it's 99 per cent perspiration. But it is about pushing back on specs, getting some clarity around the specification initially. And that's the moment to push back to the client. If the client's inadvertently narrowing it down, that is the moment really to sort of push back. But I think you need to do quite a few of these to have the confidence to push back.
> (ESF1)

> I think that's essential [the brief]. So one of our briefs was ridiculously short; they'd used it for a consistently long period of time and it was like one page, and we really felt it was important to expand it considerably. The brief we've just taken is probably ten pages, and I think the more detailed the better because it's very clear from a search consultant's perspective, what am I looking for? It's very clear to the candidates what is it going to take to be successful and what am I signing up for? And I think it makes it less subjective.
> (ESF3)

A key issue in defining the brief and reconfiguring the initial specification is to **consider both experience and underlying competencies** when deciding what candidates would be suitable for a Board vacancy. Herein lies, from the perspective of most consultants interviewed, the key to broadening up the pool of talent in the appointment process. The interviewees specifically insisted on the importance of persuading Chairmen and Nomination Committees to reduce the emphasis on the importance of prior Board and executive experience – requirements which tend to exclude by default female candidates:

> One of the first things people say when they want someone on Board, is 'I want someone with Board experience'. That's a sort of standard first phrase - 'I want someone with Board experience'. And what we're saying is 'seeing that something like 85per cent to 90 per cent of current Boards are male, you're saying, I want one of those people'; which defines an

> inappropriate pool of talent. Therefore, the first challenge is to say 'why is it so important to have someone with previous Board experience? How are we going to change it if we just play musical Chairs, and move you around from one Board to the other? So, therefore, you need new pools of talent'.
> (ESF9)

Instead, it was deemed more important that Chairmen and Nomination Committees consider the skills and competencies candidates might bring to the table, which may have been developed in various roles or sectors (i.e. advisory functions). This was thought not only to allow the possibility of considering more female candidates, who fit less often the mainstream corporate profiles, but also to enable corporations and search firms to ascertain more exactly what type of skills are needed in order to make a contribution on a Board:

> Take somebody who's been a very strong chief executive for example, they can make very poor non-executives. So yes they've got the Board experience, they've got the skills, but often they haven't got the aptitude for influencing Board discussions. Whereas you take somebody at the other end of the extreme, who's perhaps been a management consultant, who's had to do a lot through influence and through persuasion and through not beating the table or being the person who's leading from the front - often that skill set is more appropriate for a non-executive type role.
> (ESF10)

> So our next step is to say, what you've got to look at it's not experience, i.e. I want somebody who's either been on the Board, or been on the executive committee of a large company, is I need someone who can make a contribution around the Board table. Using our competencies, it is about strategic input, about focus on results, around influencing style and skill, and integrity and independence. Those are sort of the four major areas we look at. And what we say is you can get those skills from people who haven't been on the Board yet.
> (ESF9)

The interviews suggested that the 'experience versus competency' debate is a critical and current one in the executive search sector. Several search consultants suggested that other competing search firms are still recruiting based on 'the experience model'. Comparing accounts, it appeared that all participants were aware

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of the necessity to shift the mindset and practice of Board appointments toward the competency model; however, some consultants were more willing to reconsider their expectations around experience than others. For example, one participant referred to candidates who do not fit the 'standard' profile in terms of experience as 'marginal', including in this category most female candidates, and admitting that the term 'marginal' is ill-suited. We believe that this type of discourse reflects a shift in mindset and approach among search consultants themselves, who now have to re-examine perhaps some of their own assumptions and practices:

> So there are people who are slam dunk[7] to the Boards, and then there are people who are really well qualified but aren't slam dunk and most of the women are marginal. So they're not totally qualified but they're really good candidates. There are loads and loads of men like that too. The people who are mega ticks in all the boxes are mainly men. In the group of marginals, which is the big group, which is where Boards find their diversity and do great things... So marginal isn't meant as a bad thing, it's the wrong phrase marginal. But it's the people who are not a slam dunk.
> (ESF7)

3.7 Searching for candidates

Once the brief is (re)defined, the actual search for candidates begins. All participants stressed that in order to increase the proportion of female Board appointments, search firms must be able to tap into new pools of talent and put forward more female candidates. For instance, a search consultant suggested that a way of expanding the pipeline is to look at individuals in FTSE ranked companies, below executive committee levels:

> Traditionally people would just go for the well-known people who were on the board. But actually, if you look at the FTSE, and you take companies' divisional organisations, there are people running divisions of organisations, either geographical or functional, P&Ls, that are bigger than half of the FTSE 250 companies individually. So there are really good people, not just below Board level, but in some instances below executive committee level…They're pretty good people and they're not well-known, they take more digging out, because online you can always find directors and you can find executive committee people.
> (ESF2)

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[7] A colloquial expression referring to something that has guaranteed chances of success.

It is in this area that we found most examples of best practice, with several search firms running a number of initiatives and making clear efforts to reach out and identify more female candidates.

Box 3.3	Good practice: expanding the pool of female candidates by nurturing the pipeline of female executives

One search firm, ESF4, was particularly mindful about not only identifying, but also developing the pipeline of female candidates by engaging with talented female executives at earlier stages of their career. The firm was conscious of the broader need to 'advise chief executives and others on the cultural changes they need to make within organisations, to promote more senior women coming through', thus adopting an approach that tackles sustainably both the executive and non-executive side of the female pipeline:

> We're trying to really identify women as early as possible, the sort of the real high fliers that we think potentially will become the Board members of the future. And that's really how both the executive and non-executive search side of things feed into each other, to make sure that no stone is unturned.

With this principle in mind, and by involving their corporate partners, ESF4 is actively seeking out and contacting promising women at managerial ranks, getting to know them and exploring jointly their career aspirations. The focus is not on filling an immediate Board vacancy, but rather on encouraging these women to make long-term career plans that include the possibility of serving as an NED in the future:

> We are specifically selecting people that we think are of the calibre; talking to them about what they are doing. A lot of them worryingly said 'haven't even thought about it' [sitting on a Board]. So we're meeting with them, discussing if they were to think about it, what sort of Boards would they like to sit on? Where are their spikes? What interests them? And then, hopefully, coaching them towards making the right moves. [...] Generally we find that women haven't thought about it in the same way as counterparts and, as such, they're not making the right moves early enough in their careers.

