

# A Report into the Ethnic Diversity of UK Boards

Sir John Parker  
The Parker Review Committee

Consultation Version  
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In association with



Linklaters

# Beyond One by '21

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Essential to the effective functioning of any Board is dialogue which is both constructive and challenging...

One of the ways in which constructive debate can be encouraged is through having sufficient diversity on the Board. This includes, but is not limited to, gender and race. Diverse Board composition in these respects is not on its own a guarantee.

Diversity is as much about differences of approach and experience, and it is very important in ensuring effective engagement with key stakeholders and in order to deliver the business strategy.”



# **A Welcome Letter from Sir John Parker**

We business leaders know that we cannot operate successful enterprises without the support of our many stakeholders, including our customers, shareholders and employees.

Increasingly they want to be assured that the composition of our Boards not only includes the best range of talent, skill sets and relevant experience available to us, but that they also broadly reflect those we serve and those who work as part of our companies.

UK companies have made great progress on gender diversity but we still have much to do when it comes to ethnic and cultural diversity as a business imperative.

Many of us in business would attest that our experience on Boards that embrace gender and ethnic diversity benefit in their decision making by leveraging off the array of skills, experiences and diverse views within such a team.

In the UK, our talent pool is changing as the composition of our society changes along with our customer base at home and overseas. The databases of a number of executive search firms demonstrate that a range of ethnically diverse eligible candidates, who could be considered for a number of job specifications in the Boardroom, are available now. As time passes, this pool of talent will be enhanced and grow.

Based on my experiences as a member of Lord Davies' review of "Women on Boards", I am confident that by setting out practical issues and coming up with aspirational and realistic objectives and timescales, progressive business leaders will respond and act.

I trust Boards will see our recommendations as "business friendly" reminding us of our need to continue to earn our licence to operate in society and as an initiative to align our Board composition more broadly with our customer base. Those of us that have been on the journey with more diverse multi-ethnic (male and female) and multi-cultural Boards have found the journey not only rewarding, but less daunting than some might see it.

In this review, we set out a series of recommendations for your consideration, which we hope will engender fruitful debate within the business community in particular. We also hope that our Boardroom recommendations will be considered alongside the review of ethnic diversity and the labour market being led by Baroness McGregor-Smith.

I am grateful to all of my Review Committee colleagues for their unstinting voluntary service. My thanks, in particular, to Trevor Phillips for his valued and wise counsel and input partly based on his former experience as Chairman of the Commission for Racial Equality, to Amy Winepress as Secretary and Coordinator of the Steering Committee for her valued support, and to Tom Shropshire for his fine efforts to help finalise the Report.

I want to extend our special appreciation to the Partners of EY and latterly Linklaters for their funding and support without which this Report could not have been completed.

Thank you for taking the time to read this Report, and we invite you to provide us with your feedback on this consultation draft. We hope that these recommendations are received well, and through further constructive engagement and debate, we can have a strong, lasting set of recommendations that will continue to strengthen Boardrooms across the UK and keep corporate Britain at the forefront of global business.



**Sir John Parker GBE, FREng**

# Executive Summary

A Report into the Ethnic Diversity of  
UK Boards: "Beyond One by '21"

## The Current State of Affairs

As a general matter, the Boardrooms of Britain's leading public companies do not reflect the ethnic diversity of either the UK or the stakeholders that they seek to engage and represent. This Report highlights that ethnic minority representation in the Boardrooms across the FTSE 100 is disproportionately low, especially when looking at the number of UK citizen directors of colour.

We believe that in order for corporate Britain to reflect the progress that is being made in diversity, equality and inclusion generally, changes are needed in the Boardrooms where leadership, stewardship and corporate ethics are of utmost importance. However, the recommendations we are making are underpinned by strong industrial logic and the need for UK companies to be competitive in the increasingly challenging and diverse marketplace.

### An Examination of the FTSE 100:

**1,087** director positions in total

UK citizen directors of colour represent only about **1.5%** of the total director population

**90** individual directors of colour (four hold two Board positions)

Total directors of colour represent about **8%** of the total (compared to 14% of the UK population)

**53** out of the FTSE 100 companies do not have any directors of colour

**Seven** companies account for over **40%** of the directors of colour

**Five** out of the **seven** companies have headquarters historically located outside the UK

Only **nine** people of colour hold the position of Chair or CEO

*Data as of end-March 2016*

Understanding and responding to cultural and demographic change is a major commercial imperative both in the UK and globally. We must all recognise, business included, that the UK has changed dramatically over the past 40 years:

- Today, approximately 14% of the total UK population is a "person of colour", or from a "non-white" ethnic group<sup>1</sup> – up from just over 2% in 1971.
- By 2030, it is expected that the proportion will be closer to 20% of the total UK population.<sup>2</sup>
- By 2051, it is expected that the proportion of people of colour in the UK will reach to over 30% of the total UK population.<sup>3</sup>
- Between 2015-2050, one-half of the world's population growth will be concentrated in nine countries, five of which are in Africa and three in Asia.<sup>4</sup>
- The FTSE 100 derives more than 75% of its sales from outside the UK, and for the FTSE 250 that proportion is over 50%.<sup>5</sup>

Our Review highlights clear business reasons for increasing ethnic diversity on UK Boards and, of course, alongside the business drivers, thoughtful and responsible Nomination Committees will no doubt wish to reflect on the social and ethical aspects of ensuring the composition of their Boards reflects the make-up of society and their important constituencies.

<sup>1</sup> We accept that no noun/group of nouns would be perfectly suitable and use the broad term "people of colour" to capture individuals with evident heritage from African, Asian, Middle Eastern and South American regions. Thus, the focus in this Report is on "non-white" directors.

<sup>2</sup> "Older BME People and Financial Inclusion Report: The future ageing of the ethnic minority population of England and Wales", Nate Lievesley, Runnymede Trust and the Centre for Policy on Ageing (July 2010).

<sup>3</sup> Id.

<sup>4</sup> United Nations Department for Social and Economic Affairs [<http://www.un.org/en/development/desa/news/population/2015-report.html>] (Jul. 2015).

<sup>5</sup> Report by Capital Group (2013).

## Key Business Drivers

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### Internal Benefits

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Inclusive Leadership & Avoiding “Group-Think”

- A Board capable of drawing on a range of thought, experience & expertise
- A Board that can engage with an increasingly diverse range of stakeholders

Corporate Culture

- A Board that reflects a company’s commitment to diversity
- A Board that reflects the breadth of a company’s ambitions, including those of its employees, customers & communities

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### External Benefits

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Brand Value

- A Board capable of enhancing & protecting the corporate brands by acting consistently with articulated corporate culture & values
- A Board that reflects the fact that sales of FTSE companies are made increasingly outside the UK & consumers want to align themselves with brands that reflect their priorities

Recruitment

- A Board committed to identifying, attracting, retaining & promoting the best talent, irrespective of the gender, ethnic background, religion or other defining characteristic of any candidate
- A Board that can develop the global talent pool into corporate leaders capable of delivering on the long-term strategy of the company

Supply Chain

- A Board that is capable of appreciating & managing risks associated with global resourcing, which invariably requires an understanding of cultural sensitivities, norms & vulnerabilities

We do not believe that it matters whether the changes we recommend are understood through the lens of changing demographics, the recognition by key stakeholders (including governments, shareholders, employees and consumers) that companies should reflect valuable societal and cultural norms, or because

successful corporate leadership needs to benefit from diversity of thought and improve decision-making. Each and all of these elements may be reason enough to change on their own; however, when taken together, the case for change becomes more clear and compelling.





