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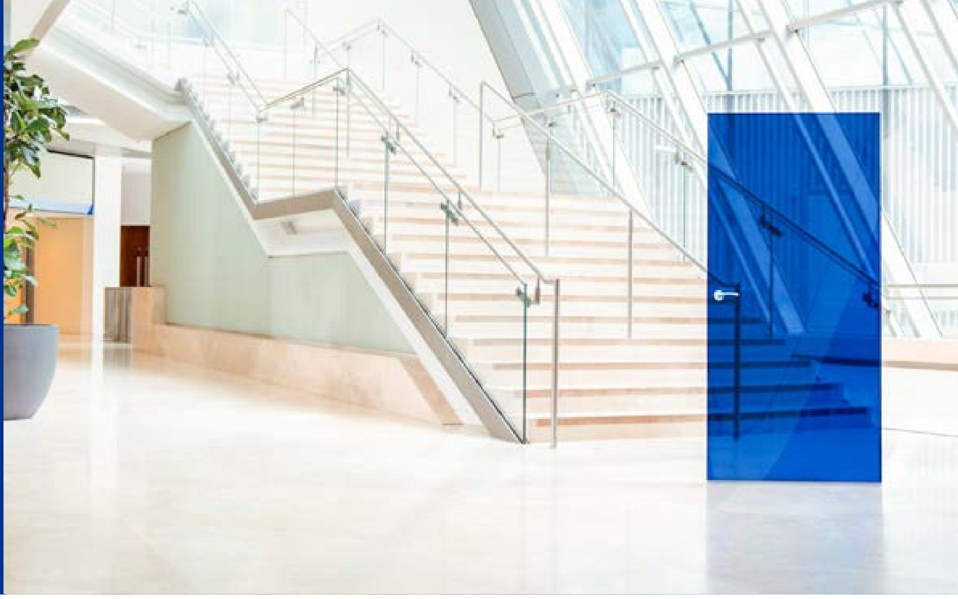
Tackling inequality in the boardroom

KPMG Board Leadership Centre



The heightened feelings of social injustice following the death of George Floyd in the US together with COVID-19 and the economic downturn disproportionately affecting certain communities and demographic groups, have raised the issues of systemic injustice and inequality to the boardroom table.

This intensified awareness is driving critical conversations in boardrooms today: Is the company doing enough – using its financial resources, making its views known to policy makers, engaging in public/private partnerships - to make real and lasting changes to stamp out social injustice and inequality. Is the company leading by example – "walking the walk" – by driving diversity, equality and inclusion throughout the business, including in the boardroom.

These are not new questions, but the events of 2020 have clearly given diversity and social justice a new urgency.

Mounting pressure to take a holistic approach

In recent conversations, board members and others have acknowledged the painful reality that while – thanks to the Hampton-Alexander initiative – great progress has been made in terms of women on boards, corporate Britain needs to do more to take a more holistic approach to equality including women in executive positions, ethnic diversity and social mobility.

Indeed, despite perceptions in the UK that the issue of racial injustice is one predominantly emanating from across the Atlantic, Spencer Stuart's 2020 Board Index reports that UK companies trail their US counterparts when it comes to ethnic diversity in the boardroom.

Despite growing calls for greater BAME representation on boards, Spencer Stuart's review of the Top 150 UK companies suggests mixed progress on ethnic diversity in the UK. 8.3% (122) of all board directors are identified as BAME, maintaining a gradual upward trend since 2016 (5%). However, while the proportion of BAME non-executives has increased to 9.6% (104), it has halved among executive directors in the past four years (from 5.1% in 2016 to 2.6% in 2020).

Headlines such as "CEOs talk social justice, and how they can do better", "The UK can no longer close its eyes to racial inequality" and "John Parker decries slow progress on ethnic minority board representation" point to the soul-searching that many companies are – and should be – doing as an undercurrent of inequality and injustice spread across the country.

Sir John Parker, a former chair of five FTSE100 companies, recently said "Don't tell me the talent is not there, you just have to look at our new Chancellor, and there are many more people in the ethnically diverse communities in the UK and overseas." He continued, "When we are all holed up in our homes, we are going to have more time to think, more time to reflect. I want to see a just society – where regardless of colour people can actually develop their talents."[1]

Watching, listening, and acknowledging social injustice is imperative and speaking out with statements of concern and support matters. However, it is clear, that employees, customers, investors and wider society will expect companies to drive real, lasting change; to back up their words and soul-searching with action; and to show measurable progress.

Actions to help drive progress and accountability

A number business leaders have emphasised some practical actions that companies and their boards can take to help drive diversity and systemic change. And while acknowledging that sweeping social change is difficult, these suggestions, taken together, can drive progress in a very tangible way, company by company:

— **Clearly commit** to building the company's pipeline of diverse employees and board members. This commitment should come directly from the CEO, and employees should see it in the CEO's actions and conduct.

[1] Financial Times, 30 March 2020

- **Define diversity and consider setting aggressive goals** at all levels, including leadership and senior management, business unit heads, middle ranks, and internships. As with other KPIs, diversity metrics should be a matter of business performance, not a nice to have.