This type of initiative clearly transcends the short-term, transactional, approach which executive search firms have sometimes been criticised for; it also demonstrates awareness of how gender differences play out in the way individuals

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manage personal careers. In conducting this initiative, ESF4 organised a diversity team in which different individuals had responsibility for accessing the pipeline of women in specific sectors. During our research interview, we had the opportunity to talk to the person leading the initiative in the financial services sector, in addition to the senior search consultant who was the main interviewee. They were both acutely aware that more concrete initiatives need to be set up by both search firms and corporations, in order to effectively address the issue of women on Boards:

> There appears to be a dearth of concrete initiatives happening in quite a lot of organisations around how you move from the theory to the reality of 'we must have more female finance directors in the FTSE top 200 companies'. So what are you doing to encourage that? Chairmen tend to get appropriately vague at that point. So we're putting case studies on our intranet of where we've got good examples.

In addition to this initiative around women in early career executive roles, ESF4 provided other examples of good practice by documenting its efforts in the diversity arena more carefully than most other firms interviewed (i.e. charting appointment trends and publicising success cases).

Box 3.4   Good practice: expanding the pool of female candidates by building databases

We identified good practice in terms of building databases of potential female candidates in three search firms. In ESF1, all search consultants are looking for women who could make potential NEDs. This includes consultants in charge of executive searches only, who may come across interesting female candidates due to the wide scope of their international searches. The names are passed on and stored in the firm's database, employing the sub-code 'interesting potential female non-exec', in order to ensure salience and easy access of female profiles in the broader database.

Similarly, ESF5 set up a database for women on Boards. The aim of the database is to enable the firm to respond to the gender gap on FTSE 250 Boards, where the firm believes that the supply of potential candidates is much greater than the demand:

> The initiative concerning women on Boards that we launched was designed to try and break that log jam. Trying to say to Chairman of those

businesses, frankly there's no excuse. You say you can't find women, but we will build up a database of qualified women which means that pretty much any question you ask us we can immediately say, well here are some names. And if you want us to do a search we'd go and get them. We're not saying that would be a comprehensive database with all the names and we could go away and research around whatever brief you've got. But don't believe there aren't any people, because we can show you people who will be well qualified for these sorts of Boards.

The database currently has about 500 names on it, out of which it was estimated that 150 are 'absolutely ready now' for a Board appointment. The remaining 'are developing nicely and will be ready in the future'. ESF5 stressed that for over a year, they had been charging well below their normal fees for this service, in order to increase take-up. It was however noted that there is much more interest in the initiative following the Davies Review:

> We pushed that hard to FTSE 250 - FTSE 350 Chairmen saying, okay, you have no excuse now. Interestingly, and it may well reflect on our incompetence, it made relatively little headway, until Davies. And I don't know if Davies specifically unlocked all women on Boards initiatives, but there's no doubt that for that group, after Davies, people are paying much more attention to it.

Another firm, ESF9, created a database called **'Next Generation of NEDs' (NGN),** aiming to tap into wider pools of talent, beyond the corporate structures of FTSE companies (i.e. consultants, lawyers, accountants, entrepreneurs). The NGN programme is not exclusively female, but it does prioritise female candidates in order to increase the number of women on long lists in the appointment process. Women currently constitute 50 per cent of the NGN. In order to ensure Board placements for their NGN candidates, ESF9 are currently expanding their activity - typically focused on the FTSE 100 Boards - onto the FTSE 250 Boards. All consultants are prompted to think about the NGN programme and share the data about new and potentially interesting candidates.

> We do meet an awful lot of people who write to us and say, I'm interested in a role. And the first thing is that everyone in the firm is aware that this NGN programme is up and running. So rather than saying, an interesting person, put the CV in the file, we've actually got someone who keeps this NGN list, so we're actually creating a specific list for that. [...] So it's literally many hundreds of names on that list now.

Similar to the other pipeline initiatives, this programme focused on the long-term development of the individuals in the database, rather than any immediate appointment. In addition, the programme was underpinned by a collective effort and commitment to share relevant data, an approach supported by the collectivistic ethos of the search firm, atypical in the search sector:

> Now, they're not all oven-ready for BP, because you're probably not going to get on the BP list as the first NED. But you'd get on a FTSE 250, and then you've experienced you're on a reward committee, or a Remco [Remuneration Committee], and then you build up from there. I could interview 50 women in the next six months, none of whom I'd put on a Board, half of them could be put on Board by a colleague for the next five years, and that's a success. And because we have no individual commissions, we share all the data.

| Box 3.5 | Good practice: expanding the pool of female candidates by developing lasting relationships with women |

Two of the smaller firms included in the sample provided somewhat different examples of good practice. Their approach, perhaps less formalised than the initiatives described above, was underpinned by the principle that search consultants should endeavour to develop deeper relationships with potential female candidates, beyond the transactional nature of specific Board appointments. A search consultant from ESF6 told us:

> I reach out, and I've always been known for sort of reaching out, spending time with people. I spend time with senior women in the professional services firm. Some of them aren't going to be non execs, but they know other people who will be capable and invest a little bit of time in other people. [...] It's about spotting talent early and following it and so it's about networking broadly enough.

Another consultant, from ESF3, described this as the key strategy employed by their firm to access the pipeline of women directors. She described her firm as a boutique consultancy who took pride in specialising in women directors, who represent 80 per cent of their Board placements:

> I think it's that we invest time in meeting women who are not yet on Boards, to assess if they are close to being Board-ready. And so that's

probably the biggest thing we do. And it's hard to showcase, so I estimate in the last six months I probably have met with 70 women who fit that. A fraction of them have been on shortlists, a large proportion of them have been on long lists. Obviously, we don't have a monopoly on the searches that are going on, so I'm optimistic we have been sufficiently helpful to them, that when they're appointed by any firm they'll remember us when it comes to the next appointment on their Board.

This emphasis on personalised relationships was based on the observation that women are unaware of the NED market and how to get their name out there, and that ESFs do not take sufficient time to meet them, beyond merely collecting their details. Our interviewee felt that there needs to be a fundamental change in the way the supply and demand is working. She suggested that the Voluntary Search Code needed to encourage search consultants to change the nature of their relationship with female candidates, a change which she felt not many ESFs were ready to consider:

I made a point that shouldn't the Code include the moral obligation for search firms to coach women coming up through the pipeline and to develop longer term relationships with them? And that was a key part of how women would get the experience and know what was out there; and it claimed not to do that for all women, but on a very selective basis. And you would think I asked people to go naked; I was stunned at how vociferous they were to including anything as minimal as that. They very much saw their role as very appointment-driven, transactional and I think a lot of where we've been successful is by doing just that.

