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'New leadership' and environment management

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Professor Colin Coulson-Thomas

Death of the equity cult

'It must at least be arguable (albeit mischievously) that the focus hitherto by the corporate governance 'industry' on equity protection has become marginal: The real game in town is bond protection.'

Richard Smerdon

Content

Editorial 2 **New initiative to promote board diversity**

News 3 **Risk appetite – a market study**
Grant Thornton has published the first of an on-going series designed to monitor and report on progress and future challenges across the market

4 **Integrating governance**
Governance is still often seen as only a compliance exercise rather than a means for driving the sustainable performance of an organisation. A recent report recently examines how performance can be increased by integrating governance into the key drivers of sustainable organisational success

Feature 5 **Helping to fill the UK's talent tank**
Peninah Thomson explains how the FTSE 100 Cross-Company Mentoring Executive Programme has been working well to promote women to play a strategic role in UK plc and why the new Pipeline Programme will add to that work

6 **'New leadership' and environment management**
Professor Colin Coulson-Thomas argues that many organisations are failing to reap the benefits of providing better support to those who are best placed to deliver a range of environment management and other policy objectives

8 **Mentoring, or not?**
Dr Ines Wichert reports back on research that shows that rather than following traditional mentoring programmes, women need access to high visibility roles to achieve real career progression

10 **Death of the equity cult**
Richard Smerdon has been looking at the changes in ownership of UK plc and asks where this leaves corporate governance?

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Editorial

New initiative to promote board diversity

I am very pleased to announce the launch of a new initiative that I have been involved with in my role as Publisher of the Financial Times Non-Executive Directors' Club.

The European Business Schools/Women on Board initiative was founded to address the issue of whether or not there are sufficient qualified women to sit on the boards of publicly quoted companies in Europe. The Forté Foundation in the US, a non-profit consortium of major corporations and top business schools, is also supporting the initiative.

On 12 December, the Global Board Ready Women's Linked In Group was officially launched.

The Group is a practical step to enable women who are seeking roles to promote themselves, and companies who are looking for new directors to search quickly, easily and at no cost a group of high quality candidates, who all just happen to be female, to see if any of them meet the requirements they are looking for.

The Financial Times Non-Executive Directors' Club is providing pro bono help in administering the site in order to get this Group off the ground. The idea is that any women who are looking for new mandates, and who meet certain openly published eligibility criteria, can apply to join the Group which can then be searched by executive search firms and companies looking to appoint new directors, executive or non-executive.

Board diversity is of course much broader than simply gender diversity, and the global nature of this list should also help to broaden diversity of nationality on boards.

At the time of writing there are 405 high calibre women in the Group and that is growing rapidly. For more information about the Group go to www.linkedin.com and search under Groups for Global Board Ready Women.

Lesley Stephenson
Publisher

News

Risk appetite – a market study

'Recent increased regulatory and supervisory focus has demanded an articulation of risk appetite and improved decision-making for organisations', according to a study published by Grant Thornton. *Risk appetite – a market study*, is the first of an on-going series designed to monitor and report on progress and future challenges across the market, and highlights the importance of engaging the board in discussions from the outset.

Key findings

- Where risk appetite was inferred in the business plan, those companies have made more significant progress and are better placed to present a fully cohesive risk appetite framework.
- The vast majority of monitoring metrics already existed, though heavily driven from the business plan and therefore would not extend to operational risk metrics.
- An actuarial-led approach was more quantitative in nature and tended to demonstrate greater progress: whereas risk management-led approaches were more qualitative in nature focusing on operational risk issues (though not achieving the same degree of buy-in to date).
- High level risk appetite statements were narrative with supporting sub-categories designed from a quantitative standing.
- Business plans heavily influenced the risk appetite frameworks, risk appetite being flexed to accommodate the business plan and where no business case existed plans fell within appetite.
- Most companies had refreshed their reporting in terms of format, frequency, detail and recipients.
- The majority of respondents arrived at a set of measures common to most organisations, particularly around 'Earnings at risk', 'Capital at risk' and 'Solvency at risk'.
- Most organisations were making a concerted effort to build monitoring of risk appetite into their business-as-usual operations and embed the reporting process within the organisation.
- Risk appetite was generally reported in dashboard form – monitoring targeted risk appetite performance against deviation from a set of metrics defining acceptable and unacceptable threshold – and were supported by a narrative, detailing the findings across the quarter.

Reporting formats and content

Some organisations were making efforts to present risk information in a wide variety of formats to meet the needs of the wide variety of users of the information. The majority of respondents were in the process of revisiting or redesigning their reporting formats and the content and, in some cases, companies were revising committee structures.

