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The Glass Ceiling and Directors of Large UK Quoted Companies ▼

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We examine the position of female directors in the top 100 UK quoted companies in the context of occupational gender differences and corporate governance. Less than 2% of the executive directors in our sample are females and just fewer than 9% of the non-executive directors are females. Female (executive and non-executive) directors receive lower remuneration than their male counterparts. We also find some evidence that female non-executive directors are particularly underrepresented in some "traditional" industries such as mining, chemicals, aerospace and defence, but have better prospects (although still limited) of reaching board level in industries such as food and drug retailing, telecommunication services, banking and insurance. Clearly the progress of women in breaking the glass ceiling has not been helped by the absence of gender issues in the corporate governance debate. **JEL: J700, M120**

1. Introduction

The "glass ceiling" is a transparent barrier which women face as they attempt to achieve promotion to the higher levels of organisations. The Hansard Society Commission in the UK referred to the fact that "for too many (women) there is a glass ceiling over their aspirations – it allows them to see where they might go, but stops them getting there. In any given occupation and in any given public position, the higher the rank, prestige or power, the smaller the proportion of women" (Nicolson, 1996, p. 101). Moreover, evidence from the US (Fryxell and Lerner, 1989; Wirth, 1998) and from Canada (Burke, 2000) shows that

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females are more likely to be located on boards of companies whose products involve women as the primary purchaser and in industries traditionally dominated by women, such as finance and banking, food and clothing retailing. Possible explanations for the occupational gender differential include work-family conflict (Lyness and Thompson, 1997; Liff and Ward, 2001; Wirth, 1998); tokenism and networking (Lyness and Thompson, 2000; Davies-Netzley, 1998; Burke, 1997); and barriers in acquiring competence/experience (Oakley, 2000; Forster, 1999).

In recent years, women have been increasingly successful in gaining promotion to high ranking professional careers. For example, last year in the UK, 35% of hospital consultants and 24% of law partners were female while 21% of females occupied high-ranking posts in the civil service (Simms, 2003). Can we say the same about female representation at the highest levels of business? For those few women who do break through the glass ceiling, do they still face discrimination in terms of remuneration? And are there any specific industries in which they are particularly under represented? These are the questions this paper seeks to address. Researchers like Benito and Conyon (1999) and Young (2000) have investigated matters related to UK directors' pay but not with a gender perspective. Holton (2000), based on the Ashridge Survey of the UK Times Top 200 companies, observed that the increase in women directors from 1989 to 1997 has been disappointingly slow, and that women directors are more likely to be found among banks, building societies and retailers. By contrast this paper not only investigate the recent numbers of female directors but also examines their remuneration with respect to company size and industry type, compares their position with their male counterparts and discusses corporate governance related aspects.

The paper is structured as follows. Section 2 reviews recent developments in UK corporate governance. Section 3 describes the hypotheses to be tested, data and empirical results. Section 4 concludes.

2. Recent Developments in UK Corporate Governance

Over the last decade, four committees, a working party and a review have addressed corporate governance issues in the UK. The first of these was the Committee on the Financial Aspects of Corporate Governance which was set up in 1991 under the chairmanship of Sir Adrian Cadbury. The committee was formed in response to a number of UK financial scandals in the 1980s such as frauds connected with the Bank of Credit and Commerce International (BCCI) and Robert Maxwell.

The Cadbury Report included a code of best practice focused on four areas (the board of directors, non-executive directors, executive directors, reporting and controls) and a number of recommendations like a minimum of three non-executive directors who should be "independent" of the company and selected with the same impartiality and care as senior executives. It also recommended that quoted companies should have an audit committee, a nomination committee (to recommend board appointments) and a remuneration committee (to recommend the remuneration of executive directors). The membership of these committees should be wholly or mainly non-executive directors. But the report made no reference to the balance of board members in terms of matters such as gender and minority representation. The closest it comes to addressing such issues is when it states "companies have to be able to bring about changes in the composition of their boards to maintain their vitality. Non-executive directors may lose something of their independent edge, if they remain on a board too long. Furthermore, the make up of a board needs to change in line

with new challenges" (Cadbury Report, 1992, p. 23).

