



## Boardroom diversity



'There needs to be uniformity, homogeneity and consistency at board level.' These are words that you are unlikely to have ever seen written in a policy and yet they are in evidence across our boardrooms. Here we look at the issue of diversity and its influence over effective, risk and control.

Diversity, equality and inclusion has been a hot topic for many years and has grown in stature in UK governance. Chief audit executives (CAEs) need to consider different perspectives on diversity and its effect on organisations to ensure that compliance is just one aspect of their role.

This guidance is not just about individuals in the workplace. Business Dictionary defines workplace diversity as 'a mixed workforce that provides a wide range of abilities, experience, knowledge, and strengths due to its heterogeneity in age, background, ethnicity, physical abilities, political and religious beliefs, sex, and other attributes'.

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## Perspective

Corporate governance requirements make it clear that a lack of boardroom diversity is unacceptable, echoing the messages from pressure groups. The glass ceiling, as referred to by women, is also known as the rainbow ceiling by the LGBT+ community and the class ceiling for those without social privilege. It also presents a barrier to members of black, Asian and minority ethnic communities.

The **Public Sector Equality Duty** (from the Equality Act 2010) has seen annual reporting by public bodies and civil service for gender, disability and ethnicity across all levels of office; due to transparency requirements the public sector provides extensive statistics.

The issue of inequality, however, carries across all sectors with similar statistics in private, public and even the more altruistic third sector and charities. Diversity is a societal issue that impacts all organisations and

individuals. A [report by the charity commission](#) found that only 5% of trustees were recruited through job adverts with 70% recommended by existing trustees.

Political systems have a major role in society and diversity can be regarded as a socialist construct. However, there is economic argument rather than altruism behind the corporate agenda. According to [research by McKinsey](#), top quartile companies for ethnic and gender diversity outperform on financial returns by 35% and 15% respectively. The findings showed that in the UK for every 10% increase in gender diversity on the senior-executive team, earnings before interest and taxes (EBIT) rose by 3.5%.

Everyone has a personal perspective on diversity, formed in part by their unconscious bias: quick judgments and assessments influenced by background, cultural environment and personal experiences. Intellect can be applied as a counterweight but, by its own definition, unconscious bias can influence thought and action without an individual being aware of its impact.

Objectivity is a cornerstone of internal audit and readers are encouraged to explore their own bias by taking a moment to look at a [visual of the most important UK decision makers in 2020](#). Putting a human dimension to the issue provides clarity and sensitivity that cannot be achieved with impersonal statistics.

Tesco's chairman John Allan caused a media storm back in 2017 with a speech to a group of aspiring non-executives at the Retail Week conference. Whilst intended to be humorous, delivered with hubris, it serves as a reminder that balance is essential rather than replacing one inequality issue with another. 'If you are female and from an ethnic background - and preferably both - then you are in an extremely propitious period. For a thousand years, men have got most of these jobs, the pendulum has swung very significantly the other way now and will do for the foreseeable future, I think. If you are a white male, tough. You are an endangered species and you are going to have to work twice as hard.'

When you consider the government targets, his comments were not (and are still not) out of context. Such affirmative action on diversity is a catalyst for change, although it could be argued that this forced change introduces new challenges and that cultural change should be allowed to evolve over time. Positive discrimination can lead to resentment with colleagues considering someone to be a 'diversity hire' or individuals left wondering if they received a promotion on merit or because of the colour of their skin or the wheelchair that they use. Organisations chasing targets could also suffer a loss of talent by recruiting candidates with inferior experience to those that do not tick the diversity box.

Internal audit may need to consider providing assurance over the selection processes at all levels not just boardroom. Without improving diversity at all levels of management, the development of future leaders as a talent pool for boards will remain stifled.

The summary 2021 Hampton-Alexander Report recognises enormous progress with c40% of non-executive directors on FTSE 350 boards filled by women. There is, however, a continuing challenge in the proportion of senior women executives on boards. This pipeline of top executive women is key to sustaining the position of senior women on boards, over time.