## Parker Review Recommendations

We believe that now is the time to begin making changes that will evolve the face of corporate Britain and better prepare UK companies to continue to be global leaders in business over the longer term, benefitting from greater diversity of experience, expertise and thought as a result.

Our recommendations are as follows:

### 1. Increase the Ethnic Diversity of UK Boards

- 1.1. Each FTSE 100 Board should have at least one director of colour by 2021; and each FTSE 250 Board should have at least one director of colour by 2024.
- 1.2. Nomination committees of all FTSE 100 and FTSE 250 companies should require their human resources teams or search firms (as applicable) to identify and present qualified people of colour to be considered for Board appointment when vacancies occur.
- 1.3. Given the impact of the “Standard Voluntary Code of Conduct” for executive search firms in the context of gender-based recruitment, we recommend that the relevant principles of that code be extended on a similar basis to apply to the recruitment of minority ethnic candidates as Board directors of FTSE 100 and FTSE 250 companies.

*We recognise that qualified and credible candidates can come from a variety of backgrounds, genders and nationalities. This Review does not seek to mandate where candidates are drawn from, as this will need to be considered carefully by each company given its strategic needs and ambitions.*

*However, we believe it is important to highlight that only about 1.5% of all FTSE 100 Board directors are UK citizen people of colour. This compares with people of colour comprising approximately 14% of the overall population in the UK.*

*Looking at all people of colour on the Boards of FTSE 100 companies (regardless of nationality), at the end of the first quarter of 2016, there were only 90 individual directors who are people of colour (comprising approximately 8% of the total available positions) – over 40% of which are drawn from seven individual companies, five of which have been historically headquartered outside of the UK. Fifty-three companies within the FTSE 100 had no directors of colour, and from a seniority perspective, only nine individuals who held the position of Chair or Chief Executive Officer are people of colour.*

*In order to help UK companies enhance the ethnic diversity of their Boards, we have developed the “Questions for Directors” set out in appendix A and the “The Directors’ Resource Toolkit” set out in appendix B to help existing Boards deliver on the recommendations of this Report.*

### 2. Develop Candidates for the Pipeline & Plan for Succession

- 2.1. Members of the FTSE 100 and FTSE 250 should develop mechanisms to identify, develop and promote people of colour within their organisations in order to ensure over time that there is a pipeline of Board capable candidates and their managerial and executive ranks appropriately reflect the importance of diversity to their organisation.
- 2.2. Led by Board Chairs, existing Board directors of the FTSE 100 and FTSE 250 should mentor and/or sponsor people of colour within their own companies to ensure their readiness to assume senior managerial or executive positions internally, or non-executive Board positions externally.
- 2.3. Companies should encourage and support candidates drawn from diverse backgrounds, including people of colour, to take on Board roles internally (e.g., subsidiaries) where appropriate, as well as Board and trustee roles with external organisations (e.g., educational trusts, charities and other not-for-profit roles). These opportunities will give experience and develop oversight, leadership and stewardship skills.

*We recognise that organisational change must begin at the top. Stewardship, mentoring and sponsorship are essential components in professional development and progression.*

*Without the appropriate commitments from existing Chairs, Boards and executives, UK companies will not attract, develop and retain the best talent, whatever their background and wherever they may be located.*

*We encourage companies to establish objectives for the development of their respective pipelines and to record and track progress against those objectives, and report these matters to their Boards on a regular basis.*

### **3. Enhance Transparency & Disclosure**

- 3.1. A description of the Board's policy on diversity be set out in a company's annual report, and this should include a description of the company's efforts to increase, amongst other things, ethnic diversity within its organisation, including at Board level.
- 3.2. Companies that do not meet Board composition recommendations by the relevant date should disclose in their annual report why they have not been able to achieve compliance.

*We believe that the support of Government and regulatory bodies is essential to achieving progress in all aspects of diversity and social mobility, including increasing the representation of people of colour in decision-making and leadership roles in corporate Britain.*

## **Implementing Change**

Based on the current rates of turnover amongst FTSE 100 directors, we estimate that to reach an ethnically diverse mix similar to that of the overall adult working population by 2021 (approximately 15%), just one in five new Board appointees would need to be a person of colour. In practice, taking into account typical Board appointment cycles, that would mean that (on average) each FTSE 100 company would need to appoint one minority director in the period to 2021. By comparison, at the time of its establishment, the target set out by the Davies Review necessitated (on average) one in three new director appointees to be female.

The timeframe suggested to meet these recommendations are relatively longer than that given to business in the context of the Davies Review, and we believe that the overall task is capable of being achieved before then. We believe that the right approach will be to update the assessment of the overall progress that has been made at the end of 2021.

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# **The Background to the Parker Review**

- 1.1 In recent years, attention to diversity in Board leadership has been focused on the gender deficit on UK Boards, particularly through the work of the Government-appointed Review led by Lord Davies of Abersoch (the “Davies Review”). The case, both commercial and moral, to remedy this deficit has attracted widespread backing from business leaders, not only in the UK, but globally.
- 1.2 However, the lack of other aspects of diversity in the UK Boardroom has not gone unnoticed by the Government, the public or business observers.
- 1.3 In 2014, several studies, notably those from Green Park Executive Recruitment (“Green Park”) and the Race for Opportunity campaign group, demonstrated that major British companies appeared to have passed over a growing pool of talented minority leaders, it was asserted, to their own cost.<sup>6</sup>
- 1.4 In September 2014, the UK’s Financial Reporting Council (the “FRC”) announced that it would consider adopting fresh provisions in its corporate code to require narrative reporting on ethno-cultural diversity:

“

[K]ey to the effective functioning of any Board is a dialogue which is both constructive and challenging. One of the ways in which such debate can be encouraged is through having sufficient diversity on the Board, including gender and race. Nevertheless, diverse Board composition in these respects is not on its own a guarantee. Diversity can be just as much about difference of approach and experience. The FRC is considering this as part of a review of Board succession planning and will consider the need to consult on these issues for the next update to the Code...”

- 1.5 The FRC’s announcement was welcomed by industry groups, including Race for Opportunity, which was supported by Business in the Community, whose Chair, Adrian Joseph of Google said:

“

This announcement from the FRC is huge news from an establishment that has the ability to effect fundamental change in how organisations operate. Currently, there are too few ethnic minorities in prominent leadership positions across the majority of sectors in this country – and this is under-reflective of the number of ethnic minorities in work. Yet it is vital to have role models to help raise aspirations of our young ethnic minority people who are going to be a part of our economic future. Giving them aspiration and hope has never been more important.”

