



Financial Reporting Council

BOARD DIVERSITY REPORTING

SEPTEMBER 2018

UNIVERSITY OF EXETER | BUSINESS SCHOOL

The analysis in this report was prepared by Professor Ruth Sealy, Associate Professor of Management & Director of Exeter Centre for Leadership, with grateful thanks to Aaron Page, Louise Tilbury and Victoria Opara at University of Exeter Business School, for their time and assistance with this research.



CONTENTS

1	Executive Summary	1
2	Context	4
3	Methodology	6
4	Findings FTSE 100 and FTSE 250	8
	Board Diversity Policy	8
	Monitoring Diversity	12
	Succession Planning and Diversity	18
	Board Evaluation and Diversity	20
	Focus on the Pipeline	23
5	Looking Ahead	28

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Registered in England: number 2486368.

Registered Office: 8th Floor, 125 London Wall, London EC2Y 5AS

1 EXECUTIVE SUMMARY

The market environment in which FTSE companies are operating is becoming increasingly diverse as a result of globalisation, the increase in women's participation in the workforce and changing demographics. In order to maintain a competitive edge and success over the long-term, UK companies need to consider how diversity and inclusion is relevant to the specific circumstances of their business, the markets in which they operate, the workforce on which they rely and the customers and communities which they serve. These considerations should be built into companies' strategic plans for meeting their corporate aims.

This report assesses the current extent and manner of reporting by FTSE 350 companies on diversity at board and senior management levels in their annual reports. The findings provide a snap shot of diversity reporting across the FTSE 350, as at 1 March 2018, and show how this has changed over time. The report also identifies examples of reporting that lead the way in terms of quality, in some cases providing real insight into their approach. The examples were selected based on the quality of diversity reporting only.

Considerable progress has been made in increasing the diversity of UK boards since Lord Davies published his report into the gender balance of FTSE 100 boards in 2011.¹ In 2017 women made up 27.7% on average of FTSE 100 boards, up from 12.5% in 2010, demonstrating continued progress towards the target of 33% by 2020, set by the follow up Hampton-Alexander Review published in November 2016.² This had reached 29.0% by July 2018.³ Transparency has been an important driver of this change. However, there is evidence that momentum has tailed off and progress on increasing female representation at the top of companies has stalled.⁴

Progress in increasing the number of women in the top tier of FTSE 100 executive management has been slower. Women accounted for an average of just 19% of the members of the executive team in FTSE 100 companies in 2017, up from 12% in 2011.⁵ The Hampton-Alexander Review identified that further progress requires building diversity into the executive pipeline and recommended action by nomination committees to support this.

Diversity is, of course, about more than gender. Sir John Parker's report, *The Ethnic Diversity of UK Boards*, highlighted the low level of representation of people from ethnic minority backgrounds in boardrooms and also recommended action by nomination committees.⁶

The FRC's recent overhaul of the UK Corporate Governance Code ("the Code") provided an opportunity to respond. The revised Code ("the 2018 Code"), published in July 2018, continues to emphasise the importance of diversity. The 2018 Code is effective for accounting periods from 1 January 2019, but many companies will already be considering how best to implement the changes, which:

- encourage boards to think broadly about diversity in its different forms, including but not limited to gender diversity, and to ensure appointment and succession planning practices are designed to promote diversity;

¹ Lord Davies Review, Women on Boards, February 2011, URN 11/745, Accessed: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31480/11-745-women-on-boards.pdf

² Hampton-Alexander Review FTSE Women Leaders Improving gender balance in FTSE Leadership November 2016, Accessed: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/613085/ftse-women-leaders-hampton-alexander-review.pdf

³ Vinnicombe, Doldor & Sealy Female FTSE Report 2018 Busy going nowhere with the female executive pipeline, Cranfield University, UK. Accessed: http://business-school.exeter.ac.uk/media/universityofexeter/businessschool/documents/research/Female_FTSE_Report_2018.pdf

⁴ Vinnicombe, Sealy & Humbert, Female FTSE Report 2017, Cranfield University, UK, November 2017. Accessed: http://business-school.exeter.ac.uk/media/universityofexeter/businessschool/documents/research/Female_FTSE_Report_2017.pdf

⁵ FTSE Women Leaders: Improving the gender balance in FTSE Leadership, November 2017, Accessed: <https://www.gov.uk/government/publications/ftse-women-leaders-hampton-alexander-review>

⁶ A Report into the Ethnic Diversity of UK Boards, Sir John Parker Beyond one by '21, The Parker Review Committee, Final Report, 12 October 2017. <https://www.gov.uk/government/publications/ethnic-diversity-of-ukboards-the-parker-review>

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- broaden the focus of the nomination committee, giving responsibility for overseeing the development of a diverse pipeline for succession to senior management; and
 - encourage reporting on actions taken to promote diversity and inclusion across appointments, succession planning and board evaluation, and on the outcomes in terms of progress on diversity.

Key Findings

Overall, the quality of reporting on diversity of boards has improved since it was first included in the Code in 2012. At that stage, just 56 FTSE 100 companies stated that they had a board diversity policy, all of which focused on gender. Today, 98% of FTSE 100 and 88% of FTSE 250 companies have one, and roughly a third of these refer to ethnicity as well as gender.

In terms of the quality of reporting against Provision B.2.4 of the Code - which calls for a description of the nomination committee's process in relation to board appointments, the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives - 15% of the FTSE 100 discussed all four elements referenced in the Provision, while a further 20% discussed three of the four elements. Among FTSE 250 companies, only 6% discussed all four elements, while an additional 8% discussed three of the four. Over 60% discussed only two of the four elements.

While the trend is upwards, given the increased prominence of diversity as a strategic business issue, we would have expected to find even more of our largest companies providing meaningful information about their approach to boardroom diversity and offering real insights into the actions they are taking to increase diversity and progress against any objectives set.

Nevertheless, many companies appear to have embraced the spirit of the various diversity initiatives, even if specific reporting is not always embraced or done well. Companies are providing richer narratives around their approach to diversity in the boardroom and in some cases, in the wider workforce. This supports a view that companies are deepening their understanding of the contribution that diversity can make to their business. However, organisations need clearer strategies to drive greater diversity at senior management levels.

Our analysis of the annual reports of FTSE 350 companies reveals a range of approaches to diversity reporting. At one end, a sophisticated understanding of diversity as the best utilisation of talent and a significant strategic issue is evident. At the other end, a lack of engagement, leading to a minimalistic, 'tick-box' approach.

We estimate about 20-30% of the FTSE 100 and 10% of the FTSE 250 to be 'best in class'. These companies demonstrate a maturity of approach to gender diversity and have begun to consider how best to increase ethnic diversity. They are more likely to view diversity as an issue of strategic importance and to link it to company strategy.

These companies set measurable objectives and are more knowledgeable about which initiatives are successful within their own organisations. A number are increasingly discussing diversity as a much broader concept that encompasses a range of sources of difference, including social and educational background, disability and other 'protected characteristics'. Some go so far as to target specific aims, for example to support social mobility, carers or former members of the Armed Forces, as part of an agenda of inclusion. And for the very best, gender diversity appears to be have become embedded into everyday corporate practice.

The majority of FTSE companies continue to need support to develop their approach to diversity. This group of companies complies with the letter of the Code, but reporting tends to include boiler-plate commentary and suggests a lack of deeper understanding and commitment.

Interestingly, being a signatory to the 'Women in Finance Charter' appears to have a positive effect, resulting in a commitment to progress which feeds through into better reporting.

There was evidence of clear, individual accountability for diversity strategy within some companies, alongside many ambitious diversity strategies for the general workforce. These can be found in different sections of the annual report, including the strategic report, directors' report and the nomination committee's report. However, this is not yet being translated into reported actions aimed specifically at increasing diversity at senior and executive management level.

There are still differences in how companies interpret the term 'senior management', although some companies are beginning to use the Hampton-Alexander definition of "ExCo plus direct reports". We should begin to see greater consistency once companies start to report against the 2018 Code.

