CORPORATE GOVERNANCE INQUIRY

Submission to the BIS Committee inquiry on corporate governance

Chartered Institute of Personnel and Development (CIPD)

October 2016

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Championing better work and working lives

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1.1 An important aspect of organisational culture is 'human capital' (HC), defined by the International Integrated Reporting Framework as people's competencies, capabilities and experience, and their motivations to innovate. Increasing the quality of human capital reporting by publicly listed companies can provide greater transparency over how well a business is governed and whether it is creating long-term value for all stakeholders, including employees.

1.2 The CIPD has called for a common approach to human capital reporting which is underpinned by a consistent narrative on: workforce composition, for example, diversity and proportion of contingent labour; recruitment and turnover; investment in training and development and; measures of employee engagement and wellbeing.

1.3 The CIPD recommends that the Government promotes better standards of and greater consistency in human capital reporting as a means of increasing transparency. We suggest Government takes a similar approach to what it did on gender diversity in the boardroom, and sets voluntary standards in human capital reporting. We also encourage Government to use its convening ability to build a partnership with business, professional bodies and the investment community to catalyse action. Finally, we would expect Government to lead by example by improving the quality of human capital reporting and transparency over organisational culture in the public sector.

On executive pay

1.4 No single factor can explain all or most of the increases in CEO pay over the last 30 years. The multi-faceted nature of the problem needs interventions on numerous fronts.

1.5 We recommend Government requires all publicly-listed companies to publish the pay ratio between the CEO and the pay of average full-time employees. The purpose is not to name and shame companies, but to promote greater discussion among stakeholders such as investors who can support change, hold executives to account and explore other ways to reward CEOs. Employers should also be more transparent on how reward decisions are made. The annual advisory vote should be binding and require that no increases can be made unless there is a minimum turnout and a minimum majority.

1.6 We also recommend that employee representatives are either elected or appointed to remuneration committees. They would help ensure rewards are proportionate and linked to performance targets. We also think the government should explore giving the representatives the ability to commission an independent review of employee pay and conditions every three to four years; and the right to address the annual general meeting and write a statement for the annual report on employee pay and conditions. We also think the idea of giving employees the opportunity to vote in an advisory capacity each year on their CEO’s pay should be explored.

1.7 Finally, Government should consider establishing an independent body to monitor trends and developments in CEO pay, commission ‘what works research’, and offer information, advice and guidance to employee nominated representatives and other relevant stakeholders, such as remuneration committee chairs.

On the composition of boards

1.8 Greater diversity of board membership can only be achieved if organisations nurture sustainable talent pipelines at all levels of the business. Nurturing talent on its own will not be enough, however, if the values, purpose and culture of an organisation are not inclusive. Employers must invest time in understanding the values and working practices necessary to create inclusive organisational cultures that allow all employees, irrespective of their backgrounds, to reach the top jobs.

1.9 In recent years Government has made some progress on the gender diversity agenda. It should now also consider other aspects of diversity and pay them equal attention, for example the development of black and minority ethnic talent. Government should also set an example through the way it recruits and progresses talent within the Civil Service, and it should also highlight best practice.

1.10 We also call on Government to set new targets for boardroom gender diversity for 2020, building on the 25% of boardroom positions target set by Lord Davies for 2015. The new target should be for 40% of directors to be women and 20% of executive directors to be women among FTSE 100 organisations by 2020.

2 Directors duties

Should additional duties be placed upon companies to promote greater transparency, e.g. around the role of advisers. If so what should be published and why? What would the impact of this be on business behaviour and costs to the business?

2.1 One of the biggest obstacles to effective corporate governance is lack of transparency, particularly in the area of corporate culture. This is because organisation culture is one of the hardest attributes of an organisation to articulate and measure. However it is also one of the most important as recent corporate scandals have illustrated. Almost all definitions of organisational culture agree that it is about people and behaviours.