<sup>6</sup>See, “FTSE100 Leadership 10,000 Report”, Green Park (Feb. 2014) and “Race at the Top”, Race for Opportunity (Jun. 2014).

1.6 These observations have also been made by the Government. In particular, in December 2014, speaking at a breakfast meeting held by the professional services firm EY, the then-Secretary of State for Business, Sir Vince Cable, urged UK business to build on its successful drive to increase gender diversity in Board leadership by drawing attention to the absence of minority ethnic leaders in our largest companies:



**Black and ethnic minority representation on UK FTSE 100 Boards is currently at around 5%, which is much lower than we would expect if the company Boards reflected the population of this country... [I] want us to extend the successful campaign we have led to increase female representation on FTSE 100 Boards to tackle invisibility of ethnic minorities in Britain's top companies."**

1.7 Sir Vince's appeal was supported by the then-Opposition spokesman on Business, Rt. Hon. Chuka Umunna, who announced that, if elected, a Labour government would embark on a fresh review of ethnic and cultural diversity on company Boards. Mr Umunna indicated that,



**[W]e have got to go further and look at not just gender diversity but ethnic diversity in British business leadership."**

1.8 The Chair of Anglo American plc, Sir John Parker, who had been a member of the Davies Review, agreed with Sir Vince that during 2015, he would build on Lord Davies' work to bring business leaders together to respond to the challenge of ethno-cultural diversity.



1.9 In late 2015, the then-Secretary of State for Business in the new Conservative administration, Rt. Hon. Sajid Javid, affirmed the Government's official support for the initiative and invited Sir John Parker to conduct an official Review. This work would also complement the investigation, to be led by Baroness Ruby MacGregor-Smith, into the progression of minority ethnic groups in the labour market generally.

1.10 The composition of the Review Steering Committee assembled by Sir John Parker is set out above. The Committee met throughout 2015 and 2016. All members gave their time and contributions on a voluntary basis. The Committee's work was supported organisationally by EY and research was undertaken by Dr. Doyin Atewologun (Queen Mary University of London, School of Business & Management; and Visiting Fellow, Cranfield School of Management). The Board is grateful for the contributions made by the Institute of Directors and the CBI.



- 1.11 In December 2015 and February 2016, Sir John and certain of his colleagues met Ministers to discuss aspects of the work to be done. It was agreed that the “Parker Review” would undertake a wider consultation by Autumn 2016 to (i) explore why there is an absence of ethnic diversity on Boards, (ii) suggest realistic and pragmatic ways of increasing ethnic diversity on Boards and (iii) encourage businesses to adopt approaches which could be effective at increasing ethnic diversity on Boards.
- 1.12 Sir John and his colleagues have also met with members of the All Party Parliamentary Group on Governance & Inclusive Leadership, led by the Rt. Hon. Dawn Butler.
- 1.13 This document summarises the findings of the Review thus far, and has been prepared for the purpose of consultation and debate amongst business leaders, regulators and lawmakers.
- 1.14 Written comments on the consultation draft should be sent to the attention of Trevor Phillips at [trevor.phillips@green-park.co.uk](mailto:trevor.phillips@green-park.co.uk)
- 1.15 Following the conclusion of the consultation period (currently scheduled to end on 28 February 2017), a Report containing the final recommendations and findings of the Review will be published.
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# 2

## **An Introduction: Ethnic Diversity of UK Boards**



- 2.1 This Review addresses a vital aspect of British businesses' competitiveness; and in so doing reflects on the prospects for the UK's continued prosperity in a global economy – an issue that is more important and more contested now than for many years. This Report asks whether, in spite of our legacy as one of history's greatest trading nations, 21st century Britain is truly ready to take on the best that the rest of the world has to offer.
- 2.2 British businesses are admired around the world for a number of reasons – integrity, flexibility, innovation and the quality of their leadership. As a consequence, during recent years, over 75% of sales made by FTSE 100 public companies have been derived from trade outside the UK, and over 50% of the sales made by the FTSE 250.<sup>7</sup>
- 2.3 Clearly, both the domestic UK market and global markets are of fundamental importance to the success of Britain, as has been the case for generations. The issue at hand is whether corporate Britain can continue to adapt to and capitalise upon market changes and demographic shifts in order to retain its position at the vanguard of international commerce and development, as well as continue to be a leading global investment destination.
- 2.4 Stakeholders have become more sophisticated and discerning in their views about global business and its impacts. An increasingly large and effective set of stakeholders want to be certain that they are giving their support to businesses that demonstrate integrity, regard for the best values of our society and a commitment to fairness.
- 2.5 Sound corporate governance, transparent rewards policies, a commitment to the environment and fair employment practices are just four examples of business responsibilities that have in recent years swiftly moved from the "margins" to become priorities for business leadership.
- 2.6 There has been significant progress, and a pathway to greater progress, in one aspect of diversity within UK Boardrooms – gender. We applaud the efforts that have been made in that regard, and believe that continued efforts are needed to make lasting change throughout corporate Britain.
- 2.7 However, without wanting to detract from the efforts that have been made in that regard, the term "diversity" is not solely limited to gender, but also includes many aspects of the human condition.
- 2.8 For the purposes of this Report, we have been asked to focus on ethnic diversity, but many of the observations, learnings and recommendations can apply more broadly. The fundamental point that is being made by any of these Reviews (whether the Davies Review or this one) is that the leadership of UK companies needs to be more inclusive and open in the future. Achieving that will be key to maintaining the competitiveness of corporate Britain and to secure the long-term commercial success of the companies that call Britain home.
- 2.9 The facts relating to gender contained in the Davies Review and many similar studies painted a stark picture, and so do the facts relating to the lack of ethnic diversity in the UK Boardroom.

<sup>7</sup>See footnote 5.



- 2.10 There is undoubtedly a myriad of business-related reasons for the deficit that these numbers suggest, including that for many years UK business may have had a narrower set of strategic ambitions and, therefore, fewer stakeholders to engage.
- 2.11 However, we must also recognise that British society has evolved over that time, and the demographic make-up of the country and the markets being served by its businesses have become more diverse rather than less. In addition, societal norms and pressures have changed over time, and what was once acceptable and commonplace is no longer so. UK businesses are not immune to those changes, and neither do we expect that UK business leaders believe that they are either.
- 2.12 As the FRC noted in its report on Corporate Culture and the Role of Boards (July 2016) (the “Corporate Culture Report”):



**[T]he role of the [director] is changing, with inevitable implications for the skillset, diversity and experience that [directors] will add to the Board in the future. Certainly, [directors] will need to become more culturally aware, more tuned in and more knowledgeable about human behaviours and relationships.”**

- 2.13 This Report seeks to help Boards prepare for the future and, in doing so, develop a pathway to address a crucial issue that has moved rapidly up the agenda of many key constituencies, including business leaders, regulators and politicians – the apparent deficit of ethnic and cultural diversity in the leadership of UK businesses.
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# 3