In most companies a small number of committees received risk management reports, though in some several committees received reports. In a number of cases, management information was produced monthly but reported quarterly. A number of organisations were reappraising the reporting frequencies for different risk categories though one common theme was the use of the Own Risk and Solvency Assessment (ORSA) as a vehicle for reporting summary risk appetite information on a quarterly basis. Rather than organise their risk appetite statements by risk category, some companies had structured their statements by function/practice area.

There was a definite trend towards companies marrying risk management information and performance management information, some companies developing online dashboards with a screen for each supporting risk appetite statement, with a single page dashboard for the board. In most situations metrics already exist and were generally being reported as part of management information.

It was clear that there is more work to be done to fully understand the risk exposures of many businesses. Future challenges include:

- initiatives to embed monitoring and reporting measures into business-as-usual operations, introducing a suite of performance measures that not only support risk appetite but contribute to both the business planning process and the ORSA;
- 'going live' with new committee structures, reporting formats and frequencies;
- developing 'entity level risk tolerances' and grouping those tolerances across the business;
- undertaking a proof of concept around the risk appetite framework, testing how it sits together and works in practice;
- considering allocation of capital across lines of business and looking to build on the work to date to introduce some form of risk adjusted return on capital; and
- finding thinking time and breathing space to conduct analysis, a number of organisations targetting the automation of risk appetite reporting as key.

There are a broad range of practices in the market and, on the whole, progress has been made, though there had been a conscious decision to focus the majority of efforts on insurance risk and, to a lesser extent, investment risk. However, there is an underlying danger that other areas of risk, such as operational risk, may be being overlooked. Any high level risk appetite framework that does not include other significant areas of risk, irrespective of whether or not they generate a return, may be less effective.

To see the full report go to: http://www.slideshare.net/GrantThorntonPL/grant-thornton-risk-appetite-a-market-study-uk-2012

News

Integrating governance

Governance is still often seen as only a compliance exercise rather than a means for driving the sustainable performance of an organisation. A report recently published by the International Federation of Accountants (IFAC) *Integrating Governance for Sustainable Success*, examines how performance can be increased by integrating governance into the key drivers of sustainable organisational success.

Good governance affects the entire organisational cycle and the report argues that governance should be integrated into all parts of an organisation from strategic planning and resource utilisation to value creation.

Eight drivers of sustainable success

IFAC has established eight drivers of sustainable success that provide the framework for understanding how governance should be integrated. These drivers represent the areas in which successful organisations should try to excel in order to achieve and sustain high levels of performance and success.

1. *Customer and stakeholder focus* – Organisations need to develop in-depth knowledge and understanding of the critical drivers of internal and external customer and stakeholder value and engage customers and other stakeholders and understand their needs. This, in turn, helps identify how these stakeholders view the organisation, its products and services, and its economic, environmental, and social performance, as well as what they expect from the organisation and enables organisations to align all parts of the business to those needs.

2. *Effective leadership and strategy* – Setting the right tone at the top and providing ethical and strategic leadership focused on sustainable value creation in the organisation is crucial. Sustainable value creation can be achieved by:

- challenging conventional assumptions of doing business;
- identifying risks and seizing opportunities;
- establishing appropriate performance goals and targets;
- integrating sustainability issues into strategy, operations, and reporting;
- ensuring that the necessary information is available to support decisions; and
- redefining success in the context of achieving sustainable value creation.

3. *Integrated governance and risk and control* – There should be an awareness of the importance of integrating governance structures and processes with risk management and internal control. An integrated, enterprise-wide approach to risk management and internal control ensures that individual risks are not assessed and dealt with in isolation or in an unconnected way. Documentation and communication of governance, risk management, and internal control systems should be evaluated, as should the effectiveness of governance, risk management, and internal control systems and processes.

4. *Innovation and adaptability* – Organisations need to be able to adapt to changing circumstances, whether through innovating processes and products to improve reputation and performance or through change management such as the adoption and implementation of revised working methods, processes, and systems to support new products/services or approaches to delivery.

5. *Financial management* – As organisations and their external stakeholders increasingly include environmental, social, and governance (ESG) factors in their decision-making, the importance of good financial management is likely to increase. Governing bodies and managers need to understand the financial health of the organisation, progress in delivering financial objectives and have access to information and analysis needed for organisational objective setting, strategy formulation, execution, and control.

6. *People and talent management* – Investment in human capital development leads to sustainable success. People and talent management strategies and policies should focus on determining and developing core competencies, engaging talent and expertise from outside the organisation, stimulating collaboration and partnerships across organisational boundaries, succession planning, empowerment and retaining critical staff, thus enabling the organisation to meet its changing needs. Alignment of incentives with the organisation's strategic and operational objectives is also important.