3.8   Putting together the long and the short list

Several participants believed that one of the key merits of the Voluntary Search Code is to have suggested a concrete figure for the desirable proportion of female candidates on long lists. This proved to be a simple but effective guideline for the majority of the firms included in this study. Some ESFs were quite specific about conforming to the 30 per cent figure:

But the one thing that is explicitly different and undoubtedly has changed what we do is the 30 per cent on [the] list, the point which just puts some concrete teeth into what we might aspirationally think. You are now researching, talking to Chairman about it actually more importantly internally, we're saying okay, we've got our long list here and there aren't

enough women. Why not? Where are we going to look? What are we missing? So it just provides a forcing device for something that might have slipped through the net beforehand.
(ESF5)

We'd go for the 33 per cent, we do go for a third, but it does slightly depend on which part of the business you're working within.
(ESF10)

We can't do women only searches, and therefore what we are committing to do, as we said in the code of conduct, we will ensure that at least 30per cent of the long list are women.
(ESF9)

A few search firms seemed to include even more women than the recommended 30 per cent on their long lists, as a response to an increased demand in female candidates among their clients:

If we look at the searches we've done in the last few months, since July, actually I would say it's completely flipped on its head. The vast preponderance of our long lists are heavily women-dominated. Most people will say, 'We really would like some women.' So a lot of our long lists are, you're lucky if you're 30 per cent men. This is partly because I think companies are playing 'catch-up' and they're just bored of Mervyn Davies writing to them and then David Cameron writing to them.
(ESF2)

Other firms simply suggested that they aim to include women on their lists, without providing concrete numbers. For example, a senior partner commented that search consultants in her firm 'couldn't get away' with all male lists, which she described as 'pathetic' and lacking imagination. There were differing views on the notion of having all female lists - several search consultants stressed that this is illegal and refused to do it, while a few said they had employed all female lists, at the request of Chairmen. Overall, there was certainly a wide take-up of the principle of having female targets on long lists among ESFs.

A few participants suggested that the focus should not only be on having women on long lists, given that being shortlisted is actually a step closer to getting appointed. One interviewee suggested that the targets should be for short lists:

> I think that's a slightly spurious target [the 30 percent women on long
> lists], because when you put a long list in you've got 10, 15, 20 names on
> the list, generally what you're doing is working out with the client which 2
> or 3 are you going to target, right? [...] You've got to make sure that you've
> done your work to find the talent that is credible to go through to the last 2
> or 3 that you want to approach to sit on this board. [...] So it's dead easy to
> put 30 percent on, and then they drop off and you haven't achieved
> anything. It should be 1 in 3 on the shortlist I think.
> (ESF8)

Box 3.6	Good practice: tracking female representation on long and short lists

In addition to embracing female targets on long lists, ESF4 shared with us a valuable example of good practice: tracking and documenting the proportion of female candidates in both long lists and short lists:

> The code talks about long lists; and, in essence, being a successful
> candidate is the ultimate aim. But the middle step, which we didn't put in
> the code, but we are adopting internally, is to look at the number of female
> candidates, both executive and non-executive, who are shortlisted, i.e. the
> client saw. [...] If there were no women on the shortlist at all, they could
> never have been appointed, so let's track it.

Examining more closely how many women remain on shortlists and are actually granted an interview was considered a potentially closer indicator of a more inclusive appointment process:

> You are the client, and we go through a schedule and you say, we really
> like that 30 per cent of women are on this list, but, sorry, I'm going to
> default back to the male finance director aged 57, who I used to work with.
> You then say, well, we tried, but, hey, you know. If you then are able to
> say that on every shortlist there were one or two women, and you track
> that, I think that would make a tangible difference.

By tracking approximately 150 appointments over the course of 2009 and 2010, the firm were able to spot a surprising trend, whereby there was a 5 per cent increase in the proportion of female candidates put forward on long lists and a 5 per cent decrease in the proportion of male candidates presented. However, despite the drop in male candidates presented, the rate of male appointments was found to increase

by more than 3 per cent, and the rate of female appointments was found to decrease by about the same figure. It must be stressed that some of the data used precedes the Davies review and the Voluntary Code. However, more important than the specific numbers within ESF4, is the actual initiative to track down and compare gender differences in the proportions of candidates put forward on long lists, shortlisted and appointed. As suggested by our interviewee, this may reveal subtle forms of resistance and enduring obstacles slowing down the increase of women on Boards:

> What this would appear to suggest, is that we're being asked to provide more women. The mandate shows diversity, and we are providing diversity. But when it comes to the client actually deciding who to appoint, they're not… I don't want to point fingers or lay blame... but they're not following through on that diversity mandate. They revert.

3.9 Supporting candidates throughout the selection process

Some of the search consultants interviewed also discussed the importance of providing support to candidates throughout the entire selection process. Key aspects in this respect are: making female candidates more marketable; preparing them for the interview; and advocating on behalf of female candidates. We noticed that the greatest variability of responses within our sample occurred when search consultants discussed this aspect of the appointment process. This may indicate an area where there is less consensus and consistency in the views and practices adopted by executive search firms across the sector.

Several participants discussed the need to ensure that female candidates are more **marketable**. This entails recognition of the fact that (a) female candidates more rarely fit the 'typical profile' sought by corporations and (b) female candidates are sometimes less inclined to engage in self-promotion and impression management when they position themselves for a Board position. For example, one search consultant commented the following on the importance of being marketable:

> I look at them in terms of their marketability and if they can't convince me that they've got marketable skills, I'm going to treat them as a B candidate rather than an A candidate.
> (ESF10)

The interviewee then acknowledged that certain gender behavioural differences may put female candidates at a disadvantage, a point made by another five participants

who discussed perceived gender differences in networking, self-promotion, self confidence, or appetite for dealing with politics. The comments suggested that being marketable is not only a function of having valuable skills and experience, but also being able to position and present these astutely during the selection process:

> Women tend to be poor networkers and don't tend to be very good at promoting themselves, so they don't network as well as men. I get them along to networking events, coach and mentor them a bit. The lady I saw this morning she was too woolly about what she could actually offer a Board. [...] If you don't promote yourself and you're just general, you'll get overlooked and we'll get somebody who's got that specific. Because head-hunters are pretty simple folk and if it's not obvious where they can offer real value, they won't necessarily find it.
> (ESF10)

