In fairness – refocusing on IDE Considerations for boards in the UK

KPMG Board Leadership Centre

IIn an environment where companies continue to face inter-related challenges and uncertainty – a turbulent economic and geopolitical environment, ESG commitments talent management and advances in AI and its regulation will continue to test to the skills and experience of board members.

KPMG UK's 2024 CEO Outlook, 63% of CEOs said a lack of the right talent will negatively impact their firm's growth over the next three years. The report also identified the second highest operational priority for CEO's as "having an effective Employee Value Proposition to attract and retain the top talent." When nurturing talent is critical to business growth, differing opinions on IDE practices and investment are likely to adding more complexity to an already long list of issues boards are facing.

The business driver to focus on Inclusion, Diversity and Equity (IDE) is to benefit the workforce, profitability, culture and innovation – as part of an organisations' long-term strategy to manage and leverage the whole talent pool, create fair and inclusive cultures where people can thrive – to better understanding the needs and wants of their people, consumers and stakeholders and reflect society.

Decisions on IDE practices have evolved over time and are seen as key component of how businesses create sustainable businesses that stakeholders want to invest in.

Any changes to an organisations approach to IDE could be contradictory to the needs of stakeholders, including investors, consumers and governments who have vested interest in businesses being successful, to support growth and create strong economies. However, like many talent management and cultural change programmes in business, the benefits are realised when there is long term commitment.

Keeping up to date on the changing legal and demographic contexts of IDE, especially for businesses with international presence, will be essential to ensure any potential legal and reputational risks are assessed objectively.

Boards should regularly review their IDE strategy – here are some for considerations for boards in the UK:

Do your current IDE plans, for the board and organisation, continue to support strategic growth?

- Boards should take time to review their IDE strategy to ensure it aligns with their strategic goals.

- Do current IDE initiatives support, or have they met the organisations strategic direction and talent management goals?

- Consider the last time the IDE initiatives were articulated – do they explain and justify the business rationale?

- Has the board reviewed the direction of regulation of IDE programmes in the countries the business operates in?

- Has the board engaged with the nomination committee on the progress of their IDE plans and areas of focus for the board, and likewise with the Head of HR/People/IDE for the IDE plan and initiatives for the workforce?

- Does the board have evidence to demonstrate that the organisation has achieved the desired outcome from its IDE work and how has this been validated (e.g. data that shows increase in equality of opportunity and progression, strong pipeline of talent, feedback from employee engagement surveys and those not in under-represented groups, costs, impact and benefits). Perhaps most importantly, how will this progress be maintained, monitored and demonstrated in the future?

- Has the board considered making a statement about their ongoing commitment to creating a representative workforce and an inclusive culture, using data and evidence, feedback from employee resource groups and using legal and comms teams as a sounding board to create a compelling narrative?

- Is the board prepared to be challenged on IDE initiatives (from anti-IDE activists/shareholders etc)? Has the board established parameters for the CEO as the voice of the company on IDE and when the CEO should speak out? Also consider the implications of staying silent – which could also be considered as 'taking a position'.

Reevaluating IDE

Companies reevaluating their approach to IDE, whether scaling down or ending initiatives, should take a considered approach to their rationale.

- How would any change in approach to IDE align with the business purpose, values and fairness?

- How will a change in approach effect succession planning and developing the talent pipeline for boards to ensure there are different voices are at the boardroom table?

- Does the board feel under pressure to end IDE practices to prepare for a change in legislation in different country they operate in or is the company taking the opportunity to evolve its approach to IDE? If the former – how does this decision align with the businesses' purpose and values? How much engagement has the board had with the Head of HR/People and Head of IDE on this approach and what is the feedback from employee resource groups (ERG)/networks? If the latter, are you clear on what is 'new and improved' (not just removed/cancelled) and how they provide equal access to opportunities, skills development, whilst not giving special advantages to one person or group over another? Provide clarity on whether these initiatives create inclusivity or inclusive cultures.

- Consider how fairness and equality of opportunity will be maintained if you remove IDE related programmes/polices?

- What merit-based systems are in place? Is the board able to demonstrate they work with clear evidence on how talent is recognised and rewarded, and processes are systematically bias free?

- Has the board asked the General Counsel or other legal counsel to provide the board with a refresher on the anti-discrimination laws that apply to the company with respect to hiring, firing, promotion decisions and other employment-related initiatives?

- Has the board considered asking the company's legal counsel engage in a robust review of the company's IDE-related policies and practices, and stay alert for changes in the law and applicable regulation? The board should be informed of the management's processes and results of the review.

- Have you considered the risks from a legal, financial, operational, reputational perspective, and the opportunities? Removing protections against discrimination may enable behaviours that may expose the company to legal and reputational challenges.

- If you end your IDE initiatives how will this affect your ability to win contracts with countries where IDE is a pre-requisite for procurement?

- Without targets or data what evidence will be used to demonstrate and report on the company's progress/success in these areas? For example, consider whether you will continue to voluntarily submit data to external government led reviews on diversity characteristics and the impact of not doing so.

- Would years of work to create the right culture and trust be undone? How would this impact employee morale?

Scenario planning

Scenario planning and crisis readiness around IDE is critical, as is saving time on the board's agenda to revisit the issues as they evolve.

- Will the company be ready if it receives a letter threatening legal action or investigation?

- Who is monitoring for changes in the external environment and how will management decide how or whether to react?

- Are crisis plans fit for purpose in the event of significant IDE-related publicity involving the company? (See also 'Communicating Change' below).

- Given the current environment, companies should consider add IDE-related incidents to their list of known situations for which they need to be ready, both as a matter of risk and as potential opportunity.

Communicating change

Many organisations have publicly stated their commitments to IDE in their annual reports, websites, social media and other media. Consider how any departure from this commitment might impact trust with board members, the workforce, especially those from under-represented groups who might be feeling vulnerable and wider stakeholders.

- How and when will you communicate the changes internally and externally to all your stakeholders?

- Have the messages (and language used especially if discontinuing the use of IDE) been tested with the board, legal, internal comms and external affairs teams? Instead consider whether describing diversity-related goals in the context of talent management and how these might help the company progress on its strategy might enable richer more meaningful conversation.

- Have you considered how this will impact the brand, reputation and attracting talent? Consider messages on websites and social media etc.

- Also consider if ending IDE activity impacts your adherence to compliance, and how that might impact stakeholders' views on the integrity of your business practices and business value?

- If the business has international presence how will a decision to end IDE in one country due to legislation affect your business in another location? E.g. what is the impact on your brand and reputation?

Communicating change (continued)

- Has the board considered how they will communicate to all stakeholders including suppliers and investors?

- Without IDE initiatives, how will progress be reported in the annual report and ESG reporting?

Looking ahead

As companies face an evolving IDE landscape, the board's role in providing steady leadership during uncertainty and guiding management becomes paramount. By aligning initiatives with the company's mission and values, understanding and helping management prioritise conflicting stakeholder needs, and staying informed and engaged, boards can help navigate this environment.

*The acronym for Inclusion, diversity and equity is often referred to as IDE, DEI or EDI, the 'E' can refer to equality or equity, in this paper the 'E' refers to equity.

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