2.2 Positive corporate cultures are underpinned by common, purpose, values and behaviours that motivate employees to perform and build trust and empower them to share ideas, knowledge and concerns.

2.3 However when toxic, culture can cause significant issues for the business and its employees leading to low performance and morale. It also creates an environment where people feel they don’t have any voice and are scared to speak up if they witness malpractice, or inappropriate behaviour.

2.4 The UK’s Corporate Governance Code highlights the importance of organisational culture to effective governance. It states that: “One of the key roles for the board includes establishing the culture, values and ethics of the company. It is important that the board sets the ‘correct tone from the top’. The directors should lead by example and ensure that good standards of behaviour permeate throughout all levels of the organisation. This will help prevent misconduct, unethical practices and support the delivery of long-term success.”

2.5 To help boards understand how they can set, assess and evaluate organisational culture, the FRC published revised *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting*[1] in September 2014.

2.6 The guidance states: "In order to ensure the appropriate culture is in place it is not sufficient for the board simply to set the desired values. It also needs to ensure they are communicated by management, incentivise the desired behaviours and sanction inappropriate behaviour, and assess whether the desired values and behaviours have become embedded at all levels. This should include consideration of whether the company's leadership style and management structures, human resource policies and reward systems support or undermine the risk management and internal control systems."

2.7 CIPD's most recent research in this space (*A duty to care? Evidence of the importance of organisational culture to effective governance and leadership,* 2016)[2] has informed the recent report by the Financial Reporting Council on *Corporate Culture and the Role of Boards* (2016)[3]. The report explores the importance of culture to long-term value and how corporate cultures are being defined, embedded and monitored.

2.8 The guidance sets a number of questions which boards should consider when assessing aspects of business operation, including its approach to risk and general management activity.

2.9 These questions include:

- how has the board assessed the company's culture?
- in what way does the board satisfy itself that the company has a speak-up culture and that it systematically learns from past mistakes?
- how do the company's culture, code of conduct, human resource policies and performance reward systems support business objectives and risk management and internal control systems?

2.10 The guidance also underlines the need for companies to ensure their risk management and internal control systems are underpinned by quality internal and external reporting to help ensure compliance with 'applicable laws and regulations, and also with internal policies with respect to the conduct of the business.'

2.11 The CIPD believes that an important aspect of organisational culture is 'human capital' (HC), defined by the International Integrated Reporting Framework as 'people's competencies, capabilities and experience, and their motivations to innovate, including their:

- alignment with and support for an organisation's governance framework, risk management approach, and ethical values
- ability to understand, develop and implement an organisation's strategy
- loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.'

2.12 Businesses reporting on these HC measures will provide greater transparency over whether they are being led and run for the long-term for the benefit of all stakeholders,

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[1] Financial Reporting Council. (2014) *Guidance on risk management, internal control and related financial and business reporting* London: Financial Reporting Council. Available at: https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Guidance-on-Risk-Management,-Internal-Control-and.pdf [Accessed: 26 October 2016]

[2] CIPD. (2016) *A duty to care? Evidence of the importance of organisational culture to effective governance and leadership* London: Chartered Institute of Personnel and Development. Available at: https://www.cipd.co.uk/hr-resources/research/duty-care-evidence-organisational-culture.aspx [Accessed: 26 October 2016)

[3] Financial Reporting Council. (2016) *Corporate culture and the role of boards* London: Financial Reporting Council. Available at: https://www.frc.org.uk/Our-Work/Corporate-Governance-Reporting/Corporate-governance/Corporate-Culture-and-the-Role-of-Boards.aspx [Accessed: 21 October 2016]

including employees. The CIPD has called for a common approach to human capital reporting which is underpinned by a consistent narrative on: workforce composition, for example, diversity and proportion of contingent labour; recruitment and turnover; investment in training and development and; measures of employee engagement and wellbeing. This would not require a 'boiler plate' approach but would mean companies should be encouraged to report on broadly the same key aspects of human capital management.