7. *Operational excellence* – Organisations need to align resource allocation with strategic objectives and the drivers of shareholder and stakeholder value and support decision-making with timely and insightful performance analysis for product, process, and supply-chain improvement. Performance metrics should be used to ensure that high-quality reporting supports effective communications to the various stakeholders and to support operational feedback and continuous improvement activities.

8. *Effective and transparent communication* – Organisations need communication and reporting processes and systems that respond to changing information demands. They need:

- to identify and engage with stakeholders effectively to ensure that they receive relevant communications;
- to plan, execute and control the preparation of financial and business reports and other relevant communications that meet the information needs of the various stakeholders and are in compliance with standards and regulatory requirements;
- to manage and monitor the efficiency, integrity, and effectiveness of the organisation's financial and non-financial reporting processes, systems, and controls; and
- to implement new communication and engagement techniques.

Successful organisations have a governance structure and culture that goes beyond conformance with regulations and supports the organisation's efforts to improve its performance. The ultimate objective of governance is to ensure the creation of sustainable success and stakeholder value and integrating governance is the means to achieve this objective.

To see the full report go to:
http://viewer.zmags.com/publication/8c7ba56b#/8c7ba56b/1

Feature

Helping to fill the UK's talent tank

Peninah Thomson explains how the FTSE 100 Cross-Company Mentoring Executive Programme has been working well to promote women to play a strategic role in UK plc and why the new Pipeline Programme will add to that work.

For nine years, the FTSE 100 Cross-Company Mentoring Executive Programme has been helping talented, aspirational women to participate at a strategic level in the economic life of the UK. Whether that participation is within UK quoted companies – by being appointed non-executive director or executive director of the board, or promoted to the executive committee – or through setting up a company, or being appointed to high public office; by being appointed trustee of a major pension fund, or trustee of a large charity – more than 100 women Mentees have demonstrated beyond doubt that they have the ability, experience and commitment to step forward and take their place at the table.

During the nine years that it has been operating, Programme Mentees and Alumnae have been able to count on the sustained support of a cadre of Mentors – originally 18 in number, and now 58. For the most part these are Chairmen or CEOs of leading FTSE 100 or 250 companies; but the Programme is a broad church and has also benefited from the participation of leading figures from the public sector. They come from different sectors and industries, but what all Mentors have in common is a firm commitment to the primary objective of the FTSE Programme – to help the women Mentees, through advice and guidance, and by learning and development events organised as part of the Programme, to manage their own careers so that they can attain a board position, or otherwise progress their careers.

Each Chairman, or other leader, nominates a Mentee from their own organisation, to be mentored by the Chairman or leader of another company (hence 'cross-company') and in turn agree to work with a Mentee. The matching process and the Programme in its entirety is directed and managed by The Mentoring Foundation, an independent, not-for-profit company limited by guarantee, established in October 2011 at the request of a group of Chairman Mentors. The Chairmen of a number of companies – Royal Bank of Scotland, Tesco, HSBC, BAE Systems, Lloyds Banking Group, the Bank of England, Legal & General, Barclays, Coca-Cola Inc., Shell, McKinsey, Unilever and Rolls-Royce – stepped forward as Founder Patrons, committing to place a number of nominated Mentees in the Programme and to providing their support. The Chairmen of many other companies and organisations also stepped forward as Patrons, placing a Mentee in the Programme and providing their support.

Invented in the UK and now being emulated in no fewer than 12 countries, the FTSE 100 Cross-Company Mentoring Executive Programme has emerged over the years as a real force for beneficial change, facilitating the participation of able and experienced female executives at board level in the UK, and helping to develop a pipeline of talented women who are eager to play their part in the economic life of the country. And now the Executive Programme is being joined by a younger sibling – the FTSE 100 Cross-Company Mentoring Pipeline Programme – designed to focus upon Lord Davies' assertion that 'addressing pipeline attrition amongst high-potential women is a critical ingredient for ensuring lasting change in the executive appointments culture'.

Launched by Legal & General CEO Nigel Wilson at a Colloquium on the FTSE Programme hosted by the Bank of England in November, the Pipeline Programme is aimed at the next generation of women leaders. It is a pilot, with ten Mentees nominated by seven participating organisations. The initial group of organisations for this first pilot stage are Legal & General, BAE Systems, the Bank of England and Tesco, and from the banking sector Royal Bank of Scotland, HSBC and Lloyds Banking Group. PwC, Shell and Rolls-Royce are waiting in the wings. The types of women selected as Mentees typically have between eight and ten years' business experience. They are high potential managers or technical experts, with the potential to achieve significant progress within three to five years, and to obtain top leadership positions in the long term.