Figures for reporting on diversity in the context of succession planning, diversity in board evaluations, ethnic diversity and initiatives aimed at senior management were substantially lower, which is perhaps not surprising given the lack of emphasis on these areas in the Code. Around a third of FTSE 100 companies refer to targeted initiatives for gender diversity in senior management, compared to around 10% of the FTSE 250. Overall, where the Code does not specifically ask companies to report on a particular issue, it tends not to be discussed. It is therefore not surprising that the issues outlined above currently receive scant attention in annual reports. It also suggests that pressure in these areas could lead to a more holistic and effective approach to increasing diversity.

Occasional references to the new expectations for reporting in the 2018 Code that are already being introduced into company reporting, suggest companies are beginning to focus on meeting those new expectations for reporting on diversity and inclusion. This should lead more companies to develop a multi-dimensional approach to the issue and translate into more insightful reporting in coming years. We are considering the nature and scope of future monitoring against the 2018 Code.

2 CONTEXT

Around ten years ago, Government began to consider whether intervention was necessary to improve gender diversity in the boardroom. When Lord Davies first introduced the idea of non-binding ‘business-led’ targets for boardroom gender diversity in 2011, it was a novel idea and required the support of business to be a success.⁷ The initial reaction was muted, because targets, even voluntary ones, were seen as a first step towards the adoption of quotas.

However, with the threat of a possible quota at EU-level and a realisation that without a new approach, progress would continue to be elusive, support for Lord Davies’ recommendations among companies and business leaders grew, galvanised by business champions, academic research and initiatives such as the 30% Club.

From 2012 onwards the UK Corporate Governance Code (“the Code”), in support of Lord Davies’ recommendations, has asked companies to report on their board diversity policy.

Provision B.2.4 UK Corporate Governance Code 2016

“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. This section should include a description of the board’s policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.”

This prompted listed companies to improve their disclosures and by 2014, more than half of FTSE 100 companies reported boardroom gender targets and commented on their progress towards achieving them.⁸

Seven years on from Lord Davies’ review, a series of further initiatives and studies have led to a more sophisticated understanding of the challenges of, and possible solutions to, increasing female representation in the leadership of UK companies.

While the target of 25% of FTSE 100 board directorships to be held by women by the end of 2015 has been met, progress then stalled.⁹ To encourage companies to continue to make progress in this area, the follow-up Hampton-Alexander Review, first published in November 2016, set a new target of 33% for women on boards, executive committees and their direct reports, across the FTSE 350 companies, and shifted the focus to building the pool of female talent in the executive pipeline in order to boost the numbers of female executive directors.

Alongside the Code, a number of other levers have been introduced, designed to improve transparency and lead to progress on diversity in companies.

In 2013, the UK government legislated to require companies to disclose annually in their strategic report the numbers of male and female board directors, senior managers and total employees.¹⁰

⁷ Lord Davies Review, Women on Boards, February 2011, URN 11/745, Accessed: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31480/11-745-women-on-boards.pdf

⁸ Sealy, Turner, Pryce & Vinnicombe, 2014, Women on Boards: Progress following the 2012 Corporate Governance Code, Cranfield, UK. Accessed: <http://openaccess.city.ac.uk/11689/1/Women%20on%20Boards%20Report%20Oct%2014%20Reprint%20Mar%202015.pdf>

⁹ Sealy, Doldor & Vinnicombe, 2016, Female FTSE Board Report 2016: Taking stock of where we are, Cranfield University, UK. Accessed: <https://ore.exeter.ac.uk/repository/bitstream/handle/10871/24389/Female%20FTSE%20Report%20July%202016.PDF?sequence=1&isAllowed=y>

¹⁰ Companies Act 2006, section 414C.

In 2016, HM Treasury published its Women in Finance Charter, encouraging greater transparency relating to actions to increase women in leadership in financial services firms, traditionally known for being male-dominated and perceived as having aggressive cultures. Financial services firms were asked to become signatories.

In 2016, the Government also implemented the relevant provision of the EU Non-Financial Reporting Directive with a new reporting requirement in the FCA's Disclosure and Transparency Rules ("DTRs"). This requires issuers (excluding SMEs) admitted to trading on an EU regulated market to disclose their diversity policy in the corporate governance statement.

DTR 7.2.8A(R)

1. The corporate governance statement must contain a description of:

- a) the diversity policy applied to the *issuer's* administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds;
- b) the objectives of the diversity policy in (a);
- c) how the diversity policy in (a) has been implemented; and
- d) the results in the reporting period.

2. If no diversity policy is applied by the *issuer*, the corporate governance statement must contain an explanation as to why this is the case.

Attention is now shifting to consider other aspects of diversity in addition to gender. For example, the Parker Review into ethnic diversity in FTSE 100 boardrooms recommended that FTSE 100 companies should set a target of at least one director of non-white ethnicity by 2021.¹¹

In short, the conversation has evolved to recognise the importance of promoting a broader concept of diversity and inclusion. These developments set the scene for the approach to diversity taken in the 2018 Code, issued in July 2018. The 2018 Code strengthens the focus on boardroom diversity, broadening the role of the nomination committee to include a responsibility for overseeing the development of a diverse pipeline and requiring all FTSE companies, not just those in the FTSE 350, to report on the gender balance of those in senior management and their direct reports, thus going further than the recommendations of the Hampton-Alexander Review.

¹¹ A Report into the Ethnic Diversity of UK Boards, Sir John Parker Beyond one by '21, The Parker Review Committee, Final Report, 12 October 2017. <https://www.gov.uk/government/publications/ethnic-diversity-of-ukboards-the-parker-review>

3 METHODOLOGY

Data for this report were collected from the annual reports of FTSE 350 companies published as at 1 March 2018. The list of FTSE 350 companies used was supplied by the BoardEx database, as at the same date.

Listed companies are required to publish their annual reports within four months of their financial year-end. Companies may choose the dates of their financial years meaning annual reports across the FTSE 350 may be published at any time of year, but, in practice, year-ends are generally clustered around the calendar and tax year ends.

The sample of reports analysed included 54 reports from 2016 and 296 from 2017. Our findings represent a snapshot of what companies are reporting in their annual reports. The information in the reports may not include all that companies are doing in relation to diversity.

We searched reports for references to diversity in the Strategic Report, the Chairman's Statement, the Directors' Report and the Corporate Governance Report, including the Nomination Committee Report. In addition, we conducted a search of the entire annual report for the following keywords: gender, diversity, women, female, ethnic, LGBT, disabled, disability, successor, succession, nomination committee, and evaluation.

For those 350 annual reports, the research posed the sixteen questions set out below. Eleven of the questions produced binary answers that were coded as simple Yes/No answers. One question (question 15) produced freeform answers.

For the remaining four questions, variation in the quality of the reporting was graded according to one of three categories, as follows:

NONE	Where a company's reporting did not address the question, it was categorised as 'None'.
SOME	Where the quality of reporting was assessed as basic and/or boiler-plate, for example a simple statement of commitment or acknowledgement, it was categorised as 'Some'.
MORE	Where the reporting showed a greater appreciation of the issue by giving additional detail it was categorised as 'More'.

We expand on what the categories mean for the four individual questions answered None/Some/More in the sections below.