The Greenbury Committee was formed after widespread public concern over what were seen as excessive amounts paid to directors of quoted companies. The Greenbury Report (1995) dealt specifically with the question of directors' remuneration and provided a code of best practice. Many of its recommendations were developed from the earlier Cadbury Report but did not consider gender aspects.

In 1995 the Hampel Committee was formed to review the implementation of the findings of the Cadbury and Greenbury Committees. The Hampel Committee published its report in 1998. Most of the recommendations in the earlier reports were then published as a final document, the *Combined Code: Principles of Good Governance and Code of Best Practice* (London Stock Exchange, 1998). Despite the apparently wide-ranging title of the *Combined Code*, it is unlikely that substantial progress can be expected in terms of gender and minority issues since the Hampel Committee states that "there is, therefore, in our view no need for a permanent Committee on Corporate Governance. The London Stock Exchange can in future make minor changes to the principles and code" (Hampel Report, 1998, p. 15). Again, the Hampel Committee made no reference to gender.

In 1999 the Turnbull Report, *Internal Control: Guidance for Directors on the Combined Code* was published and provided guidance to directors on the internal control procedures seen as necessary to manage risk in organisations, but made no reference to issues arising from occupational gender differences.

Corporate scandals such as Enron in the US have prompted publication in 2003 of the Higgs Review and the Smith Report. Only the Higgs Review acknowledges the low number of women directors in UK quoted companies and encourages boards to "draw more actively from areas … where women tend to be more strongly represented" (p. 93) but made no specific recommendation to change the *Combined Code* in this respect.

In sum, authorities appear to take corporate governance seriously only when crises arise, such as well-publicised corporate scandals or excessive remuneration taken by boards of directors of quoted companies. But little or no attention is paid to gender differences at work.

3. The Hypotheses, Data and Results

Hypotheses

Our first hypothesis is an implication of the gender wage inequality literature whilst the second links gender inequality with type of occupation.

It is well documented that inequality of opportunity offends against natural justice (Rawls, 1963; Anker, 1997) and allows labour market inefficiencies to persist (Burke, 1997; Forster, 1999). Studies have reported not only the lack of participation of women in the labour market but also a substantial gender wage differential (see Department of Trade and Industry, 2002). In particular, Lyness and Thompson (1997) found that female executives had less authority than men, and Oakley (2000) found a preponderance of female executives in staff support areas such as human resources or public relations. This suggests that female directors are not given the most authoritative and responsible executive positions, which is likely to be reflected in their remuneration. Furthermore, Fryxell and Lerner (1989), Wirth (1998), Holton (2000) and Burke (2000) have suggested a relationship between numbers of females on boards and type of industry. Therefore, our hypotheses are:

Hypothesis 1: Female board participation is very low. Also, female executive (and non-executive) directors will receive lower remuneration (salaries, benefits and bonuses) than male executive (and non-executive) directors irrespective of company size.

Hypothesis 2: Female executive (and non-executive) directors are more likely to be located on boards of companies whose products involve women as the primary purchaser and industries traditionally dominated by women, such as finance and banking, food and clothing retailing.

Data

Our survey is based on the 100 largest UK quoted companies as included in the FTSE 100 index on 12 February 2001, size being defined on the basis of market capitalisation. Seven companies were excluded which had recently merged, demerged or gained a listing and for which the relevant comparable information was not available. This resulted in a sample of 93 companies with a total market capitalisation of £1,439bn equivalent to 69% of total UK stock market capitalization.

We took the most recent set of published reports and accounts for each company and extracted data relating to numbers of executive and non-executive directors by gender. Gender classifications were derived in the first instance from the information contained in the report of the directors and supplemented where necessary by additional published information such as biographies, photographs and information on directors' duties in the report on corporate governance. The numbers reported in this paper are full-time equivalents (FTEs) according to the length of time each director was in "post" during the relevant accounting year. Note that non–executive directors are remunerated by fees and rarely have employment contracts, so "post" encompasses all directors, whether or not they have an employment contract with the firm. Although not reported, directors have similar qualifications and belong to the same age cohort. We gathered information on remuneration mainly from the directors' report and the notes to the accounts. Salaries and fees represent the "fixed" element paid to executive and non-executive directors respectively under their contracts. Benefits represent items such as company cars and private medical insurance. Bonuses represent a "variable" element, usually determined on the basis of company performance and normally payable only to executive directors. To bypass some problems when making comparisons, we excluded compensation for loss of office and share options.