Similarly the 2021 ethnicity targets set by the Parker review show signs of progress but are unlikely to be met by the FTSE 350.

FTSE 350 (FTSE 100 + FTSE 250)	Feb 2011	Mar 2012	Mar 2013	Mar 2014	Oct 2015	Oct 2016	Oct 2017	Oct 2018	Oct 2019	Oct 2020
Representation of Women	9.5%	11.5%	14.7%	17.4%	21.9%	23%	24.5%	26.7%	30.6%	34.3%
Number of Women on boards	289	352	461	541	682	704	747	814	923	1026
Number of Women NEDs	244	311	411	492	628	642	684	758	849 (36.2%)	950 (40.1%)
Number of Women Chairs	-	-	-	-	13	14	17	22	25	39
Number of Women SIDs	-	-	-	-	-	-	57	71	80	89
Number of Women CEOs	15	-	-	-	16	18	15	12	14	17 <sup>39</sup>
Number of Women Exec. Directors	45	48	50	49	54	62	63	56 (7.8%)	74 (11%)	76 (12.1%)
Total Directorships	3050	3055	3135	3104	3116	3058	3046	3043	3020	2994
Number of companies with 33% +	-	-	-	31	53	67	82	104	160	220
Number of All-Male boards	152	126	74	50	15	13	8	5	2	0 <sup>32</sup>

Source: *Hampton-Alexander Review, FTSE Women Leaders 2020*

Diversity also extends beyond the tangible tick box categories to include differences in approach, thinking style and experience. This is a critical component of good risk management in order to avoid group think, the situation where everyone around the table agrees with the person of highest authority. It also leads to more informed risk taking as board members with different attitudes to risk debate opportunities and issues rather than adopt a conciliatory style.

According to some commentators the diversity agenda today still misses one vital element - the inequalities of social class. The former chair of the Equality and Human Rights Commission (EHRC), Trevor Phillips noted that *"there's no advantage, other than a cosmetic one, of getting non-white folk in who think and behave exactly the same as everybody else around the table, so working harder to establish difference of background, particularly by family income or status and geography, is a great plus for leadership"*.

If diversity is genuinely valued then a candidate's accent, school or university choice or social network would be irrelevant. The [latest report by the Social Mobility Commission](#), however, finds that class privilege remains entrenched in the UK. Children of 'better off' families are nearly 80% more likely to end up in professional jobs than those from a working-class background. Even when people from disadvantaged backgrounds land a professional job, they earn 17% less than their privileged colleagues.