## **An Analysis of Ethnic Diversity in UK Boards**

- 3.1 The single most important and influential group of public companies in the UK is quoted in the FTSE 100 Index. There are other significant enterprises outside this index, but collectively these companies set trends by virtue of their value, number of employees and public visibility. As of September 2016, the FTSE 100 was comprised of companies with a total market capitalisation £1.7 trillion (representing over 80% of the total market capitalisation of companies publicly traded in the UK).<sup>8</sup> FTSE 100 companies also have a disproportionate impact on other companies in the UK and globally by virtue of their global operations, vast supply chains and procurement activities. We have therefore, for the purpose of this analysis, focused our research on the members of the FTSE 100 at the end of March 2016.
- 3.2 The study of the FTSE 100 was undertaken by Dr. Doyin Atewologun (Queen Mary University of London, School of Business & Management; and Visiting Fellow, Cranfield School of Management). Cranfield University School of Management (“Cranfield”) has conducted most of the research on gender diversity for the Davies Review.
- 3.3 The Steering Committee requested that the research identify FTSE 100 directors of Black, East Asian, Latin American, Middle Eastern or South Asian ethno-cultural backgrounds (i.e., “non-white” directors).
- 3.4 Based on the composition of the FTSE 100 as at the end of March 2016, 1,087 Board positions were analysed from the perspective of ethnic diversity. Since UK companies are not required to report on the ethnic diversity of their Board, employees or suppliers, information had to be obtained from other sources and based on information that was publicly available at the time.<sup>9</sup>
- 3.5 While there may be potential for discussion about whether an individual is or considers themselves to be of a minority ethnic background, we are confident that the principal observations remain valid given the small number of directors of colour relative to the entirety of the population.

- 3.6 Although it is outside the scope of this Report, we would welcome consideration of the risks and benefits of reporting of ethnic minority employee, executive leadership and Board-related data commensurate with that mandated for gender in UK public companies. We believe that the lack of publicly available data in this regard may present an unnecessary hurdle in tracking progress and being fully transparent to all stakeholders.

### 3.7 Key Findings

- 3.7.1 The research has revealed the following key data:

#### An Examination of the FTSE 100:

**1,087** director positions in total

**UK citizen directors of colour represent only about 1.5%** of the total director population

**90** individual directors of colour (four hold two Board positions)

**Total directors of colour represent about 8%** of the total (compared to **14%** of the UK population)

**53** out of the FTSE 100 companies do not have any directors of colour

**Seven** companies account for over **40%** of the directors of colour

**Five** out of the seven companies have headquarters historically located outside the UK

**Only nine** people of colour hold the position of Chair or CEO

*Data as of end-March 2016*

<sup>8</sup> “FTSE Factsheet”, London Stock Exchange Group plc (Sept. 2016)

<sup>9</sup> For further information regarding the methodology used in the Review, please see “Appendix D: Methodology”.

Company	Total Directors	Ethnic Minority Directors
Fresnillo PLC	12	10
Antofagasta PLC	11	7
Randgold Resources Ltd	10	4
Unilever PLC	12	4
Old Mutual PLC	14	4
SABMiller PLC	15	4
Standard Chartered PLC	15	4
Aberdeen Asset Management PLC	14	3
Reckitt Benckiser Group PLC	14	3
WPP PLC	14	3
HSBC Holdings PLC	19	3
Hikma Pharmaceuticals PLC	9	2
BHP Billiton PLC	11	2
Anglo American PLC	12	2
Diageo PLC	12	2
intu properties PLC	12	2
Barclays PLC	13	2
British American Tobacco PLC	13	2
Coca-Cola HBC AG	13	2
GlaxoSmithKline PLC	15	2
Merlin Entertainments PLC	7	1
Provident Financial PLC	8	1
Ashtead Group PLC	9	1
Carnival PLC	9	1
Kingfisher PLC	9	1
Mondi PLC	9	1
Sainsbury (J) PLC	9	1
Worldpay Group PLC	9	1
ARM Holdings PLC	10	1
Pearson PLC	10	1
BT Group PLC	11	1
Centrica PLC	11	1
National Grid PLC	11	1
Royal Dutch Shell PLC	11	1

Company	Total Directors	Ethnic Minority Directors
Shire PLC	11	1
Smith & Nephew PLC	11	1
AstraZeneca PLC	12	1
Compass Group PLC	12	1
InterContinental Hotels Group PLC	12	1
International Consolidated Airlines Group SA	12	1
Vodafone Group PLC	12	1
Berkeley Group Holdings (The) PLC	13	1
Inmarsat PLC	13	1
Marks & Spencer Group PLC	14	1
Rolls-Royce Group PLC	14	1
BP PLC	15	1
Prudential PLC	17	1
Hargreaves Lansdown PLC	6	-
Sports Direct International PLC	7	-
3i Group PLC	8	-
Barratt Developments PLC	8	-
Direct Line Insurance Group PLC	8	-
GKN PLC	8	-
Glencore PLC	8	-
ITV PLC	8	-
Rexam PLC	8	-
Royal Mail PLC	8	-
Sage Group (The) PLC	8	-
Severn Trent PLC	8	-
Smiths Group PLC	8	-
SSE PLC	8	-
Taylor Wimpey PLC	8	-
Tesco PLC	8	-
Travis Perkins PLC	8	-
United Utilities Group PLC	8	-
Associated British Foods PLC	9	-
Bunzl PLC	9	-
Imperial Tobacco Group PLC	9	-

Company	Total Directors	Ethnic Minority Directors
Land Securities Group PLC	9	-
Next PLC	9	-
RSA Insurance Group PLC	9	-
St James's Place PLC	9	-
TUI AG	9	-
BAE Systems PLC	10	-
Capita PLC	10	-
DCC PLC	10	-
easyJet PLC	10	-
Experian PLC	10	-
Intertek Group PLC	10	-
Persimmon PLC	10	-
Reed Elsevier PLC	10	-
Wolseley PLC	10	-
Hammerson PLC	11	-
Johnson Matthey PLC	11	-
Legal & General Group PLC	11	-
Royal Bank of Scotland Group PLC	11	-
Whitbread PLC	11	-
Admiral Group PLC	12	-
Aviva PLC	12	-
British Land Co PLC	12	-
Burberry Group PLC	12	-
Rio Tinto PLC	12	-
Schroders PLC	12	-
SKY PLC	12	-
Dixons Carphone PLC	13	-
Standard Life PLC	13	-
CRH PLC	14	-
Lloyds Banking Group PLC	14	-
London Stock Exchange Group PLC	14	-
Babcock International Group PLC	16	-

### 3.8 Overall Representation of Directors of Colour in the FTSE 100

3.8.1 Based on the composition of the FTSE 100 as at the end of March 2016, the table on the following page sets out the total number of directors on the respective Boards and the number of directors of colour on such Boards. The table has been ranked based on the number of directors of colour that each respective company had.

Although we have not conducted a similar analysis of the FTSE 250, we would not expect to see marked improvement in the overall picture, and, in fact, would expect that the representation of people of colour continues to be challenged.

Certainly, regional demographic disparities may exist for companies based outside of London (which may be particularly relevant in the FTSE 250); however, the pool of available minority ethnic candidates will certainly be sufficiently spread or mobile to compensate for that potential issue, irrespective of whether such candidates are travelling within the UK or from abroad.