Results

Few women are in top positions and their remuneration is below that of men (table 1). Only 6.8 FTEs (less than 2%) out of 499.3 FTEs were females. For non-executive female directors there was somewhat higher representation: 51.6 FTEs (8.8%) out of 583.7 FTEs were females. The under representation of females, particularly in the executive directorships, is not untypical of the experience of female executives in countries such as the US and Canada (see, for instance, Burke (1997), Davies-Netzley (1998), Oakley (2000)). Overall, 5.4% of the directors in our sample were females. Female executive directors were completely absent from 87 companies (93.5% of the sample) and female non-executive directors were completely absent from 45 companies (48.4% of the sample).

Male executive directors received statistically significantly higher salaries and benefits than females. The female to male salary ratio is 80%. Female directors received an average bonus of £337,800 i.e. more than 50% their male counterparts. Note that one female executive director received a bonus of £1,998,000 and if she is removed from the sample, then the average bonuses for females falls to less than half that of male executive directors. However,

given that the numbers of females (1.4% of the sample) is very low, the results should be interpreted with some caution.

Female non-executive directors earned on average £31,300 compared to £47,200 for male non-executive directors and the difference is statistically significant. That is, a gender salary gap of 66%. Although many companies pay a standard fee to non-executive directors irrespective of sex, the pay difference is explained by the remuneration of chairs of committees (such as the remuneration committee, nomination committee and audit committee) which have a higher fee and are more likely to be occupied by males.

Next, we ranked companies by size (measured by market capitalisation in the FTSE 100) in descending order. Larger companies tend to employ more executive directors than the smaller companies in our sample (see table 2a) and the (few) female executive directors were spread relatively evenly across the four quartiles. Similarly, larger companies in the sample have more non-executive directors (see table 2b) but female non-executive directors are represented relatively more in larger than in smaller companies.

In terms of remuneration, our hypothesis is supported with regard to female executive directors in the II and IV quartiles. Female executive directors in the I quartile earn nearly twice as much as male directors but this is explained by the extremely low numbers of female executive directors. In fact, only two female executive directors were employed in the largest 23 companies and one of these was employed for only part of the year. The female executive director who was employed for a full year earned a total salary of £2,517,000. There were also only two female executive directors in the III quartile.

Non-executive male directors' average remuneration is relatively equal in the top three quartiles, but in the IV quartile (smallest companies) average remuneration decreases to £36,600. In contrast, average remuneration for female non-executive directors falls steadily from £35,000 in the top I quartile to £25,300 in the IV quartile. In all quartiles female pay is consistently about two thirds that of male pay.

Finally, we investigated the numbers employed and remuneration of executive and non-executive directors across industry sector according to the FTSE 100 classification. Given the small numbers of female executive directors by sector in our sample it is not possible to draw reliable statistical inferences. Nevertheless, note that in important sectors of the economy such as resources, basic industries, utilities, financials, there is a complete absence of female directors at the executive level (tables 3a and 3b).

Female non-executive directors (see tables 4a and 4b) are relatively evenly distributed among economic groups, although none are employed in basic industries (chemicals; construction and building materials) and general industrials (aerospace and defence; electronic and electrical equipment). More interesting, cyclical consumer goods, non-cyclical services and financials have somewhat higher female non-executive representation than the total average per firm. Females are underrepresented in "traditional" industries but seem to have better chances of reaching board level in industries such as food and drug retailing, telecommunication services, banking and insurance. There is little variation in the rate of remuneration of female non-executive directors, with the highest remuneration to be found in the resources and financials sectors, and the lowest in the information technology sector.

4. Conclusions

We find overall support for our hypotheses. The relatively higher number of female non-executive directors compared to female executive directors is an encouraging sign but female executive directorships (where arguably the real power resides) are still vastly outnumbered by males. In a similar way, Daily, Certo and Dalton (1999) found some progress in appointments to Fortune 500 company boards in the US, but no progress at the highest executive level. In addition we found that both male executive and non-executive directors have higher remuneration than their female counterparts. The gender wage gap (excluding bonuses and benefits) between executive directors is 80%, and between non-executive directors is 66%. Note that our results are roughly in line with the national 78% (and 73%) hourly gender wage gap of full time (and part time) workers in the private sector in 2000 (Department of Trade and Industry). Therefore, we cannot suggest a widening or a narrowing of the gender pay differential at the top. We also found under representation of female directors in "traditional" industries such as mining, chemicals, construction and building materials, aerospace and defence. In addition, in these sectors, we found some preliminary evidence that females are paid less than men.

