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DIVERSITY EMPLOYMENT

AIM Awards 2021



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Claire Dorrian



London
Stock Exchange Group

“LSEG is firmly committed to supporting an inclusive culture and increasing diversity across the Group. We believe that embracing the many forms of diversity makes us a stronger team, helps us to be more dynamic, and boosts performance. LSEG was an early signatory to the HMT Women in Finance Charter in 2016 and we have also made public commitments on race and disability equality through the Race at Work Charter and Valuable 500 initiative. There is more work to do but are proud of the foundations that we have laid to better embrace diversity and strengthen inclusion at LSEG. Diversity in boardrooms, and across the organisation, helps companies to foster innovation and improve performance. A commitment to strong stewardship practices and market standards is an increasing area of focus for investors and we encourage all issuers to adopt a positive approach to highlighting leadership and promoting inclusivity at all levels.”

Claire Dorrian – Head of Sustainable Finance, Capital Markets, London Stock Exchange Group (LSEG)

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TOP TIPS FOR YOUR BOARDROOM DIVERSITY JOURNEY



LEADERSHIP BUY-IN

Continuing research shows that organisations whose leaders are vocal activists for D&I are much more effective in building inclusive and successful workplaces.



REGULAR AUDITING

It is important to track not just your 'hard' diversity data, but also levels of engagement and inclusion. You cannot measure improvement or set goals without it. Report your results – whether positive or negative.



SET TARGETS/GOALS

Target setting helps to keep an organisation focussed; the targets should be both aspirational and realistic.



VISIBLE AND ACCESSIBLE POLICIES

Ensure all your D&I-related policies are written in a friendly and approachable way, and that all employees are able to access them easily.



INVEST IN DEDICATED D&I RESOURCE

D&I reaches every part of your organisation. Invest in dedicated D&I expertise with the right level of seniority to drive strategy and meaningful change.



BUILD D&I WORK/VALUES INTO YOUR APPRAISAL AND PERFORMANCE REVIEW PROCESS

If you want to build a truly inclusive workplace, embed D&I work and values into your appraisal, promotion, and performance review processes.



WORK WITH YOUR RECRUITMENT PARTNERS, SUPPLY CHAIN, AND CLIENTS TO ADDRESS D&I CHALLENGES

This will help keep your own goals on track, and also allows more open and honest communication about D&I with those you work most closely with.



CREATE AND INVEST IN ERGS (EMPLOYEE RESOURCE GROUPS)

Inclusion is everyone's responsibility, and employee resource groups are a fantastic way to build safe spaces for underrepresented employees who can also help to inform strategy and change.



INVEST IN TAILORED, ONGOING TRAINING

Once-a-year, 'inclusive behaviours/unconscious bias' training is not enough. Training and education should be year-round, and an ongoing learning journey.



