30% Club

GROWTH THROUGH DIVERSITY

Catherine Horton
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Via email: codereview@frc.org.uk

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Dear Catherine,

We welcome the opportunity to respond to the review by the Financial Reporting Council (FRC) of the UK Corporate Governance Code. We are responding specifically to the questions on diversity and make the following more general comments:

- We welcome the Code's general thrust that boards should intensify their efforts on diversity. We also welcome the FRC's own efforts and commitments to address diversity and to lead by example. As a practical tool that companies could use to improve their diversity at board level, and as a tangible way of growing the talent pool of board-ready women, we would encourage the FRC to include mention of the 30% Club's Future Board Scheme within the Code, alongside mention any other tangible strategies/ tools that are available. The scheme represents a practical step to support the Hampton-Alexander Review's focus on increasing the representation of women below board-level in the senior layers of FTSE 350 companies by giving them direct, first-hand experience of boards, as well as increasing the pool of talent of non-executive directors. Further details on the scheme can be found here: https://30percentclub.org/initiatives/the-future-boards-scheme .

- Leadership from the top of organisations is key. The 30% Club has been leading a campaign for CEOs of FTSE350 companies to pledge their commitment to increase diversity in their senior executive ranks. There are now 65 FTSE350 CEOs (across 63 companies) committed to setting targets to achieve 30% women in senior management levels by end of 2020. In addition, we have 45 FTSE350 Chairs (across 52 boards) committed to the 30% Club's targets of 30% women on boards by end of 2020. This is very encouraging and welcome. It sends a strong signal internally and externally of the commitment from the top of the organisation to unlock gender imbalance in the workplace and on boards.

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- Diversity is now recognised as a key pillar of investor stewardship and a driver of long term business performance. Long term investors seek to invest in long term meritocracies and are keen to understand the drivers of the cultures of the companies in which they invest. The new Code's increased emphasis on culture is particularly important which builds on the work of the FRC's Culture Coalition.

- We strongly support Provision 6 and proposed measures to encourage investors to pay due regard to the gender diversity on boards and in leadership through future revisions to the Stewardship Code. The 30% Club has a UK Investor Group of 30 members (asset owners, asset managers and charity investors) with collective assets under management of £10.9 trillion, who are using their stewardship and ownership rights to promote diversity on boards and in the workplaces of their investee companies. Our members endorse the Statement of Intent launched in October 2016 which sets out their commitments. Members of the Investor Group are also collaborating to engage collectively with companies, who, in turn, are welcoming the outreach. There are other initiatives from other investors which also demonstrate how important diversity has become as an investment stewardship issue. See also 'The 30% Club: Engaging for better diversity on boards' by Brenda Trenowden and Deborah Gilshan.

- We would encourage that the UK Corporate Governance Code stipulates that companies should disclose the various initiatives in place to address diversity, as research indicates that there are three game changers for sustainable change: (i) CEO commitment, (ii) holistic transformation programmes which include targets and (iii) persistency of those programmes (McKinsey Global Research, 2016 "Women Matter" series of research).

- We would encourage that the changes to the UK Corporate Governance Code are enacted sooner than the timeline set out in the consultation document, given (a) they will only begin to apply to accounting periods beginning on or after 1 January 2019; (b) gender pay gap reporting legislation is now coming into force and (c) the timeline set for the achievement by companies of the 30% Club's aspirational targets is end 2020. We would also suggest that a further review of progress is undertaken at the end of 2020 to encourage the achievement of aspirational targets, and the realisation of the benefits that flow from an increased representation of women on boards and in senior management teams, in this timeframe.

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In addition to this written response, we have also contributed to various industry discussions with the FRC on the Code consultation and would welcome the opportunity to discuss these issues in person if that would be helpful.

Yours sincerely

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Global Chair, 30% Club

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9. **Do you agree that the overall changes proposed in Section 3 of revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole?**

Changes to Section 3 of the Code on "Composition, succession and evaluation" are welcomed. Overall changes in Section 3 of revised Code would seem appropriate in building diversity in the boardroom, executive pipeline and in the company as a whole.

In particular we welcome:

- that the Code continues to emphasise the importance of diversity in its broadest sense, we also agree with the new Principle J that seeks to broaden the perception of diversity by the Board and to ensure that appointment and succession planning processes are designed to promote diversity across gender, social and ethnic backgrounds;
- that Principle J attempts to remove the confusion and inconsistency of 'Senior Manager' terminology and disclosure requirements on gender diversity at Executive and Direct Report levels.
- the reference in the provisions to Principles I, J and K of the Nominations Committee's responsibility in overseeing the development of a diverse pipeline for succession is important. The pipeline is a key focus for many companies as it is fundamental to increasing diversity in management ranks, on the Board and across the workforce;
- that Provision 17 expands the remit of Nominations Committee to provide oversight of development of diverse pipeline;
- that Provision 23 encourages reporting on progress on diversity and inclusion, and the outcomes in terms of progress on diversity;
- the elevation of the board evaluation to a Principle rather than a Provision, and the continued identification of diversity as a key pillar of the effectiveness of the board, is very appropriate; and
- the requirement for open advertising for the appointment of chair and non-executive directors. This will also increase the pool, and the diversity of the pool, of talent from which appointments will be made.