Two participants also commented on the fact that women are more risk-averse in their career moves, and consequently in the way they assess their own readiness for a NED role. This may signal, in the eyes of some search consultants, less eagerness to consider NED roles:

> A lot of women are quite risk averse. A lot of women we will approach for non exec roles will say, 'That's too risky, I don't think so,' whereas guys in that space looking to get their one or two non exec appointments will say, 'It's risky, I'm not sure, but let's come in and talk about it, let's meet the client, let's go forward.' [it's about] how many women will take the risk of saying 'Give me that larger role I'm not sure I'm 100 per cent qualified for', compared to blokes who go 'Oh yeah, yeah, I can do that', knowing they can only do about 70 per cent of it, but they'll learn the 30 per cent.
> (ESF6)

Box 3.7	Good practice: mentoring female candidates going through the appointment process

We encountered one specific initiative representing good practice in supporting female candidates during the selection process. ESF5 set up a mentoring scheme, linking up female candidates going through the appointment process with experienced female NEDs who already sit on FTSE100 Boards. The scheme is meant to facilitate dialogue, to enable women to raise questions and share Board-related experiences, thus preparing them for the appointment process and particularly for interviews:

> We also developed a group of about 15 mentors, whose role it was and is...when somebody is in a process then to provide them with counsel on how to think about the interviews, [what] questions to ask; have they judged whether or not an opportunity is right for them; all the way through to, they've got an offer, they make sure they land well in the first month of the Board.

Regarding the rationale for deliberately choosing female mentors, the firm told us:

> Whilst any wise non-exec can provide generic advice there is something a little bit different about being the woman on the Board, or one of two or three women on the Board. And somebody who sat through that would be in a better place to really give the right advice.

According to ESF5, the take-up and the nature of the mentoring relationships established vary depending on the individuals; the scheme is not designed to be very prescriptive. However, some of the relationships established throughout the scheme were found to continue even after the appointment process per se had finished, with newly appointed female NEDs consulting their mentors about how to integrate Board dynamics successfully in order to make valuable contributions.

With regards to the **selection interviews** themselves, all participants said that candidates need to be thoroughly prepared for them. Interestingly, most participants did not think that interview preparation needed to be - at least to some extent - gender-specific. We would argue that the differences in the way male and female candidates position themselves, observed by search consultants in their interactions with women, are unlikely to disappear during the interviews with Chairmen and Nomination Committees. Only one participant commented on the potential risks entailed by interviews, suggesting that it is not only candidates who need preparation, but also key corporate stakeholders who are entrusted to conduct recruitment interviews, but who may sometimes lack the skills to do so:

> As you know, many interviews are 'Oh, you worked at JP Morgan, do you know X? Oh, a lovely chap, he knows all these people I know'. So... but is he any good at the job? 'Oh, we never got there. We never actually got to the meat of it'. [...] Now, what you want people to do, when they go through a series of interviews, is to be asked the same questions, or at least cover the same issues. And that's one of the weaknesses of a lot of interview processes, is that many people don't know how to interview, and

don't know what to interview for. So our interviews are structured
interviews based on behaviours, based on competencies. But if Board
members don't know how to do that, then they may come up with the
wrong answer. So, actually, a lot of it is about training directors to look for
the right things.
(ESF9)

Making a similar point, another search consultant referred to the informal nature of
interviews between candidates and board members or chairmen, signalling that the
issue of 'chemistry' is key at this stage. His comments also suggest that the
interviewing practices employed by Chairmen in the appointment process **lack
rigour** and are not typically scrutinised:

At that stage [the interview] it is more about chemistry, and it is more
about getting that dynamic. The bit that we tell the candidates is that
they've got to make sure they get to know them, you know get in there
meet the Chief Executive, spend a bit of time, really try and grill around
what the dynamic of the board is like, with the Chairman that sort of thing.
But actually it's still pretty informal. [...] If one actually said to a Chairman -
but we don't - 'Right what are you going to ask them, and how are you
going to assess whether they are right for your Board', you'd probably get
a fairly blank response.
(ESF8)

One search consultant believed that female candidates prepare better for interviews.
Some interviews also revealed that a critical role played by search consultants
consists in **advocating for female candidates** throughout the appointment process.
This specifically consists in carefully explaining the added-value of female
candidates to clients, encouraging Chairmen and Nomination Committees to think
about competencies and not only experience, and overall, supporting them to
question their default recruitment preferences and practices:

So understanding them [women] properly and what they bring and why
their skills and experience and style is relevant to the situation. We're paid
by our clients, but we need to be advocates for our candidates. That point
of advocacy, I think it is an important one and I think sometimes that job
isn't well enough done, so if the client just says, 'Well on paper I don't
quite see why she's here.' Well actually the reason is... [...] whatever it is,
you're really explaining them and that requires an investment in our time.

> So I think that's probably a role that has to be played as well.
> (ESF1)

Making a similar point, another participant observed that search consultants wanting to push for gender diversity need to invest more effort into an appointment:

> I do think we have to work harder for our money, definitely. So we have to think about what are the reasons why this candidate may be rejected? How can I present that candidate in fullness in order for them to be accepted? We also have to spend time preparing candidates, talking to the candidates about how they present themselves.
> (ESF6)

Finally, three search consultants believed that the last turning point in the appointment process consists in **supporting the Chairmen to manage scepticism** about the female candidates shortlisted. Chairmen are often the ones who have to reconcile the expectations and preferences of other Board members involved in the appointment process. Therefore, part of 'keeping the Chairman confident and courageous' relies on equipping them to manage other Board members:

> The critical moment is often towards the end where there are two candidates, and the female candidate is maybe the less experienced one. And it's preventing the Chairman from losing his nerve when somebody else around the boardroom table may say, well I like them both, and Jim looks like a terrific chap, but look at his record, but she's never sat on a FTSE Board before, she's been on the Board of her own business. So there's a danger of constant voices of conservatism, and actually part of the value that we add is just helping the Chairman say 'No, remember what we're after.'
> (ESF5)

Overall, it appears that supporting candidates throughout the appointment process relies on a number of informal and discretionary roles adopted by search consultants. They essentially consist of (a) having a developmental approach when engaging with female candidates (b) advocating for the female candidates put forward and (c) supporting Chairmen to manage scepticism. Our analysis indicates that not all ESFs have considered or committed to these roles to the same extent.

3.10 The importance of 'intrinsics'
The Voluntary Search Code (2011: 3) encourages search firms to give:

... appropriate weight to intrinsics, supported by thorough referencing, rather than over-valuing certain kinds of experience.