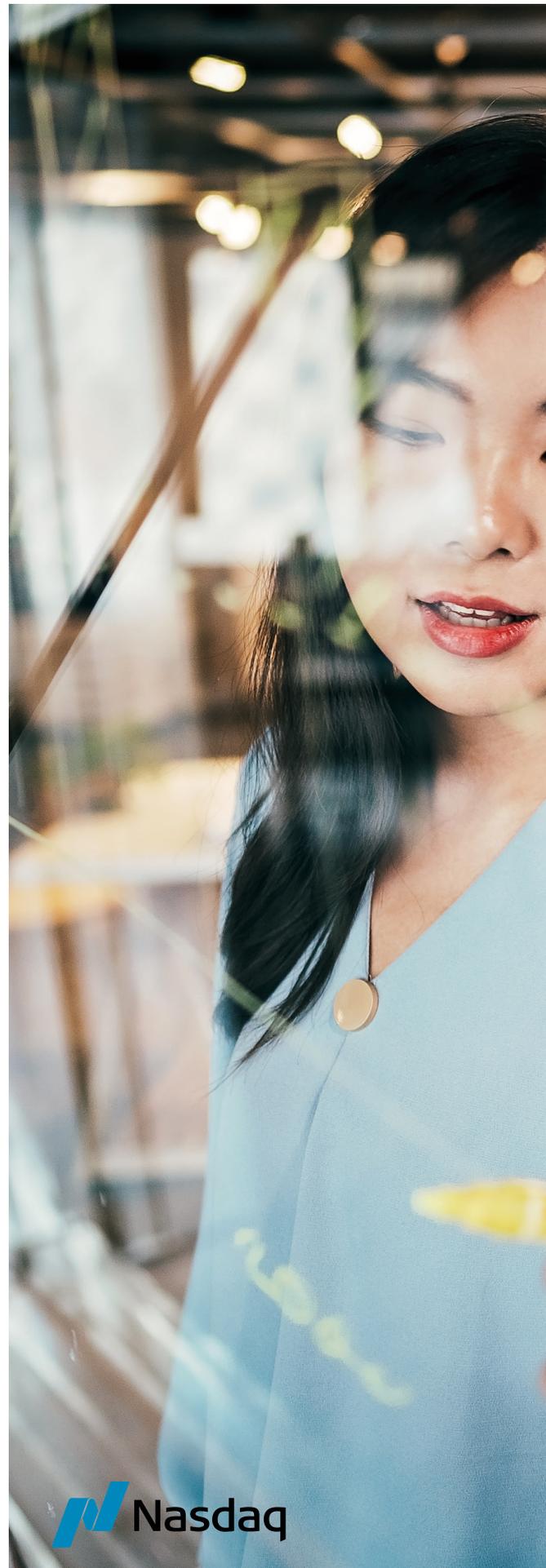
COMMUNICATION

Communicate often: about your strategy, your initiatives, your successes and, yes, your failures. Being open and honest about where you are, and how you're trying to improve, goes a long way to building trust and inclusion.

BOARDROOM DIVERSITY

WHY DOES IT MATTER?

Scrutiny of boardroom diversity is nothing new but a flurry of announcements this year indicates that the pressure to address the makeup of leadership teams is only going to increase for UK companies. The Investment Association (IA), which represents investors managing around £8.5 trillion, announced in February 2021 that it will issue red-top alerts (signalling a high level of concern over a company's behaviour) to FTSE 350 companies where 30% or less of their boards comprise of women and amber warnings (identifying a significant issue) where companies fail to disclose their board's ethnic diversity, or a 'credible plan' to achieve ethnicity targets. The IA has over 200 investment manager members and therefore wields significant influence over investment in UK companies.





The IA's approach is indicative of an increasing focus by institutional investors on companies' diversity strategies and follows on from Legal & General's notification to the FTSE 100 in October 2020 that it would openly vote against the re-election of a company's chairperson or head of their nomination committee, if the company does not have at least one black, Asian or other minority ethnic board member by January 2022. In a possible sign of things to come for the UK, Nasdaq-listed companies in the US (with some specified exceptions) will soon be required to publicly confirm whether they have at least one woman board member and one other director who self identifies as an 'Underrepresented Minority' or LGBTQ+ or, if not, explain why this is the case. Given the current direction of travel on this issue, lack of boardroom diversity has the potential to pose significant corporate governance issues for companies.

WHAT'S THE CURRENT POSITION?

The two main reports on UK boardroom diversity in recent years are the Hampton-Alexander review on gender balance and the Parker review on ethnic diversity. The final report of the Hampton-Alexander review, published in February 2021, confirmed that there were no all-male boards in the FTSE 350 and just 16 had only one woman as a director, with women holding 34.3% of all board positions. While the review acknowledged that the representation of women on FTSE 350 boards had beaten its target of 33% by the end of 2020, it highlighted that there was still more work to be done on this issue, since almost a third of FTSE 100 boards did not meet the target and too few women were CEOs, finance directors or Chairs. Following the publication of its report, the Hampton-Alexander Review, together with the IA, wrote to the 63 FTSE 350 companies who either had no women or just one woman on their board (so called 'one and done' companies), or those that had all male executive committees, outlining concerns about the lack of gender representation and asking them to summarise the action they were taking to ensure they met the Review's targets.