2.13 However, recent research by both the CIPD and the Pensions and Lifetime Savings Association into human capital reporting suggests there is a need to improve the quality of human capital reporting by publicly listed companies in order to improve transparency and governance.

2.14 The CIPD is committed to continuing to raise the standards of how organisations collect, analyse and measure human capital. CIPD has been working in partnership with the Chartered Management Institute and the Chartered Institute of Management Consultants on a major research and change programme called *Valuing your Talent* in order to highlight best practice and improve capability around human capital reporting across the HR, management and finance professions.

2.15 CIPD research (*Valuing your talent*[4], 2014) highlighted the lack of consistency with which human capital data is collected, analysed or reported both internally and externally. Despite a significant body of research and government initiatives such as the Accounting for People review in 2002, which all point to the need for better insight and reporting, too many business have very little transparency over their culture and how they recruit, manage and develop their people.

2.16 The PLSA's 2015 report *Where is the workforce in corporate*[5] reporting found that there is very limited quantitative or qualitative reporting by companies on their approach to managing their workforce.

2.17 Of the companies in the FTSE 100 during 2014:

- less than half disclosed the levels of staff turnover
- less than a quarter reported on their investment in training and development
- approximately only one in ten provided information about the composition of the workforce.

2.18 Further CIPD research (*Reporting Human Capital; Illustrating your company's true value*[6], 2016) found that while overall, the quality of human capital reporting by FTSE 100 organisations in annual reports had improved between 2013 and 2015, there remains a lack of consistency and little evidence of companies providing a common narrative. Some companies provided sparse levels of human capital reporting. The research also showed that many companies tend to rely on subjective qualitative measures and weighted their reporting towards positive features and initiatives. There were instances where firms were acting in an opportunistic manner and not reporting the full extent of incidents or excluding details of incidents that had been reported in the media. Sports Direct's 2015 annual report does cover areas such as staff development and training, staff share schemes and health and safety compliance but the report fails to address issues such as

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[4] CIPD. (2014) *Valuing your talent: Managing the value of your talent* London: Chartered Institute of Personnel Development. Available at: http://www.valuingyourtalent.com/media/Managing%20the%20value%20of%20your%20talent%20research%20report%20-%20PDF_tcm1044-6808.pdf [Accessed: 21 October 2016]

[5] PLSA. (2015) *Where is the workforce in corporate reporting?* London: Pension and Lifetime Savings Association. Available at: http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/0439-Where-is-the-workforce-in-corporate-reporting-An-NAPF-discussion-paper.aspx [Accessed: 21 October 2016]

[6] CIPD. (2016) *Reporting human capital: illustrating your company's true value* London: Chartered Institute of Personnel and Development. Available at: https://www.cipd.co.uk/hr-resources/research/reporting-human-capital-companys-true-value.aspx [Accessed 21 October 2016]

employee engagement, job satisfaction and employee wellbeing. It consequently fails to address concerns over its organisational culture.

2.19 One of the reasons for the shortcomings in human capital reporting is that currently there is significant flexibility over what publicly listed companies have to report under the Companies Act. For example, there is only an obligation to report on employees in order to provide an understanding of 'the development, performance or position or future prospects of a company's business.' If information is regarded by the board as immaterial to this objective, there is no obligation to report it. This has contributed to a lack of clarity and therefore different levels of reporting with regard to HC.

2.20 There is also increasing interest among the investor community in this agenda through bodies such as the PLSA and the Investment Association.

2.21 There is no doubt a concerted push to encourage greater transparency over organisational culture will support efforts to improve corporate governance and shine a light on both good and poor practice.