### 3.9 An Analysis of Gender and Ethnicity

3.9.1 Of the 90 total directorships, 34 positions are filled by women (four of whom hold two positions each). This constitutes nearly 38% of the positions held by directors of colour. We found it interesting to note that where multiple directorships are held by directors of colour, in each instance they were held by women.

3.9.2 It is clear that the recent emphasis on gender diversity in the UK Boardroom has not benefitted women of colour to the same extent as it has women who are not ethnic minorities. Of the appointments made following the Davies Review, a relatively small number of those Board positions have gone to women of colour.

# 4

## **Increasing the Ethnic Diversity of UK Boards – The Commercial Case**



4.1 Our Review highlights clear business reasons for increasing ethnic diversity on UK Boards and we acknowledge that the current appetite for increasing diversity differs for each company. However, we believe there are clear internal and external benefits that can be gained by a company that embraces our recommendations, beyond the enhanced ability for the Board to fulfil its statutory duties.

4.2 As the FRC stated in Corporate Culture Report:



Companies are recognising the value in defining and communicating a broader purpose beyond profit which generates wealth and delivers benefits to society as a whole. This can help create shared goals, motivate employees and build trust with customers...

What matters is that the culture is appropriate for the context in which the company is operating and that there is internal alignment between company purpose, values, strategy and business model(s). Aligning business decisions with purpose and values and focusing on how financial targets will be achieved, will over the long-term lead to more sustainable value creation."

4.3 We summarise key commercial drivers below:

4.3.1 Inclusive Leadership & Avoiding "Group-Think"

As stated by the FRC in the UK Corporate Governance Code (April 2016) (the "Code"):



[E]ssential to the effective functioning of any Board is dialogue which is both constructive and challenging. The problems arising from "group-think" have been exposed in particular as a result of the financial crisis. One of the ways in which constructive debate can be encouraged is through having sufficient diversity on the Board. This includes, but is not limited to, gender and race. Diverse Board composition in these respects is not on its own a guarantee. Diversity is as much about differences of approach and experience, and it is very important in ensuring effective engagement with key stakeholders and in order to deliver the business strategy."

We suspect that all leaders of global corporations would agree that the markets in which they are operating are becoming more complex, interconnected and require different skills to manage than would have been the case historically. As we have noted, over 75% of sales of the FTSE 100 are derived from outside the UK<sup>10</sup>, and, therefore, an understanding of all of the commercial and cultural factors affecting UK businesses are essential.

As with all directors on UK Boards, directors of colour are likely to have a different perspective on the issues, challenges and opportunities faced by their company. In addition, their professional experiences (even if similarly qualified) will likely differ from their non-minority ethnic counterparts. Those perspectives and experiences are inherently valuable as companies deal with markets and stakeholders (including investors, consumers and employees) that are becoming more varied and diverse, not less. As the numbers indicated, to date, that experience and perspective has been largely absent from UK Boardrooms.

It follows that the potential for disconnect between the strategic ambitions of a company and the Board's ability to draw upon the range of skills, perspectives and experiences necessary to provide adequate oversight and to manage properly can create greater risk for a company, the Board and all stakeholders.

#### 4.3.2 Underpinning of Corporate Culture & Values

Many companies across the UK, notably those in the FTSE 100 and FTSE 250, have been clear in their commitment to enhancing diversity within their organisations and their supply chains, amongst other things. It is evident that the Davies Review had a very positive impact in that regard, and the composition of Boards and executive ranks in the UK has begun to change as a result.

With those commitments having been made, we believe that Boards should consider the role that diversity and inclusion play within their organisations more broadly. Without speaking to all aspects of diversity, certainly their statements around corporate values and ambitions should include careful consideration of how ethnic and cultural diversity impacts their business.

As set out in the Code, 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", and the directors should lead by example.

In the Corporate Culture Review, Sir Win Bischoff (Chairman, FRC) articulated it extremely well when he stated:



**Establishing a company's overall purpose is crucial in supporting the values and driving the correct behaviours. The strategy to achieve a company's purpose should reflect the values and culture of the company and should not be developed in isolation. Boards should oversee both."**

It follows that, where a company has made commitments to enhance the role that diversity plays in achieving its overall corporate objectives and strategy, it must consider diversity in all relevant forms, including gender and ethnicity.

In particular, we believe that a Board should manifest that commitment in the way that it is composed, the decisions it makes and how it considers talent development. Fundamentally, we believe that a Board should reflect the breadth of a company's ambitions and stakeholders, including its employees, customers and communities.

<sup>10</sup> See footnote 5.



### 4.3.3 Enhanced Brand Value & Reputation

It has become evident that consumers, employees and increasingly investors are seeking to align themselves with companies that reflect their own beliefs, values and priorities. It is also clear that leading UK companies and their Boards have come under increased scrutiny for legal, regulatory and/or behavioural shortcomings. The combination of the perceived deficits, as well as the increasingly high standards being applied by regulators, consumers and these other stakeholders, means that Boards must consider corporate purpose at least as closely as corporate profit.

If one were to consider the importance of diversity to brand value, one of the most valuable brands in the world, Apple Inc., recognises at the core of its diversity strategy that “the most innovative companies must also be the most diverse.”

During 2015, the consulting firm McKinsey published a report that contained research indicating that companies with more diverse workforces perform better financially, being more likely to have financial returns above their national industry medians.<sup>11</sup>

While the direct link between increased diversity and enhanced value may be the subject of debate, what is clear is that when diversity (in any form) is managed well, decision-making improves and, therefore, the opportunity for success in the competitive marketplace becomes greater. In addition, the reputational benefits for being an organisation that embraces the values of diversity and inclusion can reverberate through many aspects of business, including employee recruitment and retention, investor appetite and broad stakeholder engagement. Each of these ultimately inures to the benefit of the Company and reflects positively on the Board.

### 4.3.4 Improved Access to Top Talent

It is clear to us that the ability to identify, develop, retain and promote talent within an organisation must be done with the primary purpose of enabling the company to address this increasingly complex and interconnected landscape. Therefore, having a talent base that has a diverse range of perspectives, experiences and expertise is essential to ensuring the long-term viability and commercial success of any organisation.

It is broadly recognised that different backgrounds and perspectives lead to a variety of ideas, knowledge and ways of doing things. The converse can often be true as well – where there are too many people from the same or similar backgrounds, they may take action based on a narrow set of shared values, assumptions and experiences. Organisations that build a reputation for valuing differences in today’s global marketplace are more likely to attract talented employees who will be confident that their value will be recognised and will be encouraged to use the skills, backgrounds, perceptions and experience they have.

We must all recognise, business included, that the UK and its workforce have changed dramatically over the past 40 years, and will continue to do so in the future. In fact, it is estimated that the UK will be the most diverse country in Western Europe by 2051, with the proportion of people of colour in the UK reaching over 30%.<sup>12</sup>

The implication for UK companies is profound, particularly when combined with the fact that many of them will have significant operations in developing markets and economies. In order for a company, its Board and its executives to properly manage a global business, access to people with the relevant range of talents and experience is required. The underlying trends make it very clear that, whether resources are drawn from the UK

<sup>11</sup> “Why Diversity Matters”, McKinsey (January 2015) [<http://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>].