Our interviews revealed a great variability in what search consultants understood 'intrinsics' to mean. This is particularly intriguing given that participants had written or contributed to the code. Their individual definitions of the term encompassed potential (as opposed to documented hard experience), values, integrity, soft skills (i.e. influencing skills), competencies, personal style, personality and even breadth of potential contribution to the Board:

> I think probably intrinsic qualities and that's to do with culture, it's to do with independence, integrity. Fundamental values I think is what we mean by intrinsics.
> (ESF9)

> I think that's a poor word choice. Intrinsics, to me, would be is she someone who's going to accept the status quo? Is she someone who's going to be a collaborator? Things that are much more of a soft skilled nature.
> (ESF3)

> [When we refer to 'intrinsics'], we're talking about capabilities broadly defined. But capabilities rather than experience.
> (ESF5)

The notion of 'instrinsics' seemed to refer not only to the soft skills, but also to the breadth of contribution someone can potentially make to the board:

> [Intrinsics is] a certain kind of emotional and business maturity. What they're looking for, on the business maturity side, is somebody who is able to make a quality intervention on anything that comes up on the boardroom agenda, especially if it's an area outside their knowledge and their comfort zone and intellectual breadth. The emotional maturity bit is the ability to be an active listener and intervene briefly when you have something to add, not to instruct the executives how to run the company, but to assist them in a critical way.
> (ESF2)

Despite the fact that ESFs chose the term themselves, a few search consultants were simply unclear about what the word means. Overall, the main point of

consensus was that 'intrinsics' refer to **anything but** experience. Several interviewees spoke about underlying competencies, suggesting that a critical role of search consultants in the appointment process is to enable the Chairman and the Nomination Committee to shift their focus from sheer experience to underlying skills and competencies when assessing candidates:

> Fundamentally our job as head hunters is to assess people, and anybody can essentially assess someone's experience because of a well put together CV. The value that we add is in assessing people's underlying capabilities. So not just have they been a CEO, but are they a great strategic thinker? Do they have the real commercial insight the company is looking for? Do they have the behavioural characteristics that will make them both a good fit with their colleagues around the boardroom table?
> (ESF5)

However, as evident from the above quote, the discourse around specific competencies such as influencing skills and commercial insight appeared to be intertwined with references to more **subjective judgements such as fit, and 'being comfortable' around potential female NEDs**. The literature review provided in this report suggests that judgements about fit are often influenced by stereotypes and the tendency to like similar others:

> Certainly, I think the challenge so much is the term 'fit', and I think that's a real catch for all. Do we like the look of her? Could we imagine being holed up with her in a boardroom for an away day? And that's a tough one.
> (ESF3)

Overall, what transpired from the search consultants' comments about intrinsics was that they all acknowledge the value of going beyond experience when judging candidates. Shifting from experience to underlying competencies was deemed necessary in order to make the appointment process more gender inclusive. However, more clarity seems necessary in defining what both search consultants and their clients are seeking beyond experience, in order to unpack subjective judgments about fit.

3.11 Beyond the appointment process: induction and Board cultures

Another theme coming out from the analysis of the interviews referred to what happens once the actual appointment process is completed. The Voluntary Code recommends that search firms offer advice to their clients on how to conduct the

Board induction for their newly appointed female NEDs. We found that very few consultants actually discussed their involvement in this stage. One participant explained that 'onboarding' entails more than induction, sometime requiring that **Chairmen take on a developmental role** to newly appointed NEDs, particularly women:

> The whole 'onboarding process' is terribly important, that first year. Not just induction, it's more how you play yourself on the Board. I always say to first time non-execs, if you can, choose your Chairman very carefully because they will make a difference to how effective you can be as a non-exec, however good you are. And that the role of the Chairman in enabling those people and women particularly to do their job well by giving them feedback, encouraging them to speak up and have the confidence to do that. I think that will create more successes.
> (ESF1)

Another consultant gave a candid account of what she understood as the importance of mentorship by the Chairman, whom she saw as partially responsible for 'bringing out the best' in their women directors:

> I was really quite shocked when I helped a number of women go on to Boards and then got the feedback, which was not positive. It was about them not having the breadth to contribute and it was about them only speaking up in their specialist area and about them really being pretty disappointing. At the time, I'm embarrassed to say, I was slightly annoyed with the women, but I've subsequently changed my view of that and I think actually, I didn't understand and nor did the women and nor did the Chairman, that you know, actually you have to learn to do things. One of the things you have to learn to do is sit on a Board and actually, you learn by having a really good mentor and that is the job of the Chairman. [...] So what I've been doing in the last two or three years, is saying to Chairmen, this is a real opportunity for you to mentor women to be real successes on Boards.
> (ESF7)

Comments about the enabling role of the Chairman signal the impact of informal Board cultures for the long-term success of female NEDs. Inevitably, search consultants will have limited visibility and influence on the Board dynamics after the appointment process. However, a few of our participants were mindful that women's

presence on Boards may disrupt existing masculine cultures, as the example below illustrates:

> I was talking to this particular lady today who, they've just put their first female non-executive onto their PLC Board, and I think there was a lot of nervousness from the males about that, I think they thought well they couldn't talk about sport or swear, or do things that they've always done on the Board. Now she's been on the Board for a period of time they realised actually she can swear, she can talk a bit of rugby, and she actually supports Leeds United, there's, those sort of stereotypes are broken down and actually then it all moves after that.
> (ESF10)

However, it remained unclear to what extent search consultants prepare newly appointed female directors effectively to integrate Board dynamics, or advise their corporate clients on how to make the culture of the Board more gender-inclusive. The fact that there was little discussion amongst participants on what happens after an actual appointment suggests that this is a relatively neglected area in the practice of executive search firms.

3.12   Conclusion

Overall, the interviews with search consultants revealed a number of interesting themes. First, the participants felt that there was increased interest in the issue of women on boards among their clients, as a result of the recent Davies Review. The Voluntary Search Code was seen to contribute to this overall change by legitimising discussions about board diversity between ESFs and their clients. Although the Search Code was perceived as a useful first step in the executive search sector, it was also deemed relatively lenient by some search consultants.

Second, the findings suggested that search consultants have the opportunity to tackle the issue of gender diversity on Board at several steps of the appointment process, from defining the brief to supporting the induction process. We identified a number of good practices along these steps, chiefly related to: proactively putting diversity on the agenda in the appointment process; challenging Chairmen and Nomination Committees when defining the brief, so that more importance is given to underlying competencies as opposed to prior experience; finding creative ways to expand the talent pool and reach out to female candidates (databases, nurturing the pipeline and developing deeper relationships with women in the pipeline); monitoring female representation on the long list and the short list; supporting female candidates throughout the appointment process by taking on developmental and

advocacy roles; and supporting Chairmen in handling resistance to female candidates from other Board members.