Table 1: Research questions for this report

Key Theme	Research Question	Yes/No	None/Some/More
Board Diversity Policy	1. Is there a clear policy on boardroom diversity?		N/S/M
	2. Does it specifically mention gender diversity?	Y/N	
	3. Does it specifically mention ethnic diversity?	Y/N	
Monitoring Diversity	4. Does the company set measurable objectives for board gender diversity?	Y/N	
	5. Does the company set measurable objectives for board ethnic diversity?	Y/N	
	6. Do they report any progress against those measurable objectives for board gender or ethnic diversity across time?	Y/N	
Diversity in Succession Planning	7. Is gender specified in director succession planning?	Y/N	
	8. Is ethnicity specified in director succession planning?	Y/N	
Diversity in Board Evaluation	9. Is diversity mentioned as part of the board evaluation disclosure?	Y/N	
	10. Does the disclosure specify gender diversity?	Y/N	
	11. Does the disclosure specify ethnic diversity?	Y/N	
Focus on the Pipeline	12. Does the company have stated initiatives for increasing gender diversity at senior management levels?		N/S/M
	13. Does the company have stated initiatives for increasing ethnic diversity at senior management levels?		N/S/M
	14. Is there clear accountability for increasing diversity at senior management levels?	Y/N	
	15. Where does this responsibility sit?	N/A	N/A
	16. Are other groups such as LGBT, disability, mentioned within initiatives for increasing diversity at senior management levels? If so, which?	Y/N	

Comparison with 2014

Comparable data were gathered in 2014 on 7 of the 16 questions for the FTSE 100 and for the next 100 companies in the FTSE 250 (questions 1, 2, 4, 6, and regarding gender, 9, 10 and 12). All questions were coded on a Yes/No basis. Companies move in and out of the FTSE rankings depending on their market capitalisation therefore the companies reviewed in 2014 will not necessarily be the same as those reviewed in 2018. Nevertheless, it is valuable to compare the results as it enables us to track changes and identify trends in diversity reporting by FTSE 350 companies.

4 FINDINGS FTSE 100 AND 250

BOARD DIVERSITY POLICY

The Code asks companies to report on their board diversity policy. We assessed the annual reports of FTSE 100 and FTSE 250 companies against the following questions:

- 1. Is there a clear policy on boardroom diversity? NONE/SOME/MORE**
- 2. Does it specifically mention gender diversity? YES/NO**
- 3. Does it specifically mention ethnic diversity? YES/NO**

Question 1 produced variations in the quality of reporting; reports were assigned to either a 'none', 'some' or 'more' category. If the annual report made no mention of a diversity policy or stated that the board did not have one, the report was assigned to 'none'. For example making statements like:

"The board has chosen not to adopt a definitive policy with quantitative targets for board diversity."

In order to be categorised as 'some', the report needed to make specific reference to having a stated policy, but with little elaboration. For example making statements like:

The Board's policy strongly supports the principle of boardroom diversity. The Board is committed to making appointments on merit, against objective criteria.

We wanted to identify those organisations that had gone further than just recognising and acknowledging either the Davies Review or the Hampton-Alexander Review.

To be categorised as 'more', the report needed to give more detail about the policy, and include at least two or more other elements for example:

- board level diversity statistics;
- board diversity targets;
- showing support of published reports on diversity;
- referencing diversity characteristics other than gender or ethnicity (e.g. age, disability, social or educational background); and
- articulating a view on the benefits of diversity at board level (e.g. to introduce different perspectives into board debate and decision-making).

For example making statements like:

"The Board is committed to ensuring that it remains diverse and has set itself a target of at least 25% female directors on our board. We believe that gender diversity is vital to effective teams. Currently, two of our board members are women (20%). At the date of this report, the Board's gender diversity target is not currently met."

NONE	No reference to a policy, or a statement that the board does not have one.
SOME	Includes specific reference to the existence of a board diversity policy, without elaboration.
MORE	Includes at least two additional elements of detail of content with respect to the diversity policy.

Questions 2 and 3 were coded with Yes/No answers.

In the FTSE 100, 98% of companies have a clear policy on boardroom diversity, compared to 85% in 2014 (see Table 2 below). In 2018, 83% of FTSE 100 companies specify gender in their policy, compared to 78% in 2014.

Table 2: FTSE 100 Board Diversity Policy

FTSE 100	Board Diversity Policy	Specifies Gender	Specifies Ethnicity
2018	98%	83%	33%
2014	85%	78%	Not collected

In the FTSE 250, there has also been a marked improvement since 2014 in the proportion of companies clearly adopting a boardroom diversity policy which specifies gender (see Table 3 below).

It is also encouraging, given the relatively recent focus on ethnic diversity in the boardroom through the Parker Review, that almost one third of all FTSE 350 companies now refer to ethnic diversity within their board's diversity policy.¹² This is up from only 10 companies in the FTSE 100 and 23 in the FTSE 250 as recently as 2016.¹³ Since the Code does not currently mention boardroom ethnic diversity, this suggests that companies are increasingly aware of changing expectations and business imperatives around the need for a more inclusive society.

Table 3: FTSE 250 Board Diversity Policy

FTSE 250	Board Diversity Policy	Specifies Gender	Specifies Ethnicity
2018	88%	74%	30%
2014 FTSE 101-200	56%	55%	Not collected

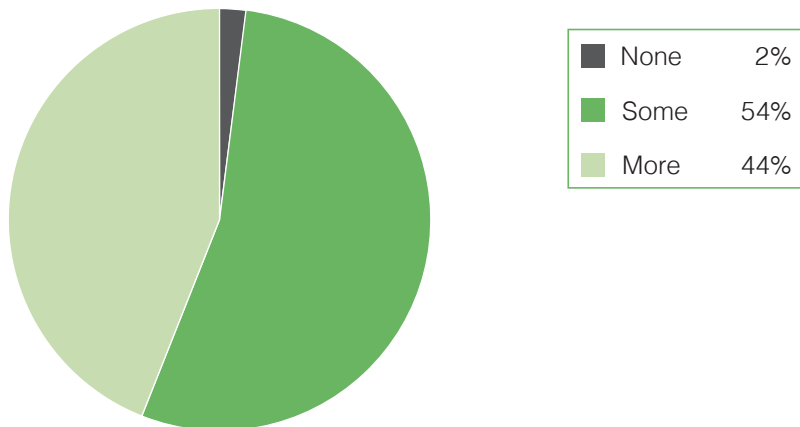
For companies without a stated board diversity policy, reasons given included a policy to appoint, on merit, the best person for the job, or to appoint based on an assessment of skills and experience gaps, or that the board was generally opposed to setting quotas or targets.

44 of 98 FTSE 100 policies were assessed as 'more' because they went beyond basic statements to include more detail. Two companies had no policy.

¹² A Report into the Ethnic Diversity of UK Boards, Sir John Parker Beyond one by '21, The Parker Review Committee, Final Report, 12 October 2017. <https://www.gov.uk/government/publications/ethnic-diversity-of-uk-boards-the-parker-review>

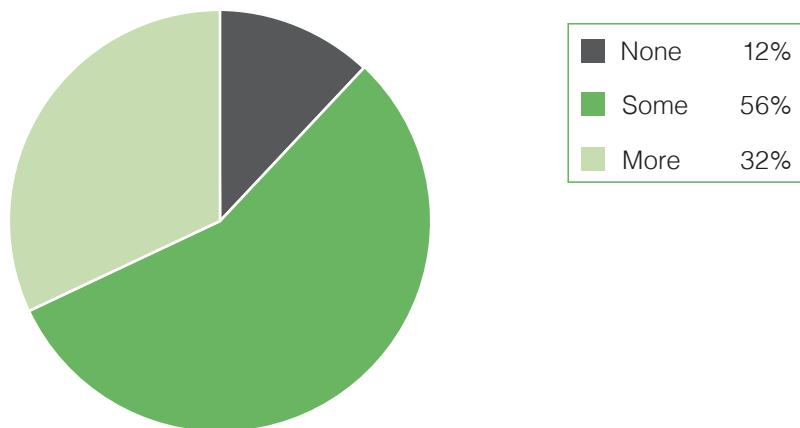
¹³ Ibid.

Figure 1: Clear policy on board diversity in FTSE 100 companies



In the FTSE 250 companies, 32% of companies' policies went beyond basic reporting and included content elements to give additional insight into the company's approach to diversity.

Figure 2: Clear policy on board diversity in FTSE 250 companies



Those that went beyond the basic reporting included detail such as providing board level diversity statistics, board level objectives, as well as showing support for published reports on diversity. In addition, some also expanded their view of diversity beyond gender and ethnicity, including characteristics such as age, disability, social and educational background.