The FTSE 100 Cross-Company Mentoring Pipeline Programme is – like its older sibling – an innovation, in that it draws upon the mentoring skills of alumnae from the Executive Programme to help and support women identified as future leaders in the participating organisations. It is a sign of the maturity of the Executive Programme, and the maturity and accomplishment of its alumnae that they are now ready in their turn to act as Mentors for the high-potential next generation of women leaders.

Peninah Thomson, OBE is Chief Executive of The Mentoring Foundation, http://mentoringfoundation.co.uk

Feature

'New leadership' and environment management

Professor Colin Coulson-Thomas argues that many organisations are failing to reap the benefits of providing better support to those who are best placed to deliver a range of environment management and other policy objectives.

The work of boards has traditionally been concerned with providing strategic direction which has involved activities such as visioning, establishing strategic goals, objective setting and the formulation of strategies and policies. If these foundations are absent an organisation may set off in an inappropriate direction. However, in an uncertain context they may be a necessary but not a sufficient condition for sustained success.

Without implementation, agility, flexibility, rapid delivery and high performance today an organisation may not survive long enough to put in place the capability that will hopefully cope with an uncertain future. This article summarises evidence from an enquiry which suggests that affordable short-term action and giving people appropriate support can equip them to confront longer-term challenges such as global warming.

An organisation's relationship with the environment and impact upon it can be the result of various activities, ranging from how its products are produced and distributed – and how customers use them – to the patterns of work adopted by its employees. Changing environmental impacts may require altering the behaviours of different groups of people, including external stakeholders such as suppliers and business and channel partners. Means need to be found of engaging and helping them.

Awareness of environmental impacts and responsibilities among corporate leaders and agreeing environment management goals, objectives, strategies and policies are sometimes seen as first and last steps of a governance process. Yet outside of the boardroom little, if anything, may happen unless practical steps are taken to share an environment management vision and ensure that people are equipped to implement it.

At a time when environmental challenges can also represent exciting business opportunities, restructuring or re-organisation can be distracting and disruptive. Changing a corporate culture, attitudes, processes and ways of working and learning using 'traditional' approaches can take a number of years, even when only partially successful.

Effective governance should be concerned with the efficient use of human and other resources and the avoidance of waste. Many widely adopted approaches to improving corporate performance are wasteful and time consuming. By the time many initiatives are implemented requirements and priorities may have changed, while opportunities are often missed during transformation journeys.

A five-year study has found a lot of widely adopted practices are costly and inefficient compared with more affordable routes to high performance organisations. Two reports based upon the investigation, *Talent Management 2* and *Transforming Public Services* suggest that a 'new leadership' is required which involves a change of focus from speculative forays into an unknown future to helping people to excel at activities that are crucial today and to handle challenges as, when and wherever they arise.

Important though many 'traditional' activities of boards are 'new leadership' looks beyond them. It also embraces assembling the knowledge, financial and other capabilities that may be required to implement them, including processes and tools for ensuring relevant resources are effectively applied to what an organisation is setting out to do.

Many corporate initiatives are articulated and launched from the top in the hope that people will respond. People are told what is required, and ideally how they can help. The smart board also provides 'bottom up' support. It ensures that people understand and are equipped and enabled to do what is required in a winning way, cost-effectively and minimising negative impacts.

'New leadership' shifts the emphasis from leading to helping. It involves more affordable and flexible ways of making it easier for 'average' people to understand complex issues, and helping them to do important, difficult and stressful jobs. It uses approaches like performance support to work with existing talents and cultures.

The fact that so many past corporate initiatives have had to be accompanied by costly 'internal communications', 'engagement' and 'management of change' programmes suggests their merits may not be immediately apparent to those who are expected to adopt or implement them. Similarly, the efforts being devoted in many organisations to engaging and motivating people suggest these initiatives are also incomplete.

In many contexts successive initiatives have attempted various ways of managing, motivating and leading people, but 'new leaders' endeavour to help them. Rather than focus on leading, perhaps there should be more emphasis upon following the changing requirements and aspirations of customers and users and making it easier for them to secure the assistance they need to achieve their objectives.

Persistent problems have often been approached from a 'senior management' rather than 'front line' perspective, for example driving change through an organisation rather than helping people to cope. If the emphasis had been upon providing support much of the effort devoted to 'transformation' and 'change management' might have been unnecessary. People can be helped to take informed and responsible decisions.