However, the findings also suggested that these good practices are adopted inconsistently across the sample of firms interviewed. Most firms focused their efforts on expanding the talent pool and reaching out to female candidates. About half of the consultants commented on the importance of taking on developmental and advocacy roles for female candidates. Very few consultants mentioned supporting the induction and 'onboarding' process, once women were appointed. Moreover, we also noticed a lack of clarity in some of the language used by the Search Code, and by the consultants interviewed, particularly relating to the use of the term 'intrinsics'. There seems to be a change of approach in the executive search field, whereby search firms increasingly encourage their clients to assess candidates on criteria beyond experience only. However, while the Code and several consultants referred to these other criteria as 'intrinsincs', this terms was understood differently across the sample. Further effort in the executive search sector should focus on mainstreaming good practices and clarifying these more inclusive selection criteria. These findings also suggest that in order to promote greater gender diversity on boards in the future, ESFs need to redefine their traditional mandate and be more willing to take on roles that are likely to catalyse change in the sector. This involves developing and supporting female candidates before and during the appointment process; challenging their clients' entrenched expectations when defining the brief; advocating for female candidates; and supporting Chairmen in handling resistance to female candidates.

4.   Conclusions and recommendations

This research set out to contribute to the current debate regarding women on Boards by examining the role played by executive search firms in the Board appointment process, in light of the most recent regulatory efforts in the UK (the Davies Review and the Voluntary Search Code). The research entailed two major components:

- A review of the available literature regarding the Board appointment process, the role of executive search firms (ESFs) and the gender-related obstacles in the appointment process.

- Exploratory interviews with consultants from ten leading executive search firms in the UK, all of whom have been signatories to the Voluntary Search Code.

The literature review evidenced that the Board appointment process is increasingly formal as a consequence of several rounds of corporate governance regulations. However, the process is still criticised for being opaque and subjective, and particularly driven by a narrow corporate elite group who tend to self-replicate. Although skills and qualifications are undoubtedly important in obtaining a non-executive director (NED) position, selection is also informed by how much candidates 'fit' with the values, norms and behaviours of existent Board members. As intermediaries in this elite labour market, ESFs were found to assess candidates not only based on their suitability for the role skills-wise, but also based on the same subjective judgements of fit with the current Board. Interviewing and referencing are common practices informing these fit judgements among search consultants. The literature review revealed that female candidates are likely to be disadvantaged by these practices employed by ESFs, and in the Board appointment process more broadly. While there is no shortage of qualified women in general, women often do not fit the narrow profiles sought by corporations, who overemphasise the importance of prior Board or executive experience. The emphasis on fit and personal chemistry in the appointment process inevitably also represents an obstacle for women, given the fact that recruiters tend to prefer similar candidates. In addition, social capital and relationships were found to be critical in the appointment process, yet women have fewer opportunities to accumulate and deploy social capital due to the male-dominated nature of corporate elite networks.

The interviews conducted suggested that the issue of gender diversity on Boards is clearly on the agenda of the leading search firms interviewed, and of their clients. All participants commented on a raising concern for the issue among corporations, following the Davies Review. The Voluntary Search Code was perceived to formalise

existing good practice among search firms, rather than push for daring new practices. However, the search consultants interviewed discussed a number of encouraging changes in the Board appointment practices, as a result of these recent regulatory efforts. These are summarised in section 4.1 below by emphasising good practice across the sector.

By corroborating the findings from the interviews and the literature review, we conclude that the Voluntary Search Code is a positive, albeit not very daring, initiative in the executive search sector. The symbolic value of the Code consists in signalling commitment to the issue of women on Boards from the part of ESFs. The practical added-value of the Code is twofold: (a) giving search consultants a mandate to raise the issue of women on boards with their clients; and (b) offering some basic guidelines on how ESFs can make their practice more gender-inclusive (the recommendation about 30 per cent women on long lists stood out as the most impactful provision of the Code in the eyes of the search consultants interviewed).

However, we also took notice of several shortcomings of the Code, as well as areas where more effort is needed from the part of ESFs. First, the Code was not perceived to be very daring in its provisions - several search consultants said that it simply formalised good practice, rather than pushing for more innovative action.

Second, there appeared to be uneven effort from the part of the ESFs to address the various provisions of the Code. This suggests that some clauses of the Code are perhaps easier to implement than others. For instance, most firms addressed the notion of diversity targets on long lists, but very few firms seemed actively involved in supporting the induction process of new female appointees. The accounts suggested that currently, search consultants tend to be most effective in taking on the diversity cause in the search and long-listing stages of the appointment process. Their role seems less clear and impactful in subsequent stages, particularly during interviewing and the induction process. Throughout Chapter 3 of this report, we endeavoured to draw out best practice in the sector. However, it should be stressed that the best practices highlighted across various themes were not consistently adopted among the search firms interviewed.

Third, while all of the search firms included in the study appeared committed to the abstract notion of increasing gender diversity through the Board appointment process, there were significant differences in the extent to which ESFs backed up their commitment with specific initiatives. A few of the consultants interviewed made only generic comments about the position of their search firm with regards to the Davies Review and the Voluntary Search Code, but did not comment on any specific

new initiatives adopted as a result of signing up to the Code. While we understand the confidentiality and competitive pressures inherent to the search sector, such lack of detail about the processes and practices employed by ESFs sheds doubt over the actual implementation of abstract commitments to diversity.

Finally, we noticed that despite effort to address gender in the appointment process, certain provisions of the Voluntary Search Code and the corresponding discourses and practices among ESFs remain vague. Specifically, the Code called for more attention to be paid to 'intrinsics' when assessing candidates, but there was little agreement across the ESFs interviewed as to what 'intrinsics' refers to. In light of the accounts collected through the interviews and the evidence reviewed, we would argue that such vague recommendations and inconsistent practices leave space for subjectivity and gender bias in the appointment process, allowing Chairmen and other Board members to focus on chemistry and personal fit instead of thoroughly assessing the competencies and potential contribution of (female) candidates.