Also encouraging is the number of companies across the FTSE 350 which state their understanding of why board diversity is beneficial for their company, integrating policy into strategic objectives. A few, like the DS Smith example below, articulated specific benefits that they perceived of diversity at board level.

...we look at diversity of gender, age, nationality, and educational and professional background, as well as individual characteristics such as a broad life experience. This is important for us since we believe it to be a key factor behind high-performing and innovative teams.

(DS Smith, 2017, pp.48, FTSE 100 – Containers & Packaging).

Even among those companies categorised as ‘More’, there were differences in the quality of the reporting and the nature of the information provided. Some companies made statements of commitment to different aspects of diversity and supplemented these with references to recent reviews of diversity and associated gender or ethnicity targets or by articulating what they regard as the benefits of diversity in the boardroom.

A few went further, providing insight into how the board addresses diversity. For example, the extract from Tate & Lyle’s 2017 annual report below gives more detailed information on how the company is trying to improve board diversity.

The Board reviews the balance of experience, skills, gender and diversity of thinking styles around the boardroom table regularly to ensure that the composition of the Board and its Committees is appropriate for the Group as it continues to evolve and implement the strategy.

(Tate & Lyle, 2017, pp.60, FTSE 250 – Food Producers & Processors)

The Board believes that a diverse and inclusive culture is a driver of superior business performance, growth and innovation. The Board has a clear policy on diversity that acknowledges that the Board’s perspective and approach can be greatly enhanced through gender, age and cultural diversity, notwithstanding the overriding principle that each member of the Board must be able to demonstrate the skills, experience and knowledge required to contribute to the effectiveness of the Board. Wherever feasible, the Committee uses search firms who are signatories to the Voluntary Code of Conduct for Executive Search Firms which seeks to address gender diversity on boards and best practice for the related search processes.

(Tate & Lyle, 2017, pp.71, FTSE 250 – Food Producers & Processors)

While the trend is clearly in the right direction, we might have expected to find more of our largest companies providing meaningful information about their approach to boardroom diversity and giving investors real insights into the actions they are taking to increase diversity, plus explaining progress against any targets they have set.

MONITORING DIVERSITY

Use of Measurable Objectives

Provision B.2.4 of the Code asks that companies report any measurable objectives set for implementing their board diversity policies and that they report on any progress against them.

We assessed the annual reports of FTSE 100 and FTSE 250 companies against the following questions:

- 4. Does the company set measurable objectives for board gender diversity? YES/NO**
- 5. Does the company set measurable objectives for board ethnic diversity? YES/NO**
- 6. Do they report any progress against those measurable objectives for board gender or ethnic diversity across time? YES/NO**

Companies are free to choose different kinds of measurable objectives to suit the nature of their business and the environment in which they are operating. Examples might include an objective for the make-up of the boardroom to reflect the diversity of the workforce overall, or an objective for the make-up of the boardroom to reflect the diversity of the customer base, or an objective for every interview short-list to include female candidates. In practice, the most common form of objective cited by companies was a board diversity target, with many indicating support for the Lord Davies and Hampton-Alexander gender targets of 25% and 33% respectively, like the Aviva example below. Therefore, for the purposes of assessing these three questions, we have interpreted measurable objectives, to mean board diversity targets.

The Board is supportive of the Lord Davies report and Hampton-Alexander review target for women to represent 33% of boards by 2020; at the date of this report women represent 23% of the Board membership and 36% of the Group Executive. Following the Board changes effective from the 2017 AGM, women will represent 27% of the Board membership. We actively support women advancing into senior roles, as evidenced by our participation in initiatives such as the Future Board Scheme and the 30% club.

(Aviva, 2016, pp.75, FTSE 100 – Life Assurance).

Companies that did not report setting measurable objectives for gender and/or ethnicity, were coded 'No', regardless of whether or not they had already met the Davies or Hampton-Alexander gender targets for board composition. A number of companies were affected by this and therefore, the reality may be more positive than the data implies.

In respect of ethnic diversity targets, while the numbers of FTSE 350 companies setting measurable objectives for this may appear low at 6%, it was encouraging that nearly 10% made some reference to the Parker Review in their board diversity policy.¹⁴ Given that this issue has moved into focus more recently, we would not expect to see widespread targets for board ethnic diversity in reporting as yet and it is encouraging that companies are already responding to the Parker Review.

¹⁴ In November 2016 the Parker Review recommended that each FTSE 100 company should have at least one non-white director by 2021, and each FTSE 250 company should have at least one non-white director by 2024.

Table 4: FTSE 100 Board Diversity Measurable Objectives

FTSE 100	Board gender diversity objective	Progress reported against gender diversity objective	Board ethnic diversity objective	Progress reported against ethnic diversity objective
2018	34%	23%	4%	3%
2014	58%	52%	Data not collected	Data not collected

Table 5: FTSE 250 Board Diversity Measurable Objectives

FTSE 250	Board gender diversity objective	Progress reported against gender diversity objective	Board ethnic diversity objective	Progress reported against ethnic diversity objective
2018 FTSE 250	14%	8%	2%	0%
2014 FTSE 101-200	25%	25%	Data not collected	Data not collected

The data suggests that the story on gender targets in 2018 is not clear-cut. Tables 4 and 5 above show that the proportion of companies across the FTSE 350 stating measurable objectives for board gender diversity has gone down since 2014. It is not clear why this should be the case and there may be a number of reasons fewer companies report setting board diversity targets.

The data could suggest that some companies view achievement of widely recognised targets as their end-game which could be suggestive of complacency or a tick-box mentality towards diversity on their part.

Continuous effort and monitoring of board diversity is critical, not only for driving further improvement but also for ensuring progress does not slip and levels of diversity already reached are at least maintained.

Even more worryingly, it could suggest a lack of appreciation of the business benefits of diversity and a failure to link people and leadership issues to strategy. Where a company has met a previously set target, we would still expect discussion of objectives or targets in the policy.

On the other hand, a significant proportion of the FTSE 350 has already exceeded both the Lord Davies and Hampton-Alexander targets for board gender diversity. In November 2017, 28 of FTSE 100 and 54 of FTSE 250 boards had more than 33% women on their boards.¹⁵ Some companies may therefore have decided not to set new targets once these have been reached, although this does not mean they have stopped paying attention to the diversity of their board.

¹⁵ Vinnicombe, Sealy & Humbert, Female FTSE Report 2017, Cranfield University, UK, November 2017. Accessed: http://business-school.exeter.ac.uk/media/universityofexeter/businessschool/documents/research/Female_FTSE_Report_2017.pdf

There were also some very positive examples of companies reporting they had achieved targets set in previous years, yet demonstrating they were not complacent by making an ongoing commitment to promoting diversity and signposting to other information giving insight into their diversity initiatives and how they will pursue further progress.

It could also be that, for some companies, particularly those which are consistently above target levels, gender diversity in the boardroom has become embedded and therefore they feel that this no longer requires specific targets or commentary. The focus for many of these companies has instead shifted to senior executives and managers.

There were also some less encouraging examples. While some companies make a commitment to maintaining a minimum level of gender diversity on their boards (often the Lord Davies target of 25%), others set their sights considerably lower, and adopt unambitious gender targets, such as planning to have “*at least one female Director*”.

This does not seem consistent with the spirit of Lord Davies’ recommendations and could be suggestive of a tokenistic approach on the part of these companies. A minimalistic approach to gender diversity also fails to take account of evidence that a critical mass of gender diversity, usually cited as three women, is needed to really change the dynamic and the conversation in the boardroom.¹⁶ A lone woman can find it difficult to be heard and may not be treated as an equal, although much depends on the skill of the chair.¹⁷

Whether or not companies set measurable gender targets can also depend on other commitments to which they have signed up. For example, signatories to the Women in Finance Charter are expected to publicly state gender targets, so more financial services companies do tend to set clear, measurable objectives.

