

## Scotland Europa response to the European Commission public consultation on the EU corporate governance framework

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The European Commission's *Green Paper on the EU corporate governance framework* is a welcome initiative to demonstrate the importance of good governance for the competitiveness of European businesses. The inclusion of this initiative within the framework of the Commission's *Single Market Act* has therefore been met with enthusiasm by Scottish stakeholders.

This response has been coordinated by Scotland Europa, bringing in contributions from our member organisation Scottish Enterprise (SE) – Scotland's main enterprise, investment and innovation agency. Our contribution below focuses on a number of the guiding questions outlined in your consultation document.

### **(4) Should recruitment policies be more specific about the profile of directors, including the chairman, to ensure that they have the right skills and that the board is suitably diverse? If so, how could that be best achieved and at what level of governance, i.e. at national, EU or international level?**

#### **The Business Case**

As the Green Paper highlights, there is compelling evidence to show that having more women on boards makes good business sense. This is backed up by research that SE carried out last year in conjunction with our partner agency, Highlands and Islands Enterprise (HIE), which provides business development support in the North of Scotland. The research investigated the equality issues affecting our key sectors across all equality strands including gender, ethnicity, race, disability, religion/belief and sexual orientation. The full report – *Equality and diversity baseline information on Scotland's key economic sectors* – can be accessed online.<sup>1</sup>

The research identified some convincing evidence that increasing the number of women at leadership level, and the workforce generally, realises business benefits:

- Profitability increases threefold when women account for up to a third of directors (Gavurin, 2007);
- 44% of companies with at least one female director made a profit in the previous year compared to 41% for companies with only male directors (Experian Female Directors Report, 2007);
- Increasing labour market participation of women could be worth £15-23 billion which is equivalent to 1.3-2% of UK GDP (The Women and Work Commission, 2006); and
- Catalyst (2004), when assessing Fortune 500 companies, found that those in the top quartile for the number of women in senior management roles had an 18% return on equity and 128% return to shareholders compared to 13% and 95% respectively for

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<sup>1</sup> <http://www.evaluationsonline.org.uk/evaluations/Search.do?ui=basic&action=show&id=389>

companies in the bottom quartile for the number of women in senior management roles.

### The current situation in Scotland

The graphs below show the under-representation of women at Director level across all our key industrial sectors:



### The way forward

Our research has identified that there is a strong case for increasing diversity at leadership level but there is a lack of evidence in certain sectors and across some diversity strands (disability and ethnicity in particular). We also do not have evidence available purely at board level.

We therefore advocate that increasing diversity makes good business sense even in times of low economic growth. Having recruitment policies which encourage diverse candidates and appointments to boards is only part of the solution and this should be enhanced by having:

- A stronger evidence base to identify where under-representation is occurring across sectors, equality streams and leadership levels.
- Policies should reflect not only attracting more women to boards but also more ethnic minorities, disabled and younger people to maximise talent and increase innovation in boards (our research also confirmed that the more diverse a leadership group then the more innovative it becomes with many differing ideas coming from diverse members)
- The support mechanisms (mentoring, awareness raising, networking and training) are also as important as a robust recruitment policy. Our experience suggests that the under-representation of groups is more to do with a lack of applicants for positions rather than lack of competency of candidates or any discrimination occurring at appointment stage.
- Confidence is a major factor in the lack of applicants for board positions. Greater use of mentoring would help address this but also case studies of successful board members and chairs from different under represented groups would encourage a much more 'can do' attitude.

**(5) Should listed companies be required to disclose whether they have a diversity policy and, if so, describe its objectives and main content and regularly report on progress?**

Our experience shows that companies do not want more legislation in this area, particularly during the existing economic conditions. Greater uptake of diversity can be achieved by promoting the business case for the agenda and many larger organisations already see this and report on progress. Companies who do not focus on this should be encouraged to do so but not through any particular ethical drive (such as Corporate Social Responsibility), or legislative requirement but because it makes good business sense.

**(6) Should listed companies be required to ensure a better gender balance on boards? If so, how?**

Again, companies should be encouraged but not required to do so. In addition we strongly feel that quotas are not effective.

At the heart of good equality work is the need to foster good relations between different groups. The effect of imposing quotas could have two unwanted consequences;

- I) Those not in a disadvantaged group may feel excluded in any recruitment process and feel aggrieved through the process. This could cause friction between men/women, disabled and non-disabled people etc.
- II) Those in the disadvantaged group may feel that they would be appointed, not on their competency, but because of their specific characteristic. This may not therefore achieve the desired outcome of increasing applications through improved confidence.

Companies should therefore be encouraged to track and report on progress but not on their achievement of any targets or quotas.

The public sector could have an advocacy role and is perhaps an area where legislative levers could be used to ensure the benefits of diversity are realised. Although the 'profitability' element is perhaps not an argument to be used for public sector organisations to adopt greater diversity in their governance structures, the other benefits of diversity could be used and provide further evidence for the private sector to focus on the agenda, particularly efficiency savings.

We have promoted these benefits to encourage our own organisation to increase the diversity of our governance structures and this is starting to result in positive outcomes. These benefits include:

- Greater staff retention/morale – employees who recognise that their employer is equality focused are more likely to be happier in their workplace and less likely to leave. This will therefore reduce costly staff turnover costs, improving efficiency.
- Innovation – as mentioned above the more diverse a group, the more innovative it is likely to be. People from different backgrounds bring different solutions to problems making the group more innovative.
- A more diverse workforce – it is likely that the diversity of a governance structure will encourage greater diversity throughout the workforce as staff will see the benefits at board level which will encourage greater recruitment from under-represented groups at all levels.
- Greater uptake and better targeted services – users of an organisation's services will trust an organisation whose governance structure and workforce are diverse and are

- Maximising talent – staff and external candidates will be encouraged to apply for senior positions if the board is already diverse recognising that the board is accepting of such appointments and sees successful role models working on the board. This ensures that the organisation is utilising all its talent, encourages personal growth and facilitates the attraction of the very best people for vacancies.
- Avoiding costly discrimination cases – an organisation with a more diverse governance structure and understanding of issues is less likely to have discrimination cases brought against it avoiding lengthy, costly and reputationally damaging court cases in the public domain. This is applicable for an organisation as an employer and in its service provision.

### Background on the contributors



**Scotland Europa** is a membership-based organisation that promotes Scotland's interests across the institutions of the European Union and to the representatives of Europe's regions and Member States. We help Scottish organisations foster successful European relationships, providing guidance on European policies and funding. In addition Scotland House provides excellent conference centre facilities, offering an ideal location for hosting events with both Scottish and European focus. SE is a member of Scotland Europa.

[www.scotlandeuropa.com](http://www.scotlandeuropa.com)



**Scottish Enterprise** is Scotland's main economic, enterprise, innovation and investment agency. Our ultimate goal is to stimulate sustainable growth of Scotland's economy.

To achieve this we help ambitious and innovative businesses grow and become more successful. We also work with public and private sector partners to develop the business environment in Scotland. We deliver a range of dedicated support services locally, nationally and internationally. Our activities help businesses with the appetite and capacity to grow to: improve efficiencies; access new sources of funding; and conquer new markets.

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