'New leadership' recognises that today's companies have legal and moral obligations to a range of stakeholders and their continued viability and reputations may require much more than delivering financial results at 'almost any cost' and utilising whatever means they can 'get away with'. Sustained engagement and mutually beneficial relationships can also require responsible conduct.

Nomix deployed a support tool to help users of its weed control solutions and potential customers to make more informed and less environmentally damaging choices. For example, prospective purchasers were shown how spray drift from an alternative such as a knapsack can cause environmental hazards, herbicide damage and health risks. Advantages of better alternatives are explained, for example that spillage can be avoided as a result of not having to mix different liquids.

Performance support can also be used across a supply chain to speed up the implementation of environment management and other policies. Consider the question of sourcing and the behaviour of one's suppliers whose conduct could have a significant impact on the environment. The retail store chain B & Q used performance support to make sure all its suppliers understood and adhered to its quality policies.

Many boards view environmental issues and sustainability as a challenge, risk or source of higher costs. Performance support represents a much quicker and more cost effective way of simultaneously delivering various organisational objectives – including responsible buying – that can minimise harm to the environment and benefit service users. It can help users, buyers, suppliers and staff to take more sustainable decisions.

Making 24/7 support available on mobile devices can also reduce unnecessary and stressful journeys while encouraging a healthier lifestyle. It can cut the cost and time of travelling in addition to the environmental advantages. In this and other areas many people change behaviours once they better understand the consequences of different options.

Performance support impacts directly upon behaviours and its implementation can be largely independent of cultures, values and motivations. It makes it easier for people to do difficult and stressful jobs. It can also help them to select less wasteful options and prevent outputs that breach policies, guidelines and required standards.

Many organisations are failing to reap the benefits of providing better support to those who are best placed to deliver a range of environment management and other policy objectives. Key decision-makers should consider what they can do to help people to make more responsible choices and excel at demanding tasks.

One measure of effectiveness is the extent to which a board ensures that the people of an organisation are equipped to do what is expected of them, and those it wishes to help – including customers and users of an organisation's products and services – are enabled to help themselves. Non-executive directors could question the extent to which performance support is provided to employees and other stakeholder groups.

The experience of adopters of performance support suggests it is a focused, relatively quick and cost-effective way of securing large returns on investment. It can engage people and meet a talent-on-demand requirement. People who are better supported can be freed from wrestling with problems to focus upon developing solutions, for example more sustainable and less environmentally damaging ways of operating.

Further Information

This article summarises a paper prepared for delegates to the 14th World Congress on Environment Management which was held in New Delhi on 5 and 6 of July 2012. It was organised by the Institute of Directors of India in association with the World Environment Foundation. Details can be found on www.iodonline.com

The reports *Talent Management 2* and *Transforming Public Services* on a quicker and more affordable route to high performance organisations are published by Policy Publications and can be obtained from www.policypublications.com

Professor Colin Coulson-Thomas, author of Transforming Public Services, Talent Management 2, Winning Companies; Winning People and Developing Directors and an experienced chairman and independent director has been the vision holder of successful transformation programmes and has held public sector board appointments at national and local level. The world's first professor of corporate transformation, he is currently a part-time member of the business school team at the University of Greenwich. Colin has helped over 100 boards and management teams to improve performance and can be contacted via www.coulson-thomas.com

Feature

Mentoring, or not?

Dr Ines Wichert reports back on research that shows that rather than following traditional mentoring programmes, women need access to high visibility roles to achieve real career progression.

Mentoring can be very beneficial, but new research reveals that it's not a panacea for women's career progression.

In our study of 2,500 professional and managerial men and women across five countries (the US, the UK, Brazil, China and Japan) we explored a wide range of potential drivers of women's career progression, including the impact of mentoring. The results were at times surprising and provide important messages for organisations and their boards in respect of their efforts to develop their female talent for senior leadership roles.

A key finding of our work highlights the importance of differentiating between personal satisfaction with one's career progression opportunities and actually receiving a promotion. The two are not always strongly linked; feeling good about one's career progression opportunities is not always a good predictor of actually getting a promotion.

The top three factors driving women's personal *satisfaction* with their promotion opportunities were: objective HR processes; career support from a supervisor; and support from a mentor. Understanding these drivers of personal satisfaction with promotion opportunities is important because they can help to maintain engagement levels and increase the chances that women will want to stay with the company. However, these factors only relate to satisfaction, not actual promotions. In our study we also looked at what contributed to women actually being promoted. Three very different top drivers emerged: having critical job assignments (accounting for 26 per cent of the difference between being promoted or not), being a politically skilled networker (18 per cent) and being ready and willing to take risks when proactively looking for new job opportunities (11 per cent). Mentor support only emerged as a minor driver, accounting for only five per cent.