Overall, the Voluntary Search Code seems a good first step towards addressing the issue of gender diversity in the executive search sector. However, the Code is open to improvement and the diversity practices across the search sector need to be mainstreamed and made more visible. There are certainly opportunities for ESFs to take on more a more active and daring role in making the Board appointment process more gender-inclusive.

The accounts of search consultants and the literature reviewed suggest that Chairmen and corporate stakeholders in the appointment process could also take more active roles in ensuring that the process is more gender-inclusive (although it should be noted that we did not directly interview them for the current study). In section 4.2 below, after highlighting best practice among ESFs in section 4.1, we put forward recommendations for all the stakeholders in the appointment process.

4.1   Current best practice among ESFs
The interviews revealed an array of best practice already adopted by search firms. It must be noted that these practices did not appear to be embraced to the same extent, in all search firms. However, they represent and summarise progressive practice in the sector.

- **Putting diversity on the agenda in the appointment process proactively**. This entails not only responding when clients signal interest in gender diversity, but bringing the issue to their attention proactively, and explaining the importance and the benefits of appointing women to Boards. One firm went as

far as contacting Chairmen of companies with all-male Boards and offering support in making their Boards more gender-balanced.

- **Pushing back on the specifications in defining the brief.** As a critical part of the appointment process, defining the brief sometimes requires search consultants to challenge Chairmen and Nomination Committees on their initial specifications. The key aim here is to emphasise the **underlying competencies** required from the new NED, instead of being guided by prior **experience** only. This was thought to open the way to a broader pool of candidates, and especially female candidates.

- **Finding creative ways of expanding the talent pool and reaching out to women in the pipeline.** All interviewees believed that search firms need to engage with the pipeline more creatively and effectively and the majority of initiatives identified across ESFs were in this area. These initiatives consisted in:

  o Building databases that prioritise or at least flag out the profiles of available female candidates.
  o Developing deeper relationships with women in the pipeline, thus going beyond the transactional approach typically required when consultants are mandated to fill a specific opening.
  o Engaging with talented women (either at middle executive ranks or in sectors such as professional services) before they are actually ready for Board appointments, with the long-term aim of preparing them for NED roles.

- **Tracking female representation from short lists to actual appointment.** Most firms employed the 30 per cent female target on long lists and found that to be the most useful provision of the Voluntary Search Code. However, some consultants commented on the fact that there needs to be more follow-up on what happens to female candidates once they are put forward on long lists. One search consultant argued that women should make one third of those on short lists. Only one firm documented the rate of success of female candidates and found that despite increasing the proportion of female candidates put forward, there was a small drop in their success rate compared with male candidates. This demonstrates the importance of following carefully female talent throughout the appointment process and not only on long lists.

- **Supporting female candidates throughout the appointment process.** The nature of this support provided by ESFs is often informal and discretionary and entails taking on two critical roles:

  o **Developmental** - making female candidates more marketable by helping them to position their skills and experience more effectively; this entails elements of coaching and mentoring which may not fit within a purely transactional approach often adopted by search firms. One search firm provided this support not only through its search consultants, but by setting up a mentoring scheme between women undergoing an appointment process and experienced FTSE 100 female NEDs.

  o **Advocacy** - ensuring that clients understand the added value of female candidates put forward, by emphasising at various steps of the process how their competencies (and not only experience) would be instrumental to the Board.

- **Supporting Chairmen in handling resistance to female candidates.** As custodians of the appointment process, Chairmen may face resistance to female candidates from other Board members. Some search consultants felt that it was part of their role to informally support Chairmen in handling this resistance and steering the Board towards considering female candidates whose profiles may be seen as atypical.

4.2 How can ESFs and other stakeholders make the Board appointment process more inclusive?

The interviews also revealed a number of shortcomings in the practice of ESFs and other key stakeholders in the appointment process (Chairmen, Nomination Committees). Based on the interview findings, as well as the evidence reviewed, we put forward a number of recommendations for **all the stakeholders** involved in the board. These recommendations are meant to ensure that ESFs who signed up to the Search Code and companies who expressed support for the principles laid out by the Davies Review actually translate their commitments into concrete structural and behavioural changes..We take this holistic approach in formulating recommendations in order to stress the idea that progress in this area is possible only with a concerted effort from all parties involved:

- **More transparency and documenting of best practice and initiatives around gender diversity by ESFs** are needed. While we understand that ESFs' ability to share information is sometimes bound by the competitive

pressures in the sector, the accounts of search consultants suggested that not all search firms invest the same effort into documenting and formalising best practice **internally**. In addition, ESFs appeared to vary in their endeavours to signal their commitment to the issue of gender diversity on Boards **externally** (i.e. by discussing their diversity initiative with the media coverage or on the firm's website or brochures).

- **There needs to a clearer definition of the term 'intrinsics',** used in the Voluntary Search Code. While 'intrinsics' appears to refer to anything but experience, the interviews revealed a lack of consensus among search consultants as to what exactly is sough beyond experience when assessing candidates. A range of aspects where discussed: potential (as opposed to documented hard experience), values, integrity, soft skills (i.e. influencing skills), competencies, personal style, personality and even breadth of potential contribution to the Board. Many interviewees said that they were unclear about the provision of the Code referring to intrinsics. We would argue that this loosely defined term leaves room for shifting criteria and subjective judgements around 'fit' in the appointment process. The evidence reviewed demonstrated that these might inadvertently disadvantage female candidates. This point of the Voluntary Code is therefore worth reviewing and clarifying.

- **Search firms, Chairmen and nomination committees need to pay additional attention to the interviewing practices employed during the appointment process**. Board appointment interviews constitute a part of the appointment process that warrants further scrutiny, given that it is the final pivotal step in getting a NED role. Some of the search consultants interviewed indicated that the interviews conducted by Chairmen and other Board members in the appointment process sometimes lack rigour and are focused on subjective aspects such as fit and personal chemistry. Due to its informality, this step of the appointment process is more likely to put female candidates at a disadvantage. This suggests that there is a need for more transparency, rigour and professionalism in the way Chairmen and other incumbent Board members conduct selection interviews. We believe that search consultants are well placed to support not only (female candidates) throughout the appointment process, but also to advise their corporate clients on their interviewing practices. Only one search firm in our sample appeared mindful of how important it is to ensure that Chairmen and Board members conduct thorough interviews, guiding them in this respect.