In its March 2021 update, the Parker Review reported that as at 2 November 2020, 74 FTSE 100 companies had a director from a minority ethnic group on their board. While the number

of boards with ethnic representation had increased significantly from the year before, the Parker Review identified similar concerns to the Hampton-Alexander Review in that progress remained slow regarding representation in the key functional roles, with only five ethnic minority directors in a CEO position, two in a Chair role and four in a CFO role.

It is worth noting that the FTSE 100 and 350 are not necessarily representative of the UK corporate landscape and that smaller listed companies, whether on the main market or AIM, as well as private companies, often do not have such diverse boards. It is therefore important that steps taken to improve diversity and inclusion within the FTSE 350 are adopted more widely by companies of all sizes.

There are encouraging signs in this regard though. This year's AIM Awards will have a Diversity Champion Award for the first time, putting diversity and inclusion on the same footing as share performance and general corporate governance. In addition, recent research by executive search firm Odgers Berndtson also found that 36% of the non-executive directors it surveyed discussed diversity and inclusion at their board meetings more than five times a year. Given that boards typically meet between seven and ten times a year the fact that diversity and inclusion is discussed so frequently demonstrates its increasing importance.

UK CORPORATE GOVERNANCE CODE REQUIREMENT

Premium listed companies are already required to consider diversity in board composition under various provisions of the 2018 UK Corporate Governance Code. These include:

- appointments and succession plans being based on merit and objective criteria, and promoting diversity;
- annual board evaluation considering its composition, diversity and how effectively members work together to achieve objectives; and
- the nomination committee overseeing the development of a diverse pipeline for succession.

Companies are expected to confirm the steps taken to achieve these objectives in their annual reports and include a description of their policy on diversity and inclusion, its link to company strategy and how it is being implemented.

Similarly, the Financial Conduct Authority's corporate governance rules require that certain listed companies provide a corporate governance statement that contains a description of their diversity policy and how it has been implemented during the reporting period or, if no diversity policy is in place, an explanation as to why that is the case.

CONCLUSION

It's not just investor pressure and regulatory requirements that underline the importance of boardroom diversity but the fact that it improves a company's bottom line as well. The FT reported that the most gender-diverse companies outperformed their regional competitors by 1.7%, while research by global consulting firm McKinsey is even more stark. Its research found that companies in the top quartile for gender diversity on executive teams were 25% more likely to have above-average profitability than companies in the bottom quartile, and this rose to 36% for those companies in the top quartile for ethnicity



diversity. Poor diversity in leadership teams appears to have a direct correlation with poor financial performance: the research indicated that those companies in the bottom quartile for both gender and ethnic diversity were 27% more likely to underperform on profitability than all other companies McKinsey surveyed.

Increasingly, a lack of diversity is also being seen as a lack of good governance, especially in the fragile economic environment we currently find ourselves in. A board with a broad range of backgrounds, experiences and viewpoints can avoid the 'group think' mindset that can dog less diverse boards and be alive to new ways of operating that can give a company a competitive edge. Without that diversity, companies can have weaker governance and a lower ability to spot potential risks.

In terms of positive steps that companies can take to improve boardroom diversity, Odgers Berndtson's research found that those companies with diverse leadership teams frequently partnered with diversity and inclusion membership organisations in their senior recruitment processes so that they can stay connected with diverse talent. Another key consideration for companies in this area is to ensure that all employees are aware of the work that is being done on diversity and

GIVEN THE CURRENT DIRECTION OF TRAVEL ON THIS ISSUE, LACK OF BOARDROOM DIVERSITY HAS THE POTENTIAL TO POSE SIGNIFICANT CORPORATE GOVERNANCE ISSUES FOR COMPANIES

inclusion so that staff properly understand the a company's commitment to this issue.

Far from being simply a 'box-ticking exercise', done solely for presentational or regulatory purposes, boardroom diversity contributes to better financial performance. It is also fast becoming an essential feature of good governance – in the same way that more traditional indicators such as risk and audit issues or shareholder relations have been – and one which investors, customers and employees will not tolerate being ignored.

Nicholas Le Riche is a partner in BDB Pitmans' employment team.