The Women in Finance Charter

- commits firms to supporting the progression of women into senior roles in the financial services sector by focusing on the executive pipeline and the mid-tier level;
- recognises the diversity of the sector and that firms will have different starting points – each firm should therefore set its own targets and implement the right strategy for their organisation;
- requires firms to publicly report on progress to deliver against these internal targets to support the transparency and accountability needed to drive change.

My organisation pledges to promote gender diversity by:

- having one member of our senior executive team who is responsible and accountable for gender diversity and inclusion
- setting internal targets for gender diversity in our senior management
- publishing progress annually against these targets in reports on our website
- having an intention to ensure the pay of the senior executive team is linked to delivery against these internal targets on gender diversity

¹⁶ Konrad, Kramer, & Erkut (2008) “The Impact of Three or More Women on Corporate Boards”, *Organizational Dynamics*, Vol. 37(2), p.145-164. Accessed: <http://psycnet.apa.org/record/2008-06186-004>

¹⁷ Sealy, Tibury & Vinnicombe, 2017, *Leading diversity in the boardroom: Board Evaluation project 2017*. Working paper Accessed: <https://ore.exeter.ac.uk/repository/handle/10871/32821>

The Women in Finance Charter includes three aims and four industry pledges, with timeframes from when firms sign up, and guidance on how organisations should implement them. There are currently 205 signatory firms.¹⁸ Within the FTSE 100, there are 18 financial services firms (banks, insurance, speciality finance, investment), of whom 13 are signatories to the Charter. In the FTSE 250, there are 14 signatories out of a total of 76 financial service firms (45 of which are investment trusts which generally do not have employees or operations).

Being a signatory to the Charter tends to have the benefit of improving adherence to the Code's provision on diversity reporting.

When considering the four diversity reporting elements of the Code provision, we scored each company with one point for addressing each element.

We found a statistically significant difference between Women in Finance Charter signatories and other FTSE 350 companies in their diversity reporting scores: Charter signatories had a mean score of 2.52/4 and other companies mean score of 1.95/4.¹⁹

In May 2017, over 125 financial companies had signed up to the Women in Finance Charter. These companies employ more than 500,000 people, covering almost half of the UK's financial sector. In order to ascertain what impact these companies felt becoming a signatory to the Charter had, New Financial surveyed the signatories, with questions on the benefits and challenges of meeting the Charter commitments and found:²⁰

"Just one year after the launch of the Charter, two thirds of signatories believe signing up will lead to permanent and sustainable change within their companies and across the financial services industry"

(Seddon-Daines & Chinwala, 2017 HM Treasury Women in Finance Charter: Signatories Survey 2017)²¹

¹⁸ Signatories to March 2018

¹⁹ This is statistically significant ($p = <.004$).

²⁰ New Financial is a capital markets think tank launched in 2014

²¹ Seddon-Daines & Chinwala, 2017 HM Treasury Women in Finance Charter: Signatories Survey 2017. Accessed: <https://newfinancial.eu/hm-treasury-women-in-finance-charter-signatories-survey-2017/>

Our gender targets

As part of our Women in Finance Charter commitments, we have published the following targets for women in our different roles:

Level	Target by June 2020 %	Actual 31 Dec 2017 % ³	Actual 31 Dec 2017 Number
Board	33%	25%	4 of 16
Executive ¹	33%	27%	49 of 183
Entire global workforce	50% ²	47%	4,569 of 9,651
Entire UK workforce	50% ²	47%	3,634 of 7,803

¹ People employed in roles across the two leadership levels below CEO, excluding admin employees.

² Target has a tolerance of 3%.

³ Data is prepared in accordance with our reporting methodology and the KPIs are within KPMG's limited assurance scope. Both KPMG's limited assurance report and our reporting methodology can be found at www.standardlifeaberdeen.com/annualreport

To demonstrate progress in developing our talent pipeline we will continue to track the gender balance in the succession pool, for those ready for our most senior roles within the next three to five years. At February 2018, women were in 44% of these roles, and we expect this figure to increase each year.

(Standard Life Aberdeen, pp.31, 2017, FTSE 100 – Life Assurance)

Reporting against Provision B.2.4 of the Code

In terms of fully following Provision B.2.4 of the Code on diversity reporting, the relevant questions from those considered in this report are:

1. Is there a clear policy on boardroom diversity?
2. Does it specifically mention gender diversity?
4. Does the company set measurable objectives for board gender diversity?
6. Do they report any progress against those measurable objectives for board gender or ethnic diversity across time?

We scored each of the 350 reports in our sample with one point for each 'yes' on questions 2, 4 and 6 and with one point for 'some' or 'more' on question 1. Just 30 of the FTSE 350 companies fully addressed all four of the elements and scored 4/4.

In the FTSE 100, 35 (35%) scored 3 or 4 out of 4, 49 (49%) scored 2 out of 4 and 16 (16%) scored 0 or 1. In the FTSE 250, the figures were lower, with 34 companies (13.6%) scoring 3 or 4, 157 companies (62.8%) scoring 2 out of 4 and 59 companies (23.6%) receiving a score of 0 or 1.

Since Provision B.2.4 has formed part of the Code since 2012, six years on, we might have expected to find more companies reporting in a manner that addressed most or all of the elements specified.

The graphs below show the distribution of scores, with the majority of FTSE 350 companies addressing just two out of the four elements.

Figure 3: FTSE 100 Code Compliance

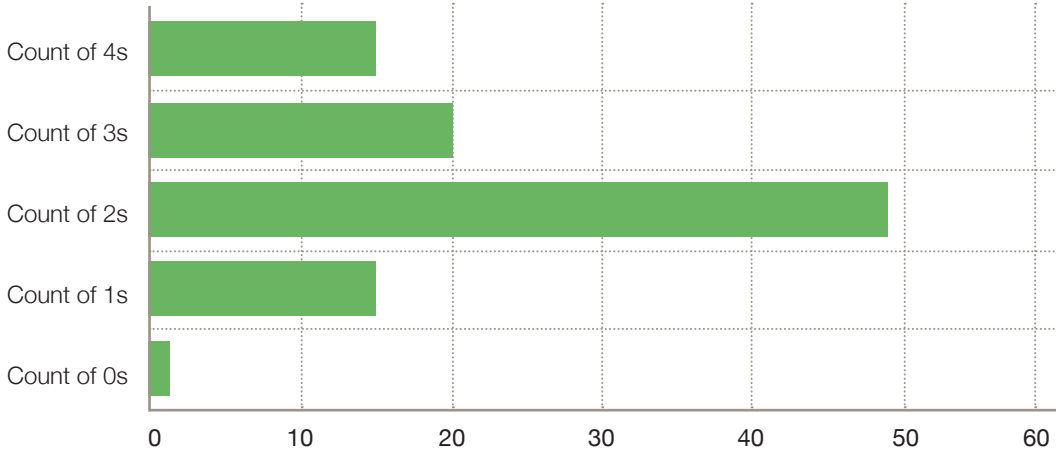
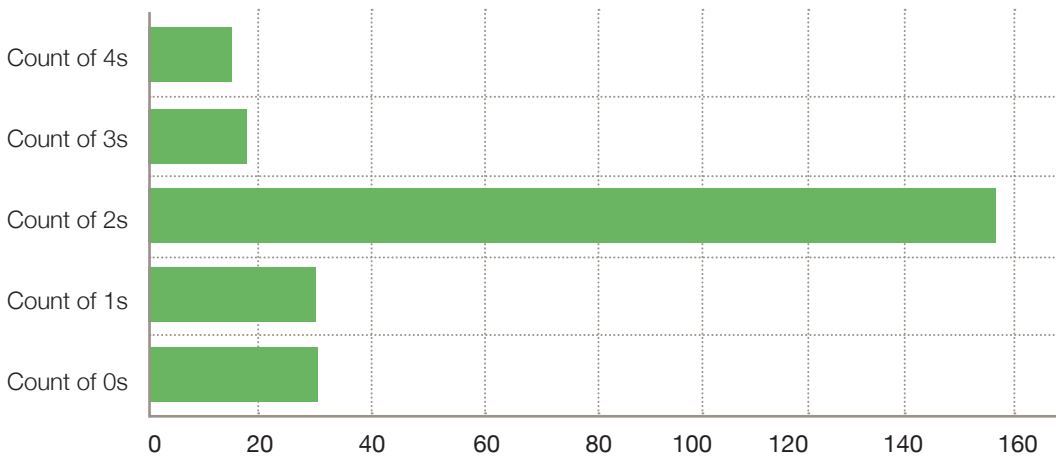


Figure 4: FTSE 250 Code Compliance



SUCCESSION PLANNING AND DIVERSITY

Directors are responsible for ensuring the board comprises the right people to deliver on its strategy and objectives. Numerous reports comment on the necessity of active talent management and succession planning to achieve this.²² Currently, there is very limited reference to the importance of succession planning in the Code and there is no link made between diversity and succession planning.