Future research should provide more insight into the barriers that block those women directors in their career advancement. In particular, we need to examine gender issues related to structure, recruitment and dynamics of boardrooms; examine the contribution of women directors in terms of financial performance of the firm; and improve our understanding of the interrelations between personal life and professional choices.

Regrettably, external committees and working parties leading to a succession of reviews and reports have failed to confront in a serious way issues related to occupational gender differences. What is clear is that the progress of women in breaking the glass ceiling has not been helped by the absence of gender issues in the corporate governance debate.

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Table 1: Number and Remuneration of Executive and Non-executive Directors

	Male	Female	Total	"t"
Number of Full Time Equivalents (FTEs)				
Executive Directors	492.5 (98.6%)	6.8 (1.4%)	499.3 (100.0%)	
Non-Executive Directors	532.1 (91.2%)	51.6 (8.8%)	583.7 (100%)	
Average Remuneration (£000)[1]				
Executive Directors				
Salaries	343.5 (126.1)	273.9 (110.4)	342.6	1.69*
Benefits	36.4 (38.7)	18.7 (16.0)	36.4	2.55**
Bonuses	208.9 (227.4)	337.8 (678.7)	213.1	-0.53
Total	588.8	630.5	592.1	
Non Executive Directors	47.2 (20.1)	31.3 (9.7)	45.5	6.31***

[1] Standard deviations in parentheses, one-tailed "t" tests and *p<0.10, **p<0.05 and ***p<0.01

Table 2a: Number and Remuneration of Executive Directors by Size of Firm

	Executive Directors			
	Male	Female	Total	"t"
Number of FTEs				
Largest I quartile	144.3 (99.2%)	1.2 (0.8%)	145.5 (100%)	
II quartile	123.2 (98.6)	1.6 (1.4%)	124.8 (100%)	
III quartile	118.1 (98.3%)	2.0 (1.7%)	120.1 (100%)	
IV quartile	106.9 (98.2%)	2.0 (1.8%)	108.9 (100%)	
Total	492.5 (98.6%)	6.8 (1.4%)	499.3 (100%)	
Average Remuneration[1] (£000)				
Largest I quartile	757.2 (198.9)	1,402.6 1576.0)	775.4	-0.58
II quartile	592.3 (335.8)	284.3 (20.2)	591.2	4.31***
III quartile	522.9 (274.2)	567.5 (92.6)	522.5	-0.51
IV quartile	487.2 (333.4)	267.5 (139.3)	484.1	1.84*
Total	588.8	630.5	592.1	

[1] Standard deviations in parentheses, one-tailed "t" tests and *p<0.10, **p<0.05 and ***p<0.01

Table 2b: Number and Remuneration of Non-executive Directors by Size of Firm

	Non-executive Directors			
	Male	**Female**	**Total**	**"t"**
Number of FTEs				
Largest I quartile	167.1 (88.4%)	21.9 (11.6%)	189.0 (100.0%)	
II quartile	128.1 (89.5%)	15.0 (10.5%)	143.1 (100%)	
III quartile	117.9 (93.6%)	8.0 (6.4%)	125.9 (100.0%)	
IV quartile	119.0 (94.7%)	6.7 (5.3%)	125.7 (100.0%)	
Total	532.1 (91.2%)	51.6 (8.8%)	583.7 (100.0%)	
Average Remuneration[1] (£000)				
Largest I quartile	52.4 (23.3)	35.0 (10.9)	50.0	3.18***
II quartile	50.2 (16.3)	31.0 (6.7)	48.0	5.00***
III quartile	49.6 (22.6)	28.3 (2.5)	47.9	4.44***
IV quartile	36.6 (13.5)	25.3 (13.3)	36.0	1.96**
Total	47.2	31.3	45.5	

[1] Standard deviations in parentheses, one-tailed "t" tests and *p<0.10, **p<0.05 and ***p<0.01