<sup>12</sup> See footnote 1.

or outside of it, the workforce of tomorrow will be more diverse than it has been historically. Organisations that do not appropriately deal with this change will likely face a significant threat to their long-term success.

As we have said earlier, in order to ensure the continued strength and attractiveness of the UK and its businesses, Boards must be willing to reflect the commercial and societal realities in which their companies operate, not only now, but also in the future. Our engagement with business leaders and executive search firms has shown us that there are hundreds of Board-ready and capable people of colour who are able to bring their experience to bear and assist corporate Britain to make that transition.

relates to the materials being supplied, the services being performed, the jurisdictions that are the source of the supply or the people that comprise part or all of that chain.

Directors must therefore have the requisite skills necessary to understand and manage these complexities. People drawn from minority ethnic communities may have a great deal to offer from this perspective as they are very capable of bringing a different cultural experience and perspective to bear, which we believe can lead to better deliberation and decision-making at Board-level.

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#### 4.3.5 Better Understanding of Corporate Supply Chain

Without question, supply chains for many of the UK's leading companies have become more challenging – driven by the increasingly global nature of resourcing and also by the number of items that are being required. For the vast majority of companies in the UK, it is rare for the UK to be the single source of supply of goods and services. Furthermore, efficiencies can drive manufacturing and production to different jurisdictions around the world, any of which will need to source supplies from a mixture of places – whether local to that location or from further afield.

In such an environment, it is evident that UK companies need a Board that is capable of appreciating and managing risks associated with global resourcing. Invariably that means that Board directors require an understanding of relevant cultural sensitivities, norms and vulnerabilities. This is particularly the case where a supply chain is understood to carry inherent risk with it, whether that

# 5

## **Increasing the Ethnic Diversity of UK Boards – Finding the Talent**

## 5.1 Are the Candidates There?

5.1.1 One of the common refrains that we have heard when discussing the prospect of increasing the representation of people of colour in senior leadership positions, including on the Board, is that “there are not enough capable and qualified candidates.”

5.1.2 We do not believe that such a conclusion is accurate.

5.1.3 However, we do acknowledge that, as is the case with gender, people of colour within the UK have historically not had the same opportunities as many mainstream candidates to develop the skills, networks and senior leadership experience desired in a FTSE Boardroom.

5.1.4 That being said, we believe that any such assumptions are outdated and do not reflect a full appreciation of the breadth and depth of expertise available in candidates from a minority ethnic background, not only amongst UK citizens, but also from non-UK nationals.

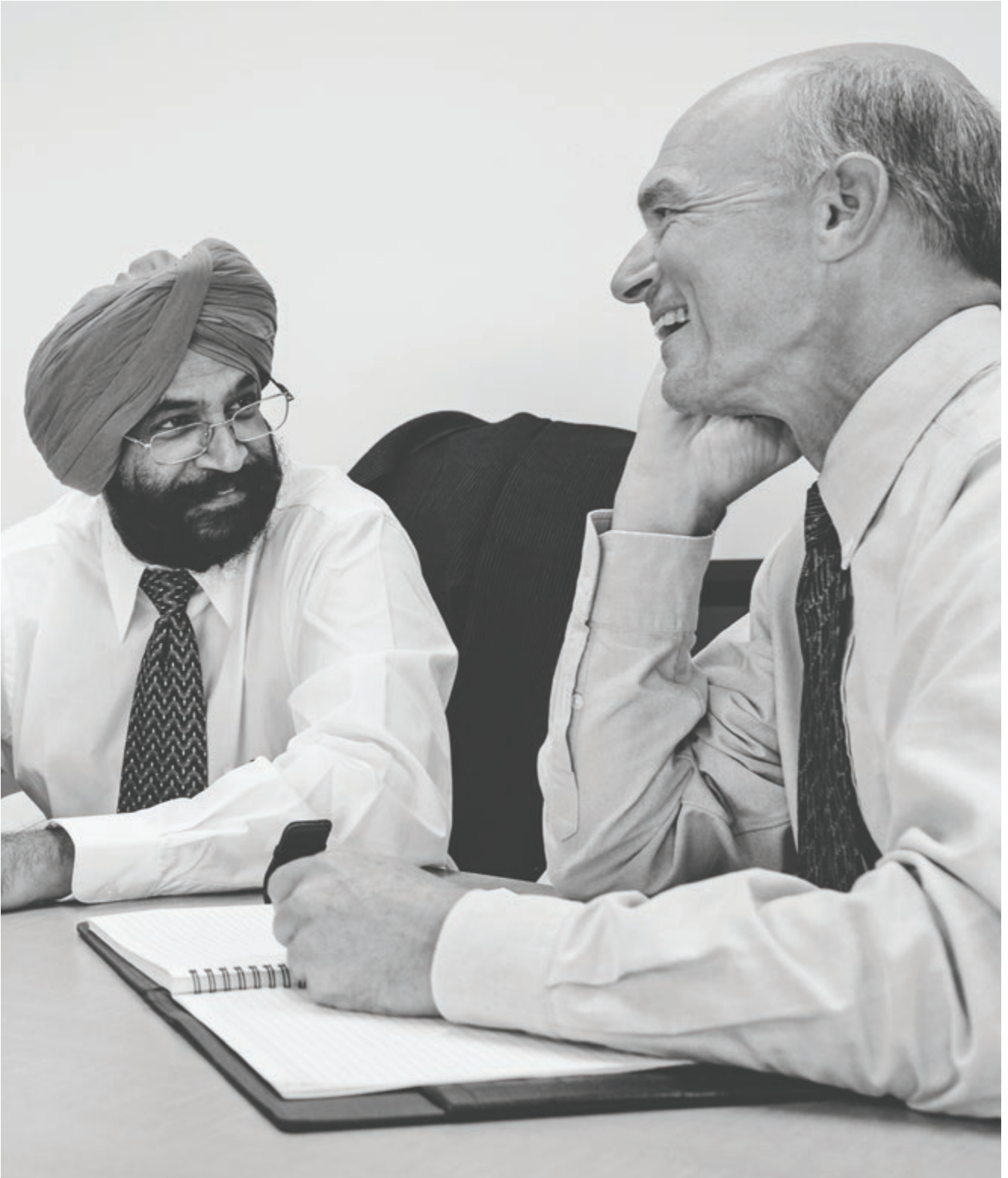
5.1.5 During 2016, at least two reports were published (one by Green Park and the other by Audeliss in conjunction with The Financial Times) that highlighted hundreds of high-calibre, “Board-ready” candidates who were from minority ethnic backgrounds. The findings of these reports have also been reinforced by a number of executive search firms that focus on senior-level appointments. In addition, there are professional organisations, such as the Executive Leadership Council (in the UK and US), with significant access to people of colour who are experienced senior executives and senior members of professional service firms.