2.22 There is big opportunity for Government to play a more active role by promoting better standards of and greater consistency in workforce/human capital reporting as a means of increasing transparency. The use of voluntary targets to improve the representation of women on boards has proved successful and the CIPD believes government could similarly support greater transparency and improved corporate governance by setting voluntary standards in human capital reporting. Government can also use its convening and communication powers to build a partnership with business, professional bodies and the investment community to catalyse action. Furthermore there is an opportunity for Government itself to lead by example and improve the quality of human capital reporting and transparency over organisational culture in the public sector.

2 Executive pay

What factors have influenced the steep rise in executive pay over the past 30 years relative to salaries of more junior employees?

3.1 The CIPD report *Executive reward: a review of the drivers and consequences*[7] identified a number of potential explanations, including:

- principal agency theory – the growth in the dominance of this theory, which emphasises rewarding outcomes rather than behaviours
- the growth in firm size – the marginal impact of CEO talent is greater in larger firms and that's why executive pay has grown as firm size has increased
- globalisation – the rise in foreign competition has increased the value of individuals with general managerial skills rather than firm-specific skills.
- loss of face – few firms want to be seen paying their CEO less than the going rate as that indicates to some investors that they've not got the best person for the job, so they match the going rate or more
- retention – firms feel compelled to offer large reward packages in order to retain CEO talent, so ratcheting up pay
- insufficient diversity – non-executive directors have similar social and professional networks to CEOs and other executive directors. This can result in 'group think' and 'herd mentality' and so pay decisions are not robustly challenged
- pay benchmarking – it only takes a few boards to lose control of CEO pay for this to feed through into the going rate for all CEOs and increased rewards

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[7] CIPD. (2014) *Executive reward: a review of the drivers and consequences* London: Chartered Institute of Personnel and Development. Available at: http://www.cipd.co.uk/hr-resources/research/executive-reward-review-drivers-consequences.aspx [Accessed: 21 October 2016]

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- reward complexity – CEO packages have become increasingly sophisticated as more pay is deferred over various time periods, comprised of a mixture of cash, options and performance-based shares, subject to claw back and linked to a variety of financial performance measures. These packages have become so complex and remote that CEOs are, in effect, being compensated for complexity
- the role of consultants – executive remuneration consultants and executive head hunters are incentivised to pushed up CEO pay
- pensions – executive remuneration has increased as firms have compensated CEOs for the loss of their lucrative executive pension schemes

3.2 It is unlikely that any one of these possible drivers explains all or most of the increase in CEO pay. It also suggests that if we want to address the problem "whopping pay awards to senior executives" we will need a number of interventions rather than relying just on one.

How should executive pay take account of companies' long-term performance?

3.3 The question how and why should executive pay take into account long-term performance will vary according to organisational context. Traditionally pay and long-term performance have been linked through Long Term Incentives (LTIPs).

3.4 However, as the CIPD report *Show me the money: the behavioural science of reward*[8] demonstrates, the longer an individual has to wait for their reward the less value they place on it. Also, the less they are able to achieve or influence the outcome the less they rate the final reward.

3.5 Similarly, the less an individual understands what they must do to attain the reward the less it is valued. The only way to overcome these effects is to offer a reward so large that CEOs find it tempting, unfortunately this may encourage 'crowding out' of intrinsic motivation by extrinsic motivation and result in inappropriate behaviour.

3.6 As our report *The power and pitfalls of executive reward: a behavioural perspective*[9] suggests that the current system of long-term rewards is failing to link pay to corporate performance and purpose—we need to adapt the current system approach to better reward executives.

3.7 Where LTIPs appear not to be working, one way that executive pay can take into account long-term performance is through the size of the CEOs salary and annual bonus. If the executive is successful then their salary and bonus will increase over time.

3.8 Part of the annual bonus could be paid in as shares, which would have to be held for a long period of time before they could be sold. Executives would then know that any increase in their own, and the firm's, performance would be reflected through an increase in the value of their shares.

3.9 Other ways of reflecting long-term performance could include a profit-share scheme or a *bonus award that the CEO donates to a charity of their choice.*

Should executive pay reflect the value added by executives to companies relative to more junior employees? If so, how?