- In addition, we would argue that both search firms and Chairmen need to be more mindful of how behavioural differences (e.g. self-promotion) between male and female candidates might bias the interviewing process. While a majority of search consultants perceived gender differences in how candidates positioned themselves for NED roles, very few commented on how this might play out during the interviews with Chairmen and other Board members. We would argue, informed by the literature reviewed, that behavioural gender differences are likely to persist in this stage of the appointment process, thus putting women at a disadvantage. The same effect may be triggered by the informal dynamics between candidates and the incumbent Board, which underpin assessments of fit. Therefore, **ESFs and their corporate clients should ensure (a) rigorous and consistent interview practices when meeting candidates** and **(b) gender-sensitive preparation for selection interviews.**

- **Search firms and companies need to ensure that induction and 'onboarding' processes are gender-inclusive**. The Voluntary Search Code encourages ESFs to provide advice to clients on how to make sure that newly appointed female NEDs settle in their roles. However, our interviews suggest that very few search consultants take on this role or follow-up on their appointments in order to support women in contributing to their Boards or advising Chairmen on how to ensure that Board dynamics are sufficiently inclusive. We agree with the suggestion of several search consultants that Chairmen need to take on this role; however, given the boundaries of the current project, we have insufficient visibility into Chairmen's involvement in the induction process.

- While we recognise that it is early days for the **Voluntary Search Code**, interviews showed that alongside welcome good practice, there are ongoing gendered behaviours, judgements and language amongst ESFs. This signals the importance of ongoing review of the impact of the Code to assess whether it is driving change, whether the Code needs revising, or whether stronger measures are needed. In particular, further revisions and monitoring should consolidate good practice in accessing the female pipeline and open up for more scrutiny stages of the appointment process beyond the long-listing of candidates (interviewing with/by Chairmen and Board incumbents, induction processes). The EHRC could play a role in monitoring and measuring the success of the Voluntary Code annually until the 2015 date set by the Davies Review for meeting the 25 per cent target.

4.3 Suggestions from ESFs regarding the Board appointment process

The search consultants interviewed formulated several suggestions about how the Board appointment process could become more gender-inclusive. It must be stressed that these suggestion were targeted at other stakeholders in the appointment process, and not necessarily at ESFs. We summarise these below:

- **Investors need to play a bigger role** by putting pressure on companies to have gender-balanced Boards. It was felt that out of all stakeholders in the Board appointment process, the investor community should be more engaged in promoting women on Boards.

- When assessing candidates, **Chairmen and nomination committees need to shift the emphasis from prior experience to underlying competencies**. They also need to relinquish default preferences for certain individual profiles and focus on the skills and competencies required in the broader context of the Board.

- **There needs to be more emphasis on having women in executive roles.** Several ESFs stressed that the executive and non-executive pipelines of female talent are closely related and argued that companies should support women's careers in order to ensure that sufficient women come through at the top of their executive ranks.

- Boards and especially **Chairmen need to be more willing to take on developmental roles** in order to ensure that there are more women NEDs. This may include, in the view of search consultants: supporting newly appointed women in contributing to the Board debate by being mindful of Board dynamics, or enabling senior women to gain Board experience by setting up shadowing schemes or a 'plus one' strategy (adding a female member to the current Board).

- **Initiatives related to women on Boards need to be more visible and better coordinated**. Search consultants commented on an array of initiatives set up by search firms, by companies, as well as by other stakeholders in the field, suggesting that these initiatives could be better advertised to share best practices, and when adequate more effectively coordinated (for example, through a potential website developed as part of the ongoing monitoring led by the Davies Steering Committee).

4.4   Evidence gaps regarding practice and research in the field

We identified the following gaps in practice and research related to the Board appointment process and the issue of women on Boards:

- The search consultants interviewed suggested that the **pipeline of female directors** is opening up at different rates **across various sectors.** For instance, the media and internet sector was thought to offer promising women with corporate backgrounds. A similar comment was made about women in advisory roles and in the professional services sector. Some consultants commented on the opening up of Boards across Europe, and the fact that women might get Board experience elsewhere - although it was thought that NED roles vary tremendously across countries and their various corporate structures. Overall, there appears to be a need to identify more accurately the pipelines of fresh female talent.

- With regards to the pipeline, our interviews suggested that companies have broadened the criteria used for NED candidates. As such, it is worth examining the **profiles of the newly appointed female directors**.

- Further evidence should shed light into the efforts made by corporations to make the appointment process more transparent. First, there is insufficient evidence on what companies are doing to **advertise Board openings**. Although this was suggested by Recommendation 7 of the Davies Review, and it is thought it would make the Board appointment process more transparent, there is little insight into how committed corporations are to implementing this idea. Second, Recommendation 5 of the Davies Review suggested that Chairmen could ensure further transparency and inclusiveness in the process by **reporting how the search and nomination process addresses the lack of women on boards**. The six months monitoring report following the Davies Review suggested that there was inconsistent take-up of this recommendation: while companies endeavoured to provide some transparency into the appointment process and the internal workings of their Nomination Committees, they failed to demonstrate more explicitly their intentions with regard to addressing the issue of gender diversity as related to the Board appointment process.

- There is generally limited evidence regarding **the work of executive search firms**. More insight is needed into the various roles of search consultants, which encompass actual search, vetting of candidates through assessment and referencing and, as this study revealed, advocacy for female candidates. It

must be stressed that the current study included only a small sample of firms, who were not necessarily representative of the entire search sector. Further research could expand the scope, including other firms that are signatories of the Code, or firms that had not signed up to the Code. Additionally, it would be worth examining how gender-related practices in the executive search sector evolve or consolidate over time, after these early responses to the Davies Review and the Voluntary Code.

- An array on initiatives has been set up by various stakeholders (corporations, ESFs, women's organisations, political groups, coaching and mentoring professionals) to support the appointment of women on Boards. **How effective are these 'women on Boards' initiatives**? What is worth replicating and where could efforts be joined up?

- Finally, more insight is needed into women's **experiences with ESFs, their experiences as newly appointed Board directors** and the potential changes in the **dynamics of Boards** that have become more gender-balanced. In addition, in light of the current changes around gender diversity on FTSE Boards, further research should examine how these may have impacted the aspirations to sit on Boards among women in the pipeline.

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This report examines the corporate Board appointment process, focusing on the role played by executive search firms (ESFs) and what is being done to make Boards more gender balanced in the light of the 2011 Davies Review. Through a literature review and interviews with leading ESFs, the research shows that, despite evidence of some good practice and recent improvements, the appointment process remains opaque and subjective, being driven by male-dominated corporate elites who tend to favour those with similar characteristics to themselves. The report contains recommendations on how ESFs and other stakeholders could make the Board appointment process more inclusive.

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