Supporting Principle to B.2: Appointments to the board UK Corporate Governance Code 2016

...The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board.

CIPD defines succession planning as *'the process of identifying and developing potential future leaders or senior managers, as well as individuals to fill other business-critical positions, either in the short- or the long-term.'*²³

In the past, succession has often only been addressed in response to a director resigning and it has rarely been the subject of reporting. This reactive approach fails to address the strategic issues of long-term planning and the need to develop the executive pipeline. It can also lead to an approach that takes finding a replacement similar to the departing director as its starting point, rather than taking a more holistic and strategic approach, based on an assessment of the skills required. In such an environment, the importance of considering a diverse pool of potential candidates is easily overlooked.

The nomination committee has a key role to play in ensuring that an appropriate plan for succession is in place, and that this takes account of diversity. Some of the benefits of doing this properly include reducing the risk that stems from over-reliance on particular individuals and facilitating the integration of people considerations into company strategy.

We therefore assessed whether nomination committees report that they are building diversity into their succession planning. We assessed the annual reports of FTSE 100 and FTSE 250 companies against the following questions:

- 7. Is gender specified in director succession planning? YES/NO**
- 8. Is ethnicity specified in director succession planning? YES/NO**

These questions were scored on a Yes/No basis.

As can be seen from the figures in table 6, only a very small proportion of companies mentioned gender and ethnicity in their reporting. The Code does not ask companies to specifically report on how they have considered diversity in the context of succession planning and so low levels of reporting are not surprising. Those companies that do acknowledge the issue are at the forefront of reporting practice in this area.

²² Groysberg & Bell, 2013, Talent management: Boards give their companies an 'F', Harvard Business Review; Konigsburg, Stockton, Rossen & Pastakia, 2013, The talent-intelligent board; Deloitte Center for Corporate Governance & Human Capital Practice, Deloitte Global Services, Ltd. UK.

²³ CIPD (Chartered Institute of Personnel and Development), 2017, Succession Planning 25th April 2017. Accessed at: <https://www.cipd.co.uk/knowledge/strategy/resourcing/succession-planning-factsheet>

Table 6: Gender & Ethnicity mentioned in Director succession planning in FTSE 100 & FTSE 250 Annual Reports

	Director succession planning mentioning gender		Director succession planning mentioning ethnicity	
	No	Yes	No	Yes
FTSE 100	84%	16%	91%	9%
FTSE 250	91%	9%	97%	3%

Our ambition is to identify and appoint one male and one female non-executive, ideally with international contracting and/or cyber technology experience. These appointments will both strengthen the existing Board membership and prepare for the inevitable departure of Board members when they complete their third term in 2019.

(BAE Systems, 2016, pp.78, FTSE 100 – Aerospace & Defence).

The Board noted the progress made on diversity awareness and development within the firm under Luke’s leadership and reinforced the need for further Board and management focus on people development and the promotion of diversity through recruitment, talent management and succession during 2018.

(Man Group, 2017, pp.64, FTSE 250 – Speciality & Other Finance).

BOARD EVALUATION AND DIVERSITY

Principle B.6. of the Code requires the Board to conduct an annual evaluation of its own performance, that of its committees, and individual directors. The supporting principles recommend that evaluations consider the board's diversity, including gender, alongside other aspects of its composition.

Supporting Principle to B.6: Evaluation UK Corporate Governance Code 2016

Evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness.

While the Code sets a clear expectation that diversity will be considered as part of the board evaluation, it does not ask companies to report on how this has been done. Accordingly, companies that choose to do this are going beyond reporting expectations to provide information that may be useful for investors.

We assessed the annual reports of FTSE 100 and FTSE 250 companies against the following questions:

9. Is diversity mentioned as part of the board evaluation disclosure? NONE/SOME/MORE

10. Does the disclosure specify gender diversity? YES/NO

11. Does the disclosure specify ethnic diversity? YES/NO

Question 9 assessed the quality of the disclosure. Each annual report was assigned to a category:

NONE	If diversity was not mentioned with regards to board evaluation.
SOME	If a cursory mention was made of diversity, for example: <i>"This year's questionnaires focused on board composition, skills, expertise and diversity"</i> .
MORE	If there was evidence of greater importance accorded by giving detail of challenges acknowledged and/or a focus on actions to address the issues.

"The most significant challenge for the Board going forward was recognised to lie in succession planning. In particular, and in light of its current strong composition, continuing to source suitably well-balanced and diverse candidates, both internally and externally, for future membership and in succession of the Chairman, CEO and as Non-Executive appointments reach their maturity"

(Reckitt Benckiser Group, 2016, pp. 65, FTSE 100 - Clothing, Leisure and Personal Products).

Questions 10 and 11 were coded with a Yes/No answer.

Figure 5: FTSE 100 Diversity mentioned in Board Evaluation

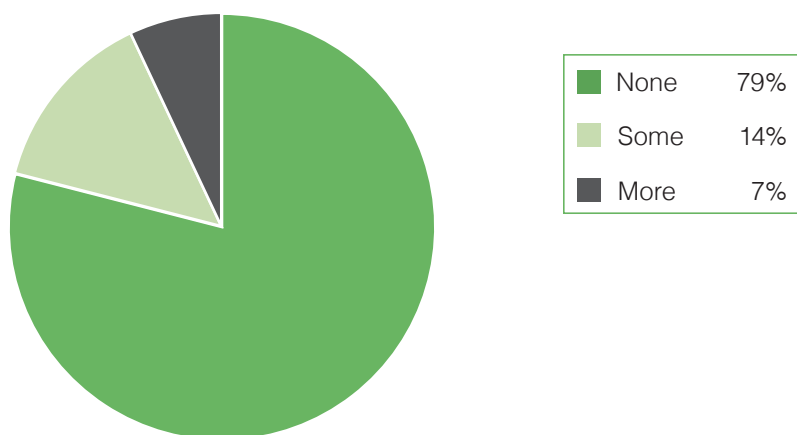


Figure 6: FTSE 250 Diversity mentioned in Board Evaluation

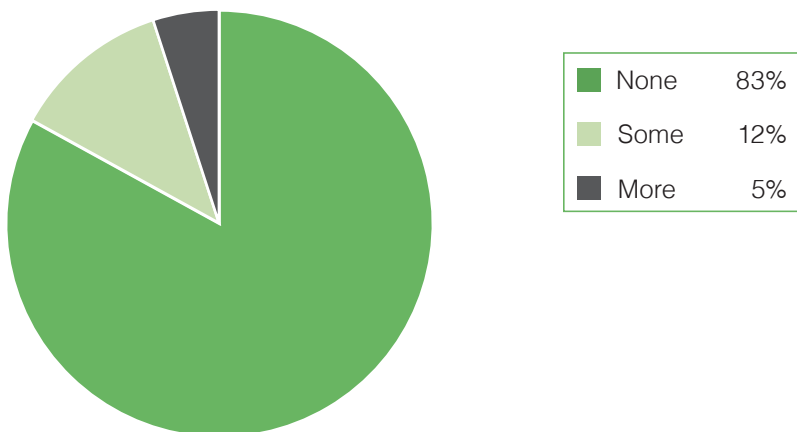


Table 7: FTSE 100 and 250 Board Evaluations

FTSE 100	Diversity Mentioned	Specifies Gender	Specifies Ethnicity
2018	21%	10%	2%
2014 (FTSE 101-200)	38%	18%	Not collected

FTSE 250	Diversity Mentioned	Specifies Gender	Specifies Ethnicity
2018	17%	4%	1%
2014 (FTSE 101-200)	25%	11%	Not collected

It is disappointing to see that the number of companies specifying that diversity is a focus of their board evaluation, including those specifically mentioning gender, has gone down since 2014. Given recent progress on boardroom diversity and increasing awareness among companies of the benefits of diversity, for example - for accessing different perspectives, challenging current ideas and better decision-making - more discussion of diversity and the impact on board effectiveness might have been expected.