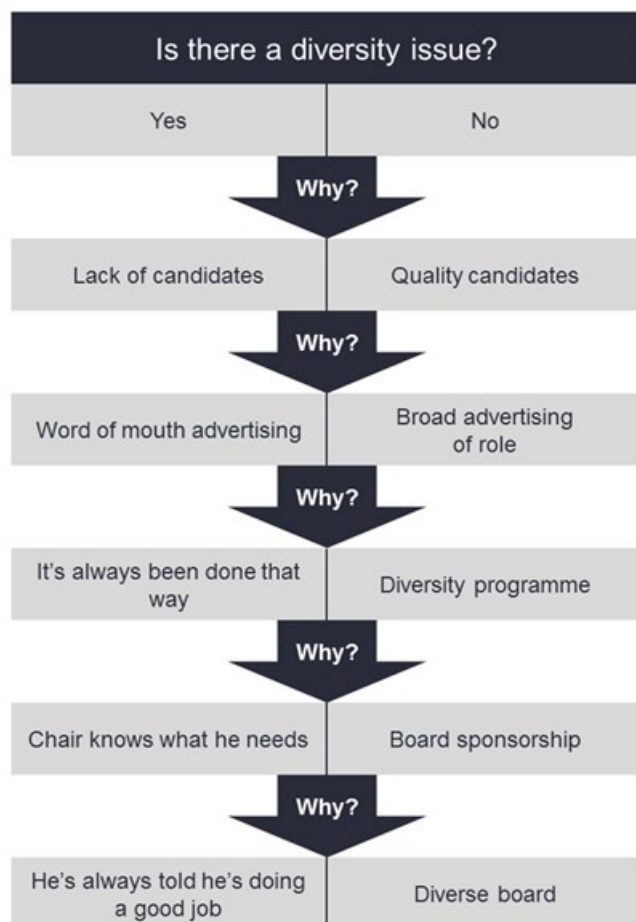
## CAE considerations

Basic diversity assurance can be provided with a validation check for the nominations committee report - targets set, achievement to date, progress and planned actions. But what does this really tell the audience about diversity? If this is all that is required of you as a CAE, look at the constitution of your board. If this is all you think is needed, look in the mirror.

The thought of an audit of boardroom diversity can be daunting, even for battle hardened CAEs. Before launching into action, a conversation with the company secretary and audit committee chair would be advisable to gauge their position. Are they frustrated or part of the problem?

One component of the internal audit toolkit is root cause analysis and it has an important role in issues where there are a multitude of symptoms. The five why's diagram below takes a simplistic look at a question CAEs need to ask of their board and wider organisation. In reality just the first question is complex before

getting into the detail of the whys. How should diversity be measured? Against the demographic composition of the general population, the local community to a head office, the general or industry labour force or some other measure of specific meaning to the organisation?



Recruitment processes are a natural starting point at all levels. Analysis of historical appointments may identify affinity bias, a situation where individuals recruit those similar to themselves. In response to the 2011 Davies review executive search agencies developed a **voluntary code** addressing the principles that support diversity. Has your organisation's agency signed up to it?

Board recruitment has probably not featured in most audit universes and if it has would have been such a low priority compared to other pulls on the limited resources of internal audit. The environment has changed and in the quest to meet targets and manage reputation risk there should be independent review that the board are still able to discharge their duties and recruitment is fair to all. Targets currently favour female candidates and there is growing pressure for appointments of colour and disability but there is a risk this could go too far; how will the application from a disabled white Oxbridge male be viewed?

Meeting targets is the tip of the iceberg with regards to genuine diversity and inclusion. CAEs need to also consider whether their organisation and internal audit is meeting the needs of individuals and leveraging the diversity to add value to products or services.

What barriers exist within the organisation? How would board papers be issued to someone visually impaired? Many reports show graphs in colour but does anyone check if recipients are colour blind? Are

meetings held at a time of day that prohibits some people from attending? Is there physical access for a wheelchair? Many buildings ensure visitor access but day to day working can be more challenging.

Has the board ever undertaken diversity and inclusion training? Sometimes people or collectives are simply not self-aware. Internal audit are well positioned to review board decisions over a period of time. What changes were made retrospectively? Could more diverse thinking have aided the initial decision? Is strategy stagnant because of a lack of new ideas?

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## Further reading

There are fundamental aspects of society that, as with Pandora's box, once exposed can never again be suppressed: environmental pollution, sexual harassment and diversity are examples of this. Boards need to evaluate their position, understand the changes required and act quickly. CAEs are one of a handful of individuals with close relationships and influence at board level. Use it wisely.

*"One person of integrity can make a difference."*

- Elie Wiesel

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## Useful links

[Charity Commission: Taken on trust: the awareness and effectiveness of charity trustees in England & Wales](#)

[Mckinsey: Why diversity matters](#)

[Colour of Power UK](#)

[Management Today: Worth not birth - why the workplace is going backwards in class equality](#)

[Economia: "Old boys' network" keeping women out of the boardroom](#)

[UK Government: Executive search firms: enhanced code of conduct - accreditation process](#)

[UK Government: Women on Boards](#)

[Hampton-Alexander Review: FTSE Women Leaders](#)

[The Parker Review: A report into the ethnic diversity of UK Boards](#)

[UK government: Increasing diversity in public appointments](#)

[UK Government: GCS diversity action plan](#)

[UK Government: Trustee recruitment selection and induction](#)