3.10 The pay of all employees should reflect the value they create for the company, not just the CEO. This is especially true as the UK economy shifts towards an innovation and

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[8] CIPD. (2015) *Show me the money! The behavioural science of reward* London: Chartered Institute of Personnel and Development. Available at: http://www.cipd.co.uk/hr-resources/research/show-money-behavioural-science-reward.aspx [Accessed: 20 October 2016]

[9] CIPD. (2015) *The power and pitfalls of executive reward: a behavioural perspective* London: Chartered Institute of Personnel and Development. Available at: http://www.cipd.co.uk/hr-resources/research/executive-reward-behavioural-perspective.aspx [Accessed: 20 October 2016]

quality-based economy where success is a result of collective endeavour rather than the actions of a single individual.

3.11 How value/performance is defined will vary between firms and sectors. However, it requires an appreciation of how value is created by people in each context. It also requires a recognition of which people data are the most relevant to assess, recognise and reward performance.

3.12 In terms of the CEO, it should also recognise the value that they can add in fostering the appropriate tone for the organisation, reflecting its purpose, values and ethics as well as business, talent and brand strategies. This means going from a narrow focus on financial metrics towards a more balanced measure of how value is created, taking into account issues such as employee and customer experience.

3.13 CEO pay should be higher than junior employees to reflect the extra responsibility that they have in setting strategy and making difficult choices, though in many instances this is also a collaborative effort between the CEO, the board and the executive team.

What evidence is there that executive pay is too high? How, if at all, should Government seek to influence or control executive pay?

3.14 The CIPD's report *The view from below: what employees really think about their CEO's pay packet*[10], finds 71% of workers believe CEO pay in the UK is 'too' or 'far too' high, 59% of employees find the high level of CEO pay in the UK demotivates them at work and 55% of staff claim the high level of CEO pay in the UK is bad for firms' reputations.

3.15 Furthermore, 45% believe their own CEO's pay is too high, with a further 30% saying they don't know and just 32% of employees agree their CEO is rewarded in line with their organisation's performance, with 38% saying they disagree and 29% don't know.

3.16 However, while CEO pay in large firms grab the headlines, remuneration packages for smaller listed companies are more restrained. The government should consider whether to focus its attention on employers of a particular size, such as measured by turnover, rather than all publically listed firms.

3.17 Due to the many drivers of executive pay, the CIPD does not believe that any single measure will have a major impact on their remuneration. Instead, the government needs multiple approaches. Based on our report *The power and pitfalls of executive reward: a behavioural perspective*[11]*,* we would suggest the government should:

- require all publicly-listed companies to publish the pay ratio between the CEO and the pay of average full-time employees. The purpose of this is not to name and shame employers but to help encourage accountability and prompt a greater focus on this issue among key stakeholder groups such as investors who can support change and hold businesses and senior individuals to account. Also relevant are the rations between CEO pay and: all full- and part-time employees; the executive team; and all of those working for the firm, irrespective of whether they have a contract of employment or not with the firm. Potentially more meaningful could be how these ratios have increased over time
- allow employee representatives to be elected or appointed to remuneration committees to bring fresh perspective to discussions about executive pay levels and bring a further focus on ensuring rewards are proportionate and linked to

[10] CIPD. (2015) *The view from below: what employees really think about their CEO's pay packet* London: Chartered Institute of Personnel and Development. Available at: http://www.cipd.co.uk/hr-resources/research/view-below-employees-ceo-pay.aspx [Accessed: 25 October 2016]

[11] CIPD. (2015) *The power and pitfalls of executive reward: a behavioural perspective* London: Chartered Institute of Personnel and Development. Available at: http://www.cipd.co.uk/hr-resources/research/executive-reward-behavioural-perspective.aspx [Accessed: 25 October 2016]

clear and measureable performance targets. However, to be effective such representatives will need support and development from an independent body
- encourage employers to report more clearly on how reward decisions are being made, how reward consultants are remunerated and whether they have any other links with the firm
- encourage employers to publish more balanced scorecards beyond financial metrics and profit (see section on directors duties)