Where diversity was mentioned in the context of the evaluation, reporting tended to be fairly basic, referring, for example, to a need for more work to be done to improve diversity at board level, or for the board to be more focused on improving diversity at senior management levels. Better disclosures, such as the examples below, gave some insight into how the company intended to drive further improvement.

The culture of the Board is seen as positive and supportive. Board members described it as well-balanced, respectful, open, challenging and committed. However, it agreed that a greater diversity of culture, gender and experience might enhance the Board's composition. The Board Action Plan for 2017/18 will also include: Continue to drive the people agenda by creating specific KPIs for people and diversity.

(Marks & Spencer Group, 2017 pp. 42 - General Retailers).

Included in objectives set for 2018 following the 2017 evaluation process:

- *Ensure diversity principles are fully incorporated into recruitment process at Board and senior management level; development of recruitment and promotion strategies to support greater diversity (e.g. gender, ethnicity, age), as well as company culture and values.*

(Marshalls, 2017, pp. 36 – Construction & Building Materials).

FOCUS ON THE PIPELINE

Progress in increasing the number of women in UK boardrooms has been achieved largely through the appointment of more female non-executive directors. It has proved more difficult to make progress in increasing female representation among executive directors. The Hampton-Alexander review identified the need to focus on building the pipeline for succession to executive management in order to drive greater diversity in senior management.

Diversity Initiatives

We explored reporting of actual initiatives to increase diversity specifically aimed at senior management levels.

We assessed the annual reports of FTSE 100 and FTSE 250 companies against the following questions:

12. Does the company have stated initiatives for increasing gender diversity at senior management levels? NONE/SOME/MORE

13. Does the company have stated initiatives for increasing ethnic diversity at senior management levels? NONE/SOME/MORE

Questions 12 and 13 were coded as 'None'/'Some'/'More' depending on the extent of the reporting. In order to be coded 'More' in these questions, companies had to do more than state a vague aim to increase diversity and articulate how they were implementing their intentions. To distinguish between reporting in the 'Some' and in the 'More' category, we also sought detail about what the company was doing and specific reference that efforts were aimed at increasing gender representation at senior management levels. For example, some companies outlined what the gender initiative entailed, providing detail on the number of individuals participating, and/or the outcomes of the initiative.

The emphasis on senior management is part of an evolving conversation around diversity which began with the push to increase gender diversity in the boardroom. The next phase in the drive for more diversity in the leadership of the UK's largest companies will shift the focus to the pipeline and building diversity in senior management teams. It is therefore encouraging that, while the figures may seem low, some companies are already grasping the issue and leading the way.

Virtually no companies reported that they had initiatives to increase ethnic diversity specifically at senior management levels. However, as Figure 7 shows, one third of FTSE 100 companies articulate initiatives to increase the proportion of women at senior management levels. Whilst those companies should be commended, the majority do not yet appear to have actions in place to support a long-term strategic approach to developing diversity in their leadership. Interestingly, this was picked up in some of the board evaluations, with recommended actions being a focus on succession planning of diverse talent. There is an opportunity to make a considerable impact over the next few years, something the 2018 Code will support.

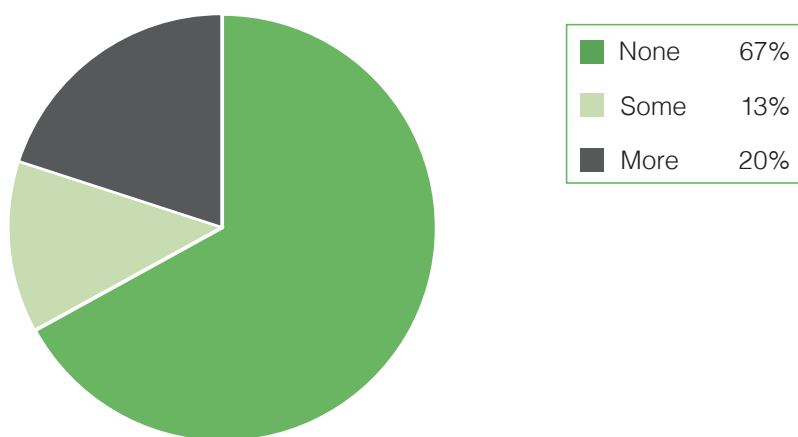
Below is an example of better reporting on the pipeline.

There are a number of ongoing initiatives across Associated British Foods which aim to promote diversity:

- a groupwide gender diversity task force includes representation from across the businesses and has, as one of its principal objectives, the aim of ensuring that there are no barriers preventing talented people from succeeding;
- senior and high potential women are invited to join the Women's Business Forum, which meets several times a year providing a chance for networking, learning and support for personal career development;
- the ABF Two-way Mentoring Programme aims to grow the talent pipeline by matching high potential women, nominated by their business units, with senior leaders around the group who support their career development and broaden their business experience. In return the senior leaders have the opportunity to learn about another business or function, understand the perspectives of women working within them and develop their own listening and coaching skills;
- training in 'unconscious bias', which aims to build awareness and challenge commonly-held myths around diversity, has been included in the group's leadership development programme for a number of years and has now been extended to a wider group of managers.

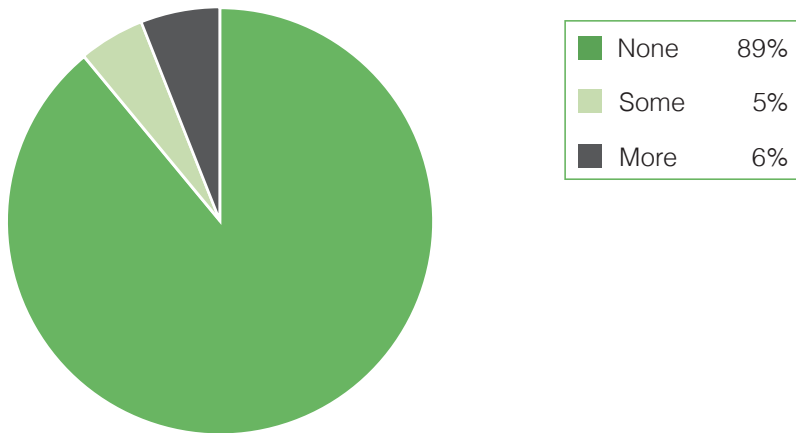
(Associated British Foods, 2017, pp.69, FTSE 100 – Food Producers & Processors).

Figure 7: FTSE 100 Gender Diversity Initiatives



The figures for the FTSE 250 companies were significantly lower, as are most of the diversity figures when compared to FTSE 100, reflecting the lag in their journey. Nevertheless, there are still examples of good reporting.

Figure 8: FTSE 250 Gender Diversity Initiatives



Our female mentoring programme actively identifies high-potential women within the firm, pairing them with individual mentors from Man Group's Executive Committee to support their professional development, share expertise and act as a senior sounding-board. During the year, we also successfully continued our partnership with Women Returners, with the aim of tapping into the predominantly female talent pool of professionals seeking to return to work following a career break. Through this partnership, we are able to identify suitable candidates as well as providing them with tailored mentoring and support. We are confident that, with the right support, more highly-qualified women will return to work and progress to or take up senior roles.