To understand why actual career progression is linked to different drivers than personal satisfaction with career progression opportunities, we need to examine some of the mechanisms at play when promotion decisions are made.

We know from other research that while women seem to get a broadly fair hearing when their past performance is evaluated, they tend to be considered less promotable than their male colleagues. The argument goes that in situations where little task-relevant information is available, as is often the case in promotion decisions when candidates have yet to act in the role under discussion, bias and stereotypes surface. In these situations of increased uncertainty, senior decision-makers (often still predominantly male) tend to feel more comfortable with who they know, ie other men.

One way to help reduce the emergence for this unconscious bias is to ensure that women in the organisation have 'objective' evidence to demonstrate that they are as experienced and capable, if not more so, than a male candidate. Such objective evidence can be provided by critical job assignments – one of our top drivers of actual career progression.

Research also highlights another factor that helps decision-makers feel more comfortable with candidates: *familiarity*. If a decision-maker knows a candidate or at least knows of a candidate, his or her readiness to appoint that person to the board or a senior executive role is increased. That is why being networked in the right places with a good understanding of power structures can be of tremendous benefit to women.

For women, not having critical job assignments and failing to be well-networked are significant barriers to progressing in their careers. It could be argued that the same barriers are at play for men, but our research reveals otherwise.

Our data shows that men's actual number of promotions achieved is driven by a broader range of factors: critical job assignment and networking are still important, but to a much lesser extent than for women. For men, there appear to be five more equally balanced drivers of obtaining a promotion: supervisor support (15 per cent), networking (12 per cent), critical job assignments (12 per cent), objective HR processes

(11 per cent) and seeking opportunities (ten per cent). This broader spread of drivers means if men are missing one of these factors, they can more easily compensate for it by relying more on the other drivers. For women, on the other hand, missing out on a number of critical job assignments and not being well networked, is significantly harder to compensate for as these two factors together account for 44 per cent of the difference between being promoted and not being promoted. Our data shows that women have a clear disadvantage in their career progression, making it harder for women to make the same progress as men.

The evidence for the importance of critical job assignments for women is clear from our study. Unfortunately, women in our research reported having significantly fewer of these assignments than men. The kinds of assignments women and men have access to, and take on, are also different. For men, the three key assignments to have on a CV are being an executive team member, having had an early stretch assignment and having led a large-scale organisational change project. These three assignments account for almost 50 per cent of the power that critical job assignments bring to achieving a promotion. For women, these three assignments are still amongst the top drivers but each of them is less important when compared to men. Instead of being driven by just three different types of job assignment, women also need to show that they have had a set of other experiences, such as people management experience and general management experience in order to achieve the same 'power' to drive promotions.

Our research would suggest that supporting female talent in organisations requires a very specific approach – the one-size fits all (men and women) just doesn't apply. While women can do much to help themselves in a bid for promotion, organisations and top teams need to be aware of some of the subtle underlying mechanisms at play when recruiting and promoting for senior roles.

Reviewing processes and decisions that influence who gets assigned to which role can greatly improve women's access to high-visibility roles. As part of such a review process hard questions have to be asked about a staffing manager's own biases and concerns and often also the assumed (or actual) concerns of a client. Furthermore, organisations that work towards giving women genuine and ongoing access to senior networks can greatly increase women's visibility and as a result their career prospects.

Let's come back to mentors. Our data, and other research, too, shows that mentoring isn't all that effective in improving women's promotion prospects. Traditional mentor support such as providing career advice, debriefing difficult situations and providing general encouragement, is more strongly related to feeling good about career progression opportunities than actually achieving a promotion. Despite this fact, mentors can still play a role in helping women do better at the key drivers that are linked to actual career progression: they can help women get access to critical job assignments, help them become better networkers and finally, encourage them to seek new opportunities and to take risks when doing so. When we look closely at the type of support that successful senior executives report as having received from their mentors, it is exactly this very specific type of mentoring that they describe: pointing out challenging new roles, opening doors to powerful networks and providing the encouragement to take risks with big promotions. Unless it is this very focused mentoring, organisations might benefit from investing less in general mentoring schemes and more in equal access to high visibility job assignments and providing opportunities to network at the top.

Dr Ines Wichert is a Senior Psychologist at the Kenexa High Performance Institute (KHPI) with a special interest in talent management and female leadership development. Dr Wichert leads KHPI's Women in Leadership research stream. http://khpi.com/home

Feature

Death of the equity cult

Richard Smerdon has been looking at the changes in ownership of UK plc and asks where this leaves corporate governance?