AIM AWARDS CASE STUDY: ACTUAL EXPERIENCE – DIVERSITY CHAMPION

Boardroom diversity should always have been a priority for companies, but in the past few years it has finally been given the attention it warrants. The question for smaller companies, like many of those listed on AIM, is: what does Boardroom Diversity look like and how do we achieve it?

These are the questions that Actual Experience has asked itself and while CEO Dave Page is the first to admit that the current Board is not very diverse, his (and the Board's) focus is on ensuring it has the correct composition to drive the success of the company, and that the staff at Actual have the tools and resources to reach the Boardroom in the future, if that is what they desire.

For Actual Experience, boardroom diversity is not a box to be ticked. Having a Board and senior leadership team that reflects the markets into which they sell is one of the keys to driving the company's success. As a small business with global aspirations, having Board members who are able to understand and work with global and international organisations will ensure that these markets are both accessible and addressable.

True and reflective diversity is not quickly achieved; it is not a destination but a journey. Like any journey, the route to a more diverse board requires a road map and this is something that the Board works regularly to develop, for example through regular board evaluations. Understanding the current skill set of the Board, and identifying any gaps/needs, ensures that future Board recruitment is focused on what is most important.

Thorough succession planning is also vital. The Actual Experience Board is small and vacancies don't come up regularly, but planning and building relationships with future potential candidates means that when vacancies do arise, Actual can ensure there is already a pipeline of talent to consider.

Actual Experience recognises that diversity is not simply having a boardroom full of people who look different from each other; it's also having a room full of people who think differently and can bring insight gained from myriad life experiences to the conversation. A successful Board is one that can disagree, discuss alternatives, and agree upon a solution after careful thought and consideration.

Many CEOs will report that recruiting for a diverse Board is a challenge. They might state that the people with the right skills and experience, who are also different from their existing Board members (in terms of race, ethnicity, gender, sexuality, disability) do not exist. Although it is right to challenge those who argue this point, it also highlights a need to develop talent before they might consider a Board career. This is something that Dave Page feels strongly about. When thinking about what diversity means at Actual Experience, he says:

“Diversity has two factors: that people from diverse backgrounds are within the company; and that they are upwardly mobile. Looking at our employee base, I’m certain that future leaders are there. It is our job as a company to support them and ensure they have the skills, opportunities and experience they need.”

So the first step, and Page is clear that it is only the first, is to hire people from diverse backgrounds and intentionally consider their potential and how the business might be able to support their development. One reason that he feels so strongly about this is because Page’s own route to becoming a CEO was not traditional. Leaving school without many qualifications, he took on an apprenticeship and gradually worked his way through various technology and IT roles, learning and developing along the way. He firmly believes that ‘the only way to ensure Board rooms that are reflective of society in the future is to grow them now’.

This is one of the reasons that Actual Experience has a professional development focus for all roles, and particularly on the Service Desk, which is an entry level role. The company is proud that team members who have started out on the service desk have progressed within the business to into new roles within R&D and Operations. Key to this progression is the company’s commitment to supporting the professional development of all employees,

providing training, mentoring and support so that everyone can meet their career goals.

Some companies might find that they are successful in hiring diverse candidates, but struggle to retain them. This is where company culture plays an important part in the overall success of the business. Hiring can be done correctly, training and development opportunities can be provided equitably, but if you aren’t really embracing, accepting and listening to your employees (from all backgrounds), you won’t be truly supporting them to be successful and eventually reach the boardroom.

Actual Experience is happy that by industry standards it is performing well in terms of diversity: 25% of the company’s employees are women against an industry average of 19%. However, rather than seeing this figure and congratulating themselves on a job well done, they are focusing on how to do better. The aim is to ensure greater diversity within the company, inclusion for all employees, and to better reflect their customer base at all levels within the organisation, right up to and including Board level. By taking a top-down and bottom-up approach together, they hope to continue to attract talented individuals to the company and to support them throughout their careers and up to the boardroom, if that is what they are aiming for.

Actual Experience was listed on AIM in 2016. The company provides business analytics, with an innovative analytics platform that quantifies the impact digital services have on top level business objectives, including improving employee wellbeing, business efficiency and brand perception.

Actual Experience CEO
Dave Page





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