(Man Group, 2017, pp.38, FTSE 250 – Speciality & Other Finance)

In 2014, Lloyds Banking Group became the first FTSE 100 company to publicly set itself gender diversity targets for senior management (40% of their top 5,000 senior management posts globally to be held by women by 2020). Since then many other listed and professional service companies have followed suit, publicly stating gender targets not just at board level but also for senior management. And in 2017, Lloyds became the first FTSE 100 company to set itself a target for ethnic diversity in senior roles (8% of its top 7,500 senior management), despite the difficulties companies face in collecting meaningful data on ethnicity.

The Group has publicly committed to increase the proportion of senior roles held by Black, Asian and Minority Ethnic colleagues to eight per cent by 2020. This is being achieved through career development programmes, a programme of visible role models, and a focus on increasing cultural awareness to help all colleagues interact more effectively, regardless of ethnic background.

(Lloyds Banking Group, 2017, pp.53, FTSE 100 – Banks).

Accountability

We looked for evidence of clear accountability and responsibility for increasing diversity. We assessed the annual reports of FTSE 100 and FTSE 250 companies against the following questions:

14. Is there clear accountability for increasing diversity? YES/NO

15. Where does this responsibility sit? Freeform answer as reported

In terms of clear accountability, only 9 (9%) of the FTSE 100 companies and 14 (6%) of the FTSE 250 companies specified a person or a role held accountable for the success of any initiatives or objectives set. These varied between specific diversity-relevant roles, such as *Global Head of Diversity & Inclusion*, or *Director of Organisation and Development* and groups of individuals such as the *Diversity & Inclusion Working Group* or *Global Diversity & Inclusion Board*. In just a couple of companies, the responsibility sits at the more strategic level of *Chief Risk Officer*. This is likely to reflect a company's approach to diversity – not as a compliance issue but a significant strategic one of optimising talent and ensuring they really do get the 'best person for the job'.

In addition, 7 out of the 9 in the FTSE 100, and 10 out of the 14 in the FTSE 250 linked executive performance on diversity directly to the remuneration of the executive directors concerned.

CEO objectives focussed on: Continued progress with talent, succession, leadership, culture and diversity: ... Group Diversity and Inclusion policy successfully launched and employee networks set-up.

(Equiniti Group, 2017, pp.109, FTSE 250 – Business Services)

Bonus assessment for CEO and CFO: Targets relating to gender diversity were met as evidenced by improvements in the gender mix in senior positions and the development of succession planning profiles was completed

(Elementis, 2017, FTSE 250 - Chemicals)

Ensuring the pay of a senior executive is linked to delivery of diversity goals is part of the Women in Finance Charter. However, only 9 of the 23 companies which specify clear accountability for increasing diversity are Women in Finance Charter signatories. The other companies came from a range of sectors, including Transport, Mining, Chemicals, Business Services, Media & Entertainment, Leisure & Hotels, and Real Estate.

Reporting on Broader Diversity Initiatives for Senior Management Levels

We looked for evidence of whether other groups or characteristics (such as LGBT, social and educational background, disability, age) were specifically mentioned in diversity initiatives aimed at increasing diversity at senior management levels.

We assessed the annual reports of FTSE 100 and FTSE 250 companies against the following question:

16. Are other groups such as LGBT, disability, mentioned within initiatives for increasing diversity at senior management levels? YES/NO And, if so, which?

Whilst a large number of companies reported on initiatives targeted at other groups, none reported that these were specifically aimed at increasing representation at senior management level. Whilst this may be, at least partly, the intention, it was not clearly articulated and no direct links were made between some really bold initiatives and intended outcomes.

The sophistication of reporting on initiatives has increased in the majority of the annual reports reviewed compared with 2014. Companies are increasingly discussing a range of different aspects of diversity, including many of the 'protected characteristics'. In addition, a number of companies also target other diversity aims, such as those designed to support opportunities for social mobility, carers, and former service personnel. There is also more reporting on initiatives concerned with employee well-being and employee voice, demonstrating that companies are increasingly focused on issues such as productivity, retention, engagement and employee satisfaction. Whilst not directly addressing diversity, this suggests companies are concerned to develop a more inclusive working culture, which is likely to benefit the UK's increasingly diverse workforce.

5 LOOKING AHEAD

For accounting periods starting on or after 1 January 2017, companies (excluding SMEs) trading on an EU regulated market are required to follow the new diversity policy reporting requirement in DTR 7.2.8A (see page 5 for a full description). This should lead companies to disclose more detail about the diversity policies that apply to the board and senior management, the objectives, how the policies have been implemented and with what results. The first annual reports prepared against this requirement were issued from March/April 2018 and therefore fell outside the sample used for this report. This requirement for greater transparency should also encourage companies to translate their commitment to greater diversity into concrete actions to increase diversity at board and senior management level.

In addition, for accounting periods beginning 1 January 2019 onwards, companies applying the Code will be reporting against the 2018 Code. The 2018 Code represents a significant increase in emphasis on succession planning and diversity in the management pipeline. It encourages boards to think beyond gender diversity and to ensure appointment and succession planning practices are designed to promote diversity more broadly.

Principle J

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management.²⁴ Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.²⁵

The changes also broaden the focus of the 2018 Code, encouraging, for the first time, building diversity across the workforce to feed the development of a diverse pipeline for succession to senior management. Provision 17 expands the remit of the nomination committee, giving it responsibility for overseeing progress to achieve this.

Provision 17

The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non executive directors. The chair of the board should not chair the committee when it is dealing with the appointment of their successor.

The 2018 Code maintains the emphasis on diversity as a consideration in board evaluations.

²⁴ The definition of 'senior management' for this purpose should be the executive committee or the first layer of management below board level, including the company secretary.

²⁵ Which protect against discrimination for those with protected characteristics within the meaning of the Equalities Act 2010.

Principle L

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

To enhance transparency, the 2018 Code expands reporting to cover diversity in the context of succession planning and board evaluation. Provision 23 also asks companies to report on policy and actions taken to promote diversity and inclusion across the company and the outcomes in terms of progress to achieve stated objectives.

Provision 23

The annual report should describe the work of the nomination committee, including:

- *the process used in relation to appointments, its approach to succession planning and how both support developing a diverse pipeline;*
- *how the board evaluation has been conducted, the nature and extent of an external evaluator's contact with the board and individual directors, the outcomes and actions taken, and how it has or will influence board composition;*
- *the policy on diversity and inclusion, its objectives and linkage to company strategy, how it has been implemented and progress on achieving the objectives; and*
- *the gender balance of those in the senior management and their direct reports.²⁶*

Provision 23 also addresses the recommendation of the Hampton-Alexander Review that “the FRC should amend the UK Corporate Governance Code so that all FTSE 350 companies disclose in their Annual Reports the gender balance on the Executive Committee and Direct Reports to the Executive Committee.”

This recommendation seeks to address inconsistencies in reporting on the gender of “senior managers” as required under section 414C of the Companies Act, by asking companies to report in a consistent manner. Differences of interpretation have resulted in information being reported in a way that does not provide the insight into the gender balance in the executive pipeline hoped for and makes comparisons between companies and across sectors difficult. To address this the 2018 Code clarifies that ‘senior managers’ should include only the first layer of management below board level and their direct reports.

The associated Guidance on Board Effectiveness Section 3: Composition, Succession and Evaluation, gives additional support on how companies might apply the 2018 Code.

The aim of the 2018 Code in relation to diversity is for companies to deepen their understanding of how diversity can impact their business and encourage them to take a more strategic, multi-faceted approach to diversity and inclusion. We expect the combination of the new reporting requirements in DTR 7.2.8A and in the 2018 Code, to bring about a significant shift in the quality of diversity reporting and provide greater insight into how companies approach diversity in practice.

²⁶ The definition of ‘senior management’ for this purpose should be the executive committee or the first layer of management below board level, including the company secretary.



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