Additional points:

- reporting on aspirational targets and progress towards such targets is also key. See comments above about the 30% Club's initiative for FTSE350 CEOs to commit to the 30% Club's aspirational targets
- we have found, through our work with the 30% Club Investor Group, that stewardship discussions on gender diversity are a good segue to understand how the Board and Executive Management think about diversity across all factors and leads to a better understanding of the nominations, successions and promotions process in an organisation;
- more transparency and disclosure should be required of the diversity across all of the workforce, in addition to senior management levels and on the board. We are

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already beginning to observe this type of reporting from some companies and it would be beneficial consistently from all companies.

- Footnote 3 of principle J excessively restricts the impact of Principle J to the Board and Executive Committee only and should be extended to include Direct Reports to the Executive Committee in order to capture other critical leadership positions.
- Re Provision 17, we would recommend that the FRC combines a gender diversity element with a numerical minimum in the drafting of this provision because it is widely recognized that gender diversity in the make-up of the Nominations Committee is an important factor in the appointment of women candidates or candidates from diverse ethnic, social and cognitive backgrounds. The diversity of membership is arguably a more important factor in improving the quality of the selection process than the number of members making up the committee.

10. Do you agree with extending the Hampton-Alexander recommendation beyond the FTSE 350? If not, please provide information relating to the potential costs and other burdens involved.

Yes. The importance and benefits of diversity applies to all companies, regardless of size. Applying this recommendation beyond the FTSE350 also chimes with the proposal to remove the existing exemptions for companies outside the FTSE350. Reporting would not lead to disproportionate costs and, in any event, the benefits of such disclosure, and the diversity it would lead to, would outweigh any such costs.
In addition:

- all companies should be encouraged to provide their data sets to the Hampton-Alexander Review;
- we are supportive of the definition of 'senior managers' that is included in the Hampton-Alexander Review and which the FRC is seeking to align with under the new Code i.e. that companies disclose in their annual report the gender balance: (i) on the Executive Committee and for (ii) the Direct Reports to the Executive Committee;
- this is very important to ensure consistency of reporting given the inconsistencies in the interpretation of 'senior managers' as required under Section 414C of the Companies Act, which has led to various data points being used; and
- in addition to this hampering the level of transparency that was expected, it also hampers comparability of the data across companies and within sectors.
- Re Provision 23, we would recommend complete removal of any reference to 'senior manager' and encourage the adoption of now widely understood terminology – i.e. *Executive Committee and Direct Reports to the Executive Committee*, as used in the BEIS and GEO backed Hampton-Alexander Review for FTSE 350 listed companies.
  That said, and acknowledging that the term 'senior manager' has its origin in the Companies Act, if there are compelling reasons why it needs to continue, then the "Senior Manager' term should be further defined in the revised Code to mirror exactly the Hampton-Alexander definition. This definition is now well-understood and embedded in gender reporting practices of FTSE 350 companies and is the definition against which companies will have reported for three years via the

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Hampton-Alexander On-line Portal and an increasing number are already using in their published statements.
A footnote needs to be added when using the term Direct Reports to make it clear these are employees in senior-most roles, with a direct reporting line to members of the Executive Committee (or the nearest equivalent management structure immediately below the Board) and importantly excludes all administrative support staff.

11. **What are your views on encouraging companies to report on levels of ethnicity in executive pipelines? Please provide information relating to the practical implications, potential costs and other burdens involved, and to which companies it should apply.**

Whilst the 30% Club primary focus is on diversity in terms of gender, our strapline is "growth through diversity". We believe boards that genuinely embrace cognitive diversity, as manifested through appropriate gender representation and a broad spectrum of skills and experience, are more likely to achieve better outcomes for their investors.

We support initiatives that increase and improve diversity across the spectrum of factors that make up diversity considerations and encouraging reporting on all diversity factors is important. For example, in addition to being supportive of the Hampton-Alexander Review, and its predecessor, Lord Davies' Review of Women on Boards, we are also supportive of the work of the Parker Review. Companies are beginning to report much more holistically on diversity. Any requirements to encourage reporting on wider diversity considerations should apply to all companies.

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