It was reported in the *Financial Times* on 6 November 2012 that UK pension funds are holding more bonds than equities for the first time since the policy of investing in equities by institutions got under way in the 1950s.Up until that point institutions had invested mainly in the 'safe' bonds sector, and in particular government bonds or 'gilts'.

In the mid-1950s George Ross Goobey, the manager of the Bristol-based Imperial Tobacco Pension Fund, made a game changing persuasive case that equities in fact yielded significantly more than bonds. In the years following that analysis institutions made a major switch into equities. Indeed the author of this article well remembers, as a young company lawyer practising in Bristol at that time, meeting George Ross Goobey when he visited a local high quality printing company called Partridge and Love, listed on the now extinct Midlands and Western Stock Exchange to discuss investing in the company. His son, the late Alastair Ross Goobey, will be remembered for his development with Peter Butler of shareholder activism in its early days when CEO of Hermes Pensions Management and then chairman of Hermes Focus Asset Management. Incidentally, there is another article to be written lamenting in corporate governance terms the loss of the regional stock exchanges at the time of 'Big Bang', but that is for another day.

What percentage of UK equity is held by UK pension fund portfolios?

The FT report quotes the Pensions Regulator (the 'Purple Book' for 2012) as reporting that data from 6316 defined benefits schemes shows that the equity allocation by pension funds fell to 38.5 per cent from 41.1 per cent in 2011. The proportion of gilts and fixed interest rose to 43.2 per cent from 40.1 per cent in 2011. The proportion of hedge funds increased from 2.4 per cent to 4.5 per cent.

Other statistics which emerged from the Pension Regulator's survey were that:

- The overseas proportion of total equity holdings rose from 57.2 per cent in 2011 to 60.0 per cent in 2012 with the UK proportion falling from 38.0 per cent to 33.9 per cent. The balance of holdings in unquoted equities increased from 4.8 per cent in 2011 to 6.1 per cent in 2012.
- Within total gilts and fixed interest, the corporate fixed interest securities' allocation rose from 44.3 per cent in 2011 to 44.8 per cent in 2012. Meanwhile, the proportion of government fixed interest fell from 19.6 per cent to 17.7 per cent. The balance of holdings in index-linked rose to 37.5 per cent from 36.1 per cent in 2011.
- Smaller schemes tend to have a higher allocation to UK equities and a smaller allocation to overseas equities. Within fixed interest, smaller schemes tend to have a higher allocation to government fixed interest and a smaller allocation to index-linked securities.
- Looking at simple averages, the allocation to UK equities is still bigger (49.9 per cent) than that for overseas equities (48.5 per cent), although the gap between the two has continued to narrow.
- Considering gilts and fixed interest on a simple-average basis, the allocation to government fixed interest fell from 31.2 per cent to 28.2 per cent while the allocation to corporate fixed interest securities rose from 47.1 per cent to 49.4 per cent. The average allocation to index-linked securities rose from 21.7 per cent to 22.4 per cent.
- As one would expect, more mature schemes tend to invest more heavily in gilts and fixed interest and less in equities.

The switch seems to have been dictated by a number of considerations:

- The Pensions Regulator requiring that pension funds hold less 'risky' assets and the need to demonstrate that long-term assets are in line with long-term liabilities;
- accounting standards which abhor volatility;
- the prospect of European rules which may exacerbate the above; and
- Quantitative Easing which is said to have caused a bubble in bonds, over-inflated liability calculations and bloated deficit estimates, and the risk that when the bubble bursts 'it will get ugly'.

One result of the stampede has been that currently yields on gilts are (apparently) at an all time low because of the demand – thus perversely exacerbating the problem of lining up assets and liabilities.

The Purple Book stats thus seem to show two particular trends:

1. UK funds no longer, for the time being at any rate, allocate the majority of their investment portfolio to equities; and
2. within the equity part of pension fund portfolios, a whacking 60 per cent is now in overseas equities

Who owns UK Stock Exchange companies?

The Office of National Statistics issued a bulletin on 28 February 2012 ('Ownership of UK Quoted Shares, 2010') containing some interesting data for the year ended 31 December 2010 of which the first item is perhaps the most startling:

- At the end of 2010, insurance companies held 8.6 per cent and pension funds held 5.1 per cent of the UK listed market by value. *These are the lowest percentages since the share ownership survey began in 1963.*
- 'Rest of the world' investors owned 41.2 per cent of the value of the UK stock market at the end of 2010, up from 30.7 per cent in 1998.
- Other financial institutions held 16.0 per cent of the value of the UK stock market at 31 December 2010, up from 2.7 per cent in 1998.
- UK individuals owned 11.5 per cent of the value of the UK stock market at the end of 2010, down from 16.7 per cent in 1998.