Table 3a: Executive Directors: Numbers by Industry Sector

	Numbers (FTEs)		
Industry Sector	**Male**	**Female**	**Total**
Resources (6)	37.2	-	37.2
Basic Industries (4)	18.4	-	18.4
General Industrials (4)	22.8	1.0	23.8
Cyclical Consumer Goods (1)	6.1	-	6.1
Non-Cyclical Consumer Goods (13)	69.3	1.0	70.3
Cyclical Services (23)	122.9	2.0	124.9
Non-Cyclical Services (9)	43.2	1.8	45.0
Utilities (7)	33.7	-	33.7
Financials (18)	106.4	-	106.4
Information Technology (8)	32.5	1.0	33.5
Total (93)	492.5	6.8	499.3

Number of companies in parentheses

Table 3b: Executive Directors: Remuneration by Industry Sector

	Remuneration (£000)		
Industry Sector	**Male**	**Female**	**Total**
Resources (6)	702.5	-	702.5
Basic Industries (4)	679.9	-	679.9
General Industrials (4)	511.4	633.0	507.3
Cyclical Consumer Goods (1)	503.1	-	503.1
Non-Cyclical Consumer Goods (13)	664.5	169.0	662.0
Cyclical Services (23)	554.7	1,393.5	572.6
Non-Cyclical Services (9)	608.3	317.6	602.0
Utilities (7)	398.2	-	398.2
Financials (18)	690.5	-	690.5
Information Technology (8)	398.1	502.0	399.1
Total (93)	588.8	630.5	592.1

Number of companies in parentheses

Table 4a: Non-Executive Directors: Numbers by Industry Sector

	Numbers (FTEs)		
Industry Sector	**Male**	**Female**	**Total**
Resources (6)	47.4	3.0	50.4
Basic Industries (4)	20.5	-	20.5
General Industrials (4)	20.6	-	20.6
Cyclical Consumer Goods (1)	5.0	1.0	6.0
Non-Cyclical Consumer Goods (13)	77.1	5.4	82.5
Cyclical Services (23)	128.8	13.3	142.1
Non-Cyclical Services (9)	48.1	7.2	55.3
Utilities (7)	37.4	4.0	41.4
Financials (18)	121.5	15.7	137.2
Information Technology (8)	25.7	2.0	27.7
Total (93)	532.1	51.6	583.7

Number of companies in parentheses

Table 4b: Non-Executive Directors: Remuneration by Industry Sector

	Remuneration (£000)		
Industry Sector	**Male**	**Female**	**Total**
Resources (6)	46.4	35.7	45.8
Basic Industries (4)	35.6	-	35.6
General Industrials (4)	36.3	-	36.3
Cyclical Consumer Goods (1)	66.2	27.0	59.7
Non-Cyclical Consumer Goods (13)	46.9	29.9	45.3
Cyclical Services (23)	46.0	29.9	44.3
Non-Cyclical Services (9)	53.6	29.2	50.1
Utilities (7)	43.6	30.0	42.4
Financials (18)	57.1	35.7	54.1
Information Technology (8)	33.1	24.5	32.9
Total (93)	47.2	31.3	45.5

Number of companies in parentheses

Book Review

Wolf, Martin (2004). Why Globalization Works. Yale Nota Bene: New Haven and London. PP 416. ISBN: 0-300-10777-3

Martin Wolf's new book performs at least one great service: it illustrates in tremendous detail and with enviable scholarship that the socialisation of humanity has never been so developed and our mutual interdependence so close. What he fails to appreciate is that this is in irreconcilable contradiction with the continuance of private property in the means of production. He moves effortlessly from first century Rome to 21st century China in his quest to prove that Adam Smith's "hidden hand" is alive and well. He convincingly shows that globalization is bound up with the existing economic and political set-up - that you can't have one without the other. To that degree he is on a higher level than the social democratic and radical anti-globalizers who stand for attenuating the worst excesses of imperialism (*aka* globalization), and chopping off bits of it that they don't like. Equally, he demonstrates that globalization and the nation state are inextricably bound together – far from the hitherto fashionable claims that globalization was leading to 'a borderless world'. And he is not afraid to bloody the noses of the World Bank and the International Monetary Fund albeit that they have been too weak-kneed in advancing globalization.