3.18 Other options we believe that are worthwhile exploring further include:
- giving employee representatives the right to: commission an independent review of employee pay and conditions every three or four years, the summary of which would be published in the annual review; to address the annual general meeting concerning pay and conditions issues; and to publish a statement in the annual review on their concerns regarding employee pay and conditions
- giving employees the right to vote in an advisory capacity each year on their CEO's pay
- requiring CEOs to address an all employee staff meeting justifying on why they deserve an increase in reward
- establishing an independent body to monitor trends and developments in CEO pay, commission 'what works' research, and offer information, advice and guidance to employee nominated representatives and other interested parties, such as remuneration committee chairs. This body could be funded through a levy
- make the annual advisory vote binding and require that no increase can be made unless there is a minimum turnout and a minimum majority
- encourage shareholders to explore other ways of rewarding CEOs, such as through pay progression and a smaller annual bonus, rather than through LTIPs

Do recent high-profile shareholder actions demonstrate that the current framework for controlling executive pay is bedding in effectively? Should shareholders have a greater role?

3.19 To date, the recent changes to CEO pay introduced by the Coalition Government have had little impact on curbing the growth in executive pay, apart from in some of the most high-profile cases.

3.20 The current way of rewarding CEOs is broken. It does not motivate CEOs, it upsets employees and does not drive long-term sustainable value creation. Largely, this is down to the remuneration polices that have been forced on employers by investors. Investors need to recognise that there is no one-size-fits-all approach to executive reward and that they should encourage employers to be creative in how they align executive reward to organisational performance and purpose, questioning the rationale behind what the CEO reward package is trying to achieve, how and why and whether an alternative approach may be more effective.

4 <u>Composition of boards</u>

What evidence is there that more diverse company boards perform better?

4.1 There is certainly a growing body of evidence suggesting that more gender diverse company boards perform better, and new studies are constantly being published adding to this repository.

4.2 For a good overview of available evidence, albeit from a few years ago now, one should start with Lord Davies' 2011 Women on Boards report, which outlines how the business case for gender diverse boards has four key dimensions:

- improving performance
- accessing the widest pool of talent
- being more responsive to the market
- achieving better corporate governance

4.3 On top of this, CIPD published a report in July 2015 investigating how quotas and targets affect diversity progress[12]. It found some further evidence, primarily from academia, of the positive correlation between gender diversity at board level and company performance:

- a study by Erhardt and colleagues suggested that a higher percentage of women on the boards of large US companies is associated with increased accountancy-based company performance (measured as return on assets and return on investment)[13]. Another US study by Miller and del Carmen Triana suggests that the relationship between boardroom gender diversity and company performance might be, at least in part, explained by firm innovation. In other words, gender diversity on company boards leads to higher firm innovation, which in turn leads to increased accountancy-based performance[14]
- two further studies investigating financial performance, this time by share price, found a positive association between gender diversity and firm value

How should greater diversity of board membership be achieved? What should diversity include, e.g. gender, ethnicity, age, sexuality, disability, experience, socio-economic background?

4.4 Greater diversity of board membership can only be achieved if organisations nurture sustainable talent pipelines at all levels of the business, from the recruitment stage through mid-management level right to the top jobs, which ensure people can progress to senior positions, regardless of their background or characteristics.

4.5 Organisations should be meritocratic, fair and representative at all levels of their organisation of the communities they serve. Employers need to work hard to understand the business case properly for greater diversity, lead on the agenda, and then deliver and measure progress, becoming an example of best practice to others. They need to revisit their values, purpose and culture to ensure they are inclusive.