Question

Where does all this leave the UK Corporate Governance Code and the UK Stewardship Code?

The point is, the UK's corporate governance project has always essentially been a UK equity 'protection' project: But if less than 50 per cent of UK institutional portfolios are now in equities and of that, if most of the equity investment is in overseas equities, *and* if 41.2 per cent of the listed market is held by non-UK investors does that mean that the UK Corporate Governance Code and the UK Stewardship Code are becoming marginal in their relevance to UK investors? Should attention switch to the protection of UK corporate bonds in which it appears from the stats that UK funds now invest more than 50 per cent of their debt investment?

Well, the answer to each of these questions is probably 'maybe' and 'no' respectively.

The 'maybe' response to the first question arises because although UK institutions seem substantially less interested these days in equity markets, nevertheless if you were to put the average fund manager up against a wall he would probably still want to keep the protections afforded to UK listed equities by the UK Corporate Governance Code and the responsibilities imposed on institutions by the UK Stewardship Code in place in respect of even his smaller UK equity portfolio 'just in case'. Moreover, it is possible that the strikingly large percentage of the UK listed market held by 'overseas' investors arises, in part at any rate, because of a sense that the UK takes governance seriously – even if the evidence of poor governance or at any rate poor risk management (which may amount to the same thing) in the UK is embarrassing: eg BP, Barclays, HSBC, Lloyds, RBOS et al.

Nevertheless, looking at that ONS statistic that 'rest of the world' investors owned 41.2 per cent of the UK stock market as at end 2012 the question is: are foreign investors willing to step into the void left by UK institutions and sign up to the UK Stewardship Code or otherwise engage actively with investee companies? The FRC has been energetic in its efforts to encourage overseas institutions to be 'good stewards' whether in formal (UK Stewardship Code signatories) or other ways (regular meetings with management, voting practices). It is not yet clear that all such institutions have the appetite for engagement and indeed some may struggle to understand what even current signatories to the Code actually do in practical terms. Still, the achievement on a larger scale of active engagement by overseas institutions remains a goal worth fighting for.

Should more attention be paid to bond holder protection by UK corporate governance regulators? The answer is 'no', partly because built into instruments creating bonds are lots of restrictions and information rights and sanctions which operate as protection measures in their own right; but mainly because bond holders in any case, regardless of any contractual protections, act to look after themselves in an activist investor sense.

Hermes, for example, in its coverage of bond portfolios has found that it can and does engage and can encourage change.

Conclusion

The withdrawal by UK institutions from the UK equity market into bonds over the past five years represents a dramatic shift in investment strategy. As a side comment, it is a concern that raising corporate capital by share issues may be a thing of the past, and think what *that* might do to balance sheets.

It must at least be arguable (albeit mischievously) that the focus hitherto by the corporate governance 'industry' on equity protection has become marginal: The real game in town is bond protection. By activist funds learning to enjoy engagement via bonds, and debtor companies recognising, albeit sometimes sulkily, that they *need* to talk to people who after all in the last analysis have them up against the wall, institutions holding bonds are arguably more *effectively* protected against poor behaviours than all the Codes put together.

If that is right then how are we in the corporate governance industry going to occupy our time! It could be a disaster!

Continued on page 12

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Continued from page 11

Postscript: On 27 November 2012 the Investment Management Association published a press release proclaiming amongst other things that 'Equities are the leading asset class for second consecutive month'. The author of this article, worried by this late apparent explosion of a carefully worked article, looked into the figures in more detail and ascertained that in fact in terms of gross retail sales (new investment and switches) equity funds took a 49.4 per cent share in October 2012: still less than 50 per cent therefore of institutional investment. So the argument still stands, but the author does not expect to see redundancies among equity activists any time soon!

Richard Smerdon, recently retired rapporteur to the All Party Parliamentary Corporate Governance Group and author of 'A Practical Guide to Corporate Governance' (4th edition, Sweet & Maxwell 2010). The opinions expressed by the author are personal to him and his responsibility, but he would like to acknowledge some great insights suggested to him in the preparation of this article by Paul Lee, Director at Hermes Equity Ownership Services.

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Index

Organisations

FRC 10
IFAC 4

People

Professor Colin Coulson-Thomas 6
Richard Smerdon 10
Peninah Thomson 5
Dr Ines Wichert 8

Companies

Grant Thornton 3
Mentoring Foundation 5

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