Entering the ring against the theoretically bankrupt anti-globalisers he has an easy time of it, yet - perhaps for that very reason - many of his conclusions are totally banal. But one doesn't need academic treatises to come to this trivial conclusion. Just ask Cuba, North Korea, Iran, Syria, and the nearly two thirds of the world's states under some form of US economic sanction, whether being blocked out of normal trading relations impacts on their economic growth. Again, after an impressive survey of all the research on world poverty, he can aver that '… there is no good reason to believe in anybody's estimates of the levels of poverty at any moment. It is certain that those in extreme poverty has fallen enormously over the last two centuries (sic), a decline that has certainly continued since 1980' (p.163). Then he comes up with his devastating conclusion: 'where numbers in extreme poverty have declined, the cause has been accelerated growth'! Undoubtedly over two centuries there have been enormous advances: whoever said there hadn't? The point is that trends of inequality have gone in the opposite direction. According to Angus Maddison* the inter-regional spread of per capita GDP in 1820 was 3:1; in 1870, was 5:1, in 1913, 9:1; in 1950 15:1; in 1973, 13:1, and in 1998, 19:1 (Table 3-1b, p.126). The latest findings of the World Bank that out of the 6 billion on the planet, 1.2 billion live on $1 a day (in 1993 dollars), and 2.3 billion people live on less than $2 a day; and, perhaps more damning to the purported glories of globalization, that in the 21st century some 1.5bn people have no access to potable water and the same number have no access to electricity? It is an astonishingly weak reply to quibble over what defines poverty.

Wolf's paean to the free market is fatally undermined by a fundamental theoretical howler: his conflation of the market of simple commodity exchange, and the specific form of the capitalist market. The market in the former sense has always existed, emerging contemporaneously with early civilisation – a much longer time-span than even Wolf himself appreciates. But the *capitalist* market is of much more recent vintage, developing first in the Netherlands and then in the interstices of feudal England. The market in the former sense just as much existed in the command economies of the Communist states as in the purported Anglo-Saxon utopias. This market cannot be abolished by fiat whether you're called Stalin or Mao Tse Dung. It can only wither away as the socialisation of production reaches such heights as to allow provision for everyone according to their needs. The capitalist market, marked by the generalisation of commodity relations to include human labour power itself, is governed by its own specific law of value. The capitalist market can indeed be overthrown, but without thereby

abolishing the market as such. Wolf has an inkling of this when he invokes Marx to differentiate between the bazaar and 'markets with a rich web of long-term, prosperity-enhancing contracts'. But then he immediately exposes his unutterable confusion when he characterises the economic formations of China, India and the Islamic world of a thousand years ago as 'regulatory competition', an affliction supposedly responsible for their being overtaken by Western Europe, and then North America. He then jumps to today to assert that it is this same malady still holding back those that supposedly refuse to join in with globalization.

Wolf rejects the appellation of 'neo-liberal' rightly insisting that such is no different than classic liberalism. He abandons Fukayama's unsustainable 'end of history' thesis, only to self-avowedly cling to its essence: that liberal democracy is the only form of democracy and that Lockean 'freedom from …' - rather than 'freedom to …' - is the only form of freedom. It seems churlish to remind Wolf that the vicious dictatorships he decries were backed by liberal democracies after supporting or instigating the overthrow of democratically elected governments. This is what liberal democracies do. Indeed, he sees little wrong with such adventures in principle. He is quite happy to see intervention against 'failed states' and is fully supportive of the 'war against – today's "White Man's Burden".

Each generation identifies its own candidates for entry to the top table, a feat accomplished by no country since the ascendancy of imperialism in the beginning of the twentieth century (with the marginal exception of Israel). Wolf's candidates are China and India. The problem with all such projections is that indispensable access to the major capital markets and FDI benefits the big bondholders, share holders and banks in the imperialist centres. Moreover, growth in semi-colonial countries yokes together both capitalist and non-capitalist modes of production, putting tight limits on what can be achieved economically. And the more markets are opened up, the more unequal the exchange. At the theoretical level Wolf finds justification for the present world order in the hoary old Ricardian theory of comparative advantage. He doesn't attempt to account for its numerous indefensible assumptions. Just one question in this regard: why does absolute advantage govern national markets, but not international markets?

Wolf's book is the best defence of imperialism that has been produced in recent times. It is somewhat of a paradox that it fails so abysmally.

* Maddison, A (2001) *The World Economy: A Millennial Perspective*, OECD: Paris

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