4.6 As a starting point, employers need to understand the values and working practices necessary to create inclusive organisational cultures that allow all employees, irrespective of their backgrounds, to reach the top jobs. There is little point in starting mentoring schemes for people from disadvantaged backgrounds in the business to help them reach the top jobs, for example, if the core values of the business mean there is little respect for difference within the organisation.

4.7 Evidence from the Engage for Success movement suggests that four key enablers underpin cultures that foster individual employee engagement[15]:

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12 CIPD. (2015) *Quotas and targets: How do they affect diversity progress?* London: Chartered Institute of Personnel and Development. Available at: https://www.cipd.co.uk/knowledge/fundamentals/relations/diversity/quotas-impact-report [Accessed 21 October 2016].

13 Erhardt, N.L., Werbel, C.B. (2003) 'Board of director diversity and firm financial performance'. Corporate Governance: An International Review. Vol. 11, No 2. pp102-11. Cited in ibid, *Quotas and* targets (see above).

14 Miller, T. and Del Carmen Triana, M. (2009) 'Demographic diversity in the boardroom: mediators of the board diversity – firm performance relationship'. *Journal of Management Studies.* Vol. 46, No. 5. pp755-86. Cited in op cit, *Quotas and targets* (see above).

15 See: http://engageforsuccess.org/ [Accessed 21 October 2016].

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- clarity and buy-in from employees over organisational purpose
- a sense of integrity reflected by the fact that people at all levels are adhering to its stated values in how they behave
- people throughout the organisation feel that they have a voice, and that their views matter and are taken into account
- good quality line management; managers at all levels who win their people's hearts and minds

4.8 However, merely implementing people management fundamentals is not sufficient in itself to achieve greater diversity at board level, and a number of other initiatives aimed at people from minority backgrounds should also be considered.

4.9 In August 2016, the CIPD submitted its response to the Smith-McGregor Review into improving employment outcomes for people from BME backgrounds[16]. To inform our response, we interviewed several members of our CIPD Policy Forum, a group made up of senior HR professionals from some of the largest businesses in the UK, about some of the initiatives and practices they had experience or knowledge of that were aimed at improving participation and progression for people from BME backgrounds. While these are focused on people from BME backgrounds, it stands to reason that they could also be implemented for other minority groups. Examples include:

- reverse mentoring can be a good development opportunity for senior staff to better understand the impact the organisation has on different parts of the population and that more work is needed on the diversity agenda
- name-blind recruitment at all recruitment levels can be useful for organisations struggling to get people through to shortlisting from application. Research shows that candidates with traditionally white names receive more call-backs than candidates with non-white names, even on occasions where their CV is identical, and 'name-blind' applications have been shown to help combat that bias
- discrimination and unconscious bias training, as well as inclusive leadership training. Such training is important to make the majority group aware of the obstacles faced by minority groups in the workplace
- talent or fast track programmes put the discussion on the impact that diversity has on career progression firmly on the table. In the case of BME talent, leaders identified through these programmes are also likely to go back to the business and support more junior employees. Also when people are approached and identified as having potential, it boosts their confidence
- setting targets can also help focus businesses and lead to action. However, CIPD research has indicated these targets should be voluntary, as opposed to be obligatory quotas[17]

4.10 However, responsibility for improving greater diversity on company boards must not just fall on employers; there is a role for government to play. A suggestion put forward by members of the CIPD Policy Forum for the Smith-McGregor Review submission was that other areas of diversity could be put on the same footing as gender diversity was through the recent Davies Review.

4.11 Furthermore, government can also lead by example in the way it recruits and progresses talent from minority groups within the Civil Service, and through procurement and contract management. It can also highlight best practice.

[16] The full response can be found here: http://www.cipd.co.uk/publicpolicy/consultation-responses/developing-black-minority-talent.aspx [Accessed 21 October 2016].