5.1.6 These known and identified professionals of colour represent a broad spectrum of experience, expertise and skills – all of which can benefit FTSE 100 and FTSE 250 companies now. Even though these reports highlighted talent in the UK and the US, there is undoubtedly a wealth of qualified or high-potential talent in other markets.

5.1.7 Of course, the observations made in the context of the Davies Review still ring true in the context of ethnic diversity. Namely, in order to achieve the recommendations there are two different populations that need to be considered:

- executives from within the corporate sector; and
- people of colour from outside the corporate mainstream, including entrepreneurs, senior individuals with professional service backgrounds, academics and civil servants.

5.1.8 A key challenge in this context is the lack of ethnic diversity in the managerial and senior executive pipeline in many UK companies, including the FTSE 100 and 250. For example, as of end of March 2016, there were only four Chief Executives of colour in the FTSE 100. Our discussions and experience tell us that other executive positions in the “C-Suite” and below are similarly challenged.





5.1.9 Furthermore, we believe that the observations in the Davies Review set out below reflect the type of thinking that Boards also need to do in the context of identifying candidates that are people of colour:



**The call for the professionalisation of Boards meant that the skills criteria for candidates increasingly focused on the need to have substantial business and Board level experience. Our findings show that over time this has also evolved into a need for candidates to have had significant prior financial responsibility. We would argue that, although there is a real need for candidates to be financially literate, financial responsibility, just like sector expertise, can be taught and should not be a prerequisite for appointments. Greater emphasis should be placed on a broader mix of skills and experience.”**

5.1.10 Undoubtedly, directors of UK companies, namely the FTSE 100 and 250 in this context, are being asked to perceive the world through a broader lens than they may have historically. For many companies, that will mean changing the mould from which a current Board was formed in order to make a stronger model in the future.

5.1.11 We do not suggest such changes will always be easily or comfortably made, but we do suggest that they are necessary in order to remain at the leading edge of global competition.

## 5.2 Developing the Pipeline

5.2.1 Although not the focus of this Review, we cannot underscore enough how important it is for Boards of all UK companies to focus on employee development and their executive pipeline with an enhanced focus on ensuring appropriate representation from minority ethnic candidates, as well as other relevant diverse cohorts.

5.2.2 The importance of focusing on diversity and inclusion in the pipeline was recently underscored by the FRC.<sup>13</sup> We agree with the FRC’s observations that embedding diversity (including ethnicity and gender) in a corporate succession plan should be “part of a holistic approach” taken by UK companies. In other words, diversity and inclusion needs to be part of the overall corporate strategy, and therefore Boards should exhibit leadership on, and reflect a commitment to, diversity and inclusion to the same extent that it does all other aspects of corporate strategy.

5.2.3 In addition to the Board considerations set out by the FRC, we believe that Boards should also consider (i) how they respond to the changing demographics affecting the UK, namely the increasing diversity of the workforce and (ii) how they will ensure that they have executives and other employees that have the skills to manage diversity well. Therefore, we think that it is of fundamental importance that UK Boards ask themselves at least those two questions when considering their workforce, their employee pipeline and the pipeline of potential candidates for Board positions.

<sup>13</sup> See, “Feedback Statement: UK Board Succession Planning Discussion Paper”, FRC (May 2016), pages 11-12.

5.2.4 In addition, we are firm believers that companies should encourage and support their internal high potential minority ethnic employees to take on Board roles internally (e.g., subsidiaries), where appropriate, as well as Board and trustee roles with external organisations (e.g., educational trusts, charities and other not-for-profit roles). These opportunities will give experience and develop oversight, leadership and stewardship skills.

5.2.5 We recognise that organisational change must begin at the top. Stewardship, mentoring and sponsorship are essential components in professional development and progression. Without the appropriate commitments from existing Chairs, Boards and executives, UK companies will not secure the best talent, whatever their background and wherever they may be located.

5.2.6 In the context of considering pipeline issues, it is important for Boards to recognise that there is significant concern from people of colour that they are negatively impacted by bias in the work place. For example, according to a recent review of minority ethnic senior executive and Board leaders in the UK conducted by the executive search firm Harvey Nash:<sup>14</sup>

- 8 in 10 believed that factors other than merit have hindered their career;
- 7 in 10 said that their background has been a significant barrier to their progression;
- over 60% believed that unconscious bias of CEOs and leadership teams is one of the leading reasons for the lack of progress at Board level;
- 1 in 4 believed that bias and discrimination exist within their organisational culture; and
- 2 in 3 believed that minority ethnic executives are not in the talent pools or networks of the current directors or executive search firms.

The observations and beliefs underlying these statements suggest that UK companies and their leadership need to enhance the focus on all aspects of ensuring that people of colour have the same support network, and developmental and advancement opportunities as all other employees.

5.2.7 As was the case with gender, we strongly encourage UK companies to establish objectives for the development of their respective pipelines, inclusive of people of colour, and to record and track progress against those objectives, and report these matters to their Boards on a regular basis.

<sup>14</sup> "The Ethnicity Gap", Harvey Nash (July 2016).

### 5.3 The Role of Executive Search Firms

- 5.3.1 Executive search firms play an important role in identifying qualified and capable candidates for senior positions within FTSE 100 and 250 companies. While we understand that many companies focus on direct recruitment of senior talent and Board candidates, it is very common for executive search firms to be retained for that purpose.
- 5.3.2 The adoption of the “Standard Voluntary Code of Conduct” for executive search firms in response to the recommendations made in the Davies Report has been well received and documented.
- 5.3.3 We believe that the principles underlying that code should be extended by the executive search firms to apply to the recruitment of directors of colour for the FTSE 100 and 250 companies. Although the approach clearly may have merit more broadly, the scope of this Review is limited in that regard.
- 5.3.4 Of course, not all of the principles and code will translate directly to the issues related to the recruitment of directors of colour; however, many of the principles and practices can apply more broadly and have a real impact in the overall landscape in due course.
- 5.3.5 Most importantly, following the key principles will enable a discussion and dialogue between the client and the search firm, as well as one internally within each organisation. We believe that this is fundamentally important to getting capable and qualified candidates of colour “on the radar” for potential appointment.

### 5.4 Considerations under Data Privacy and Data Protection Law

- 5.4.1 Information about a person’s ethnicity is considered to be “sensitive personal data” under the Data Protection Act 1988 and therefore is subject to relevant legislative restrictions and limitations related to its collection, storage, use and transmission.
  - 5.4.2 Representatives of the Steering Committee have been engaging constructively with representatives of the Information Commissioner’s Office to discuss the issues which arise in the context of such information being held by third parties, such as executive search firms.
  - 5.4.3 We expect that those discussions will continue through the consultation period, and depending on their outcome, additional recommendations regarding the identification and recruitment of minority ethnic candidates may be considered.
-

# 6

## **Approach to Recommendations**

During the course of this Review, we were persuaded that every part of the business world, if not already committed to action to increase diversity in leadership, can see the both the commercial and reputational advantages to making progress.

Against this background, we considered whether further mandated regulatory change was appropriate, beyond that which is incremental upon existing obligations and focused on equivalence of information or enhanced transparency.