- Measure progress **and hold the CEO and leadership team accountable** by linking progress on diversity to compensation. Diversity incentives should start at the top, where the sustainable long-term decisions are being made.

- Carry out robust data analytics to **get 'underneath' the data and create a broader view**. Disaggregating the data can provide a clearer picture. Remember, good diversity and representation statistics don't necessarily add up to an inclusive culture. Its important not to create a hierarchy of 'protected characteristics' or binary view of data on diversity. Instead adopt an intersectional approach, which considers how race, gender, social class, sexual identity etc overlap and interact with one another to create interdependent systems of discrimination or disadvantage. Taking a holistic view of individuals in this way can inform more inclusive solutions to reduce the stereotyping of particular groups and promote a culture where people can flourish.

- **Be sceptical** when told that lack of progress is due to a "lack of qualified candidates." The phrase is often misused and an excuse for insufficient recruitment efforts. **Understand the extent to which recruitment functions are connected to diverse communities** and their ability to tap into a wide pool of divers candidates.

- For leadership and other roles that require managing people, as part of the recruitment process asking **candidates to provide a written statement on how they value diversity and inclusion**, and why. Ask candidates to elaborate on their views during the interview – that's where their authenticity will show.

- When choosing **business partners**, consider their track records on diversity. Do the company's third party providers track and periodically report on diversity and inclusion within their business. Be clear with business partners on what your company's standards and priorities are.

- Ask management to conduct a **diversity risk assessment** to better understand the strategic, talent legal and reputational risks posed by the company's diversity profile. Such risk assessments can help the board understand the potential for, and take proactive steps to avoid, significant human capital related issues.

- Tell the company's **diversity and inclusion story** in detail. An honest picture of the company's goals and progress towards achieving them is important in terms of credibility and confidence.

- Redouble **employee training** to combat systemic bias. Training should be provided in the context of the company's culture, values, and emphasis on inclusive leadership. Facilitators should be well trained – this can be an emotive issue and difficult to navigate.

- Reassess **the company's public face**. To what extent is the company advocating for social justice programmes versus taxes and regulatory issues?

- Understand the risk of systemic **bias in how the company uses data** – particularly as COVID-19 accelerates the use of data analytics and artificial intelligence.

It's about leadership and long term performance

A sustained commitment from leadership is critical. Many companies have released statements or taken stances on (say) Black Lives Matter, being an ally for diversity and inclusion, or combatting systemic injustice. But this is about more than releasing a press statement and making a few changes before moving on to the next thing. Board members need to be absolutely committed to making long-term sustainable changes within the company.

Driving diversity, equality and inclusion throughout a business is a matter of leadership and that has to come from the very top of the company. It has to be central to the company's culture and viewed as mission-critical and fundamental to long-term success.

From an economic perspective, the merits of diversity are clear. At our recent FTSE350 'Conversation with Vicky Pryce' (Chief Economic Adviser at the Centre for Economics and Business Research), Vicky cited a study from the World Bank and IMF which estimated that if women could properly participate in the labour force, a combination of factors such as greater productivity, lower welfare payments and higher tax receipts, could increase the overall prosperity of some countries and regions by as much as 25-40 percent.

And on ethnicity, a recent study estimates that since 2000, US gross domestic product lost $16 trillion as a result of discrimination against African Americans in a range of areas including education and access to business loans.

Boardrooms should now be aware that investors are looking to boards to address diversity and inclusion too. It makes sense, both ethically and from a business point of view.

Cyrus Taraporevala, president and chief executive of State Street, one of the world's top five fund managers with $2.7trn under management, has via his [2021 letter to board members](), put UK companies on notice by declaring, "racial and ethnic inequity is a systemic risk that threatens lives, companies, communities, and our economy – and is material to long-term sustainable returns".

As a result, State Street has taken the bold decision of announcing that this year it will vote against the nominations and governance committees at FTSE100 companies that fail to disclose the racial and ethnic composition of their board. And, in 2022 State Street is planning to up the ante. It will vote against the same boardroom chairs where they fail to appoint "at least" one director from an "underrepresented community to their boards".

Others investors have been agitating on the topic of ethnic diversity too.

It has been widely reported that last year Legal and General Investment Management (LGIM) wrote to FTSE100 nominations committee chairs to put them on notice that they will vote against their reappointment "if they fail to meet expectations on ethnic diversity". The investor said its expectation is that "companies set ambitions related to the ethnic composition of their organisation, throughout their workforces with a particular emphasis at the board level, which generally sets the tone from the top".

The UK's governance watchdog has also aired its concerns. Commenting on its research into board ethnic diversity, the FRC declared "most UK companies' approach to board ethnic diversity is unsatisfactory". The FRC found that over half of FTSE 250 companies fail to mention ethnicity in their board diversity policy, with most of the FTSE 350 failing to set measurable ethnicity targets. Just 14% of FTSE 100 companies set similar measurable objectives for their boards.

The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

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