[17] CIPD. (2015) *Gender Diversity in the boardroom: reach for the top.* London: Chartered Institute of Personnel and Development. Available at: http://www.cipd.co.uk/hr-resources/survey-reports/gender-diversity-boardroom.aspx [Accessed 21 October 2016].

Should there be worker representation on boards and/or remuneration committees? If so, what form should this take?

4.12 While worker representation can bring the employee voice to executive remuneration decisions, for the proposal to be successful it needs an eco-system to support it.

4.13 For instance, how do we encourage employees to take part in the election of an employee board representatives? How do we inspire employees to stand for such roles? Would they serve for similar terms as other non-executive directors? What training and development will be required so that they are able to operate effectively at board level? Does an independent body need to be created to support these representatives with information, advice and guidance? Should they get paid time-off in connection with their board duties?

What more should be done to increase the number of women in Executive positions on boards?

4.14 In our *Manifesto for Work*[18], which we published ahead of the 2015 General Election, we called on Government to set new targets for boardroom gender diversity for 2020, building on the 25% of boardroom positions target set by Lord Davies for 2015. The new target should be for 40% of directors to be women and 20% of executive directors to be women among FTSE 100 organisations by 2020.

4.15 CIPD partnered with Telefonica to produce a guide for employers on how to build their female talent pipeline. The guide, *Breaking the Boardroom*, is supported by insights from a number of interviews with senior level women in business which highlights steps organisations can take to increase gender equality at executive level[19].

4.16 As a first step, the guide recommends business leaders consider the structure and make-up of their organisation and assess where its strengths and weaknesses are in terms of workplace diversity. This will help identify gender imbalances and at what levels, and in which parts of the business they are most prevalent. The assessment should use feedback from employees and other data (for example, exit interviews) to pin down if there is a specific moment or level when women tend to stop progressing and why this is happening. Finally, the evaluation should assess the workplace practices and support systems the business already has in place and seek to understand how effective employees believe they are in supporting gender equality.

4.17 The CIPD/Telefonica guide recommends that, equipped with this information, organisations should consider setting up a bespoke Women in Leadership programme to help potential leaders build self-confidence, increase their ability to network inside and outside the business, and to be comfortable leading as themselves and not feeling pressure to conform to an ‘alpha female’ stereotype. The guide recommends the use of mentors and peer-to-peer sessions as effective elements of such a programme, together with constant evaluation.

4.18 According to further CIPD research, key factors in enabling female progression at work are effective training and development programmes, good quality line management, the relationships women have develop across the organisation and the provision of flexible

[18] CIPD. (2015) *CIPD Manifesto for Work: a policy programme to champion better work and working lives* London: Chartered Institute of Personnel and Development. Available at: https://www.cipd.co.uk/Images/cipd-manifesto-for-work_2015_tcm18-15551.pdf [Accessed 26 October 2016].

[19] CIPD / Telefonica. (2014), *Breaking the Boardroom: A guide for British businesses on how to support the female leaders of the future.* London: Chartered Institute of Personnel and Development. Available at: http://news.o2.co.uk/wp-content/uploads/2015/01/Breaking-the-Boardroom.pdf [Accessed 21 October 2016].

working to help them manage caring responsibilities[20]. In terms of the factors that have prevented women from achieving their hoped for career progression, the number one obstacle was poor line management, followed by negative office politics and lack of effective training and development opportunities.

4.19 To achieve a step change in the number of women in executive positions, business leaders need to have this level of insight in their own organisation in terms of the workplace factors that support or inhibit female progression, and then review and amend workplace policies and practices and invest in training and leadership and management development, where necessary, to address poor or inadequate practice.

5 About the CIPD

5.15 The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

5.16 Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

5.17 Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

[20] CIPD. (2016), *Employee Outlook: Focus on skills and careers. London: Chartered Institute of Personnel and Development*. Available at: https://www.cipd.co.uk/hr-resources/survey-reports/employee-outlook-focus-skills-careers.aspx [Accessed 21 October 2016].