In the course of our discussions with relevant stakeholders, a minority of those we spoke to made a case for stronger legislative or regulatory prompts to compel businesses to increase ethnic diversity in leadership.

Two ideas in particular were canvassed by more than one voice:

- Statutory Quotas for Boards – for example, a requirement that no Board of a public company should be mono-ethnic, a de facto requirement in some jurisdictions elsewhere, such as South Africa.
- Mandated “Short-lists” – for example, a requirement that Nominations Committees should be required to consider shortlists that include at least one person of colour – a variant of the “Rooney Rule”, which is widely thought to have had some success in diversifying the executive ranks of the National Football League in the United States.

Whilst the attractions of these approaches may be compelling to some, on balance, we could see no advantage to such an approach at this time.

The business representatives amongst us were clear that such compulsion would be strongly resisted by most of their members, and that valuable energy would be wasted debating unrealistic proposals, rather than focusing on more promising recommendations.

Of course, however, should the progress which we seek to make through our recommendations be limited, we will likely need to revisit that decision.

# 7

## **Parker Review Recommendations**



As a general matter, the Boardrooms of Britain's leading public companies do not reflect the ethnic diversity of either the UK or the stakeholders that they seek to engage and represent. Minority ethnic representation across the FTSE 100 is disproportionately low, particularly when looking for UK citizen directors of colour.

We believe that in order for corporate Britain to reflect the progress that is being made in diversity, equality and inclusion generally, changes are needed in the Boardrooms where leadership, stewardship and corporate ethics are of utmost importance. However, the recommendations we are making are not solely based on the equitable principles of diversity and inclusion, they are ones that are underpinned by strong industrial logic and the need for UK companies to be competitive in the increasingly challenging global marketplace.

We firmly believe that successful companies will need to attract, retain and promote the best talent available, irrespective of nationality, gender, religion, ethnic background or any other perceived difference from the "mainstream". It is clear that in order to achieve this success, companies must reflect the values of their stakeholders (including employees, shareholders and the communities in which they sit) and also project those values externally (including to the consumers they are seeking to attract and the markets in which they operate).

We believe that now is the time to begin making changes that will evolve the face of corporate Britain and better prepare UK companies to continue to be global leaders in business over the longer term, benefitting from greater diversity of experience, expertise and thought as a result.

## In light of the foregoing, our recommendations are as follows:

### 1. Increase the Ethnic Diversity of UK Boards

1.1. Each FTSE 100 Board should have at least one director of colour by 2021; and each FTSE 250 Board should have at least one director of colour by 2024.

1.2. Nomination committees of all FTSE 100 and FTSE 250 companies should require their internal human resources teams or search firms (as applicable) to identify and present qualified people of colour to be considered for Board appointment when vacancies occur.

1.3. Given the impact of the “Standard Voluntary Code of Conduct” for executive search firms in the context of gender-based recruitment, we recommend that the relevant principles of that code be extended on a similar basis to apply to the recruitment of minority ethnic candidates as Board directors of FTSE 100 and FTSE 250 companies.

*We recognise that qualified and credible candidates can come from a variety of backgrounds, genders and nationalities. This Review does not seek to mandate where candidates are drawn from, as this will need to be considered carefully by each company given its strategic needs and ambitions.*

*However, we believe it is important to highlight that only about 1.5% of all FTSE 100 Board directors are UK citizen people of colour. This compares with people of colour comprising approximately 14% of the overall population in the UK.*

*Looking at all people of colour on the Boards of FTSE 100 companies (regardless of nationality), at the end of the first quarter of 2016, there were only 90 individual directors who are people of colour (comprising approximately 8% of the total available positions) – over 40% of which are drawn from seven individual companies, five of which have been historically headquartered outside of the UK. Fifty-three companies within the FTSE 100 had no directors of colour, and from a seniority perspective, only nine individuals who held the position of Chair or Chief Executive Officer are people of colour.*

*We also believe that such companies should carefully consider and apply the remainder of the recommendations, including asking themselves “Questions for Directors” set out in appendix A to this Report.*



## 2. Develop Candidates for the Pipeline & Plan for Succession

- 2.1. Members of the FTSE 100 and FTSE 250 should develop mechanisms to identify, develop and promote people of colour within their organisations in order to ensure over time that there is a pipeline of Board capable candidates and their managerial and executive ranks appropriately reflect the importance of diversity to their organisation.
- 2.2. Led by Board Chairs, existing Board directors of the FTSE 100 and FTSE 250 should mentor and/or sponsor people of colour within their own companies to ensure their readiness to assume senior managerial or executive positions internally, or non-executive Board positions externally.
- 2.3. Companies should encourage and support candidates drawn from diverse backgrounds, including people of colour, to take on Board roles internally (e.g., subsidiaries) where appropriate, as well as Board and trustee roles with external organisations (e.g., educational trusts, charities and other not-for-profit roles). These opportunities will give experience and develop oversight, leadership and stewardship skills.

*We recognise that organisational change must begin at the top. Stewardship, mentoring and sponsorship are essential components in professional development and progression.*

*Without the appropriate commitments from existing Chairs, Boards and executives, UK companies will not attract, develop and retain the best talent, whatever their background and wherever they may be located.*

*We encourage companies to establish objectives for the development of their respective pipelines and to record and track progress against those objectives, and report these matters to their Boards on a regular basis.*

## 3. Enhance Transparency & Disclosure

- 3.1. A description of the Board's policy on diversity be set out in a company's annual report, and this should include a description of the company's efforts to increase, amongst other things, ethnic diversity within its organisation, including at Board level.
- 3.2. Companies that do not meet Board composition recommendations by the relevant date should disclose in their annual report why they have not been able to achieve compliance.

*We believe that the support of Government and regulatory bodies is essential to achieving progress in all aspects of diversity and social mobility, including increasing the representation of people of colour in decision-making and leadership roles in corporate Britain.*

In order to help UK companies enhance the ethnic diversity of their Boards, we have developed the "Questions for Directors" set out in appendix A and the "The Directors' Resource Toolkit" set out in appendix B to help existing Boards deliver on the recommendations of this Report.

# Appendices

## Appendix A: Questions for Directors

This appendix has been developed to assist Boards, including their Chairs, to consider eight key questions in the context of addressing ethnic diversity at the Board. We have drafted these questions to be consistent with the key considerations that directors need to make in the satisfaction of their statutory duties under the UK Companies Act and in a manner that is consistent with the UK Corporate Governance Code.

Main Principles of the UK Code	Chair	All Directors
<b>Leadership</b> <ul style="list-style-type: none"> <li>Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.</li> </ul>	<ul style="list-style-type: none"> <li>Does our board succession plan (both executives and non-executives) include criteria that would bring forward qualified candidates from ethnically diverse backgrounds?</li> </ul>	<ul style="list-style-type: none"> <li>Have we recently considered, and discussed with the executive directors, how the ability to deliver our strategy would be strengthened by having greater diversity of background, experience and insight at the board?</li> </ul>
<b>Effectiveness</b> <ul style="list-style-type: none"> <li>The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.</li> </ul>	<ul style="list-style-type: none"> <li>Can we evidence that our board has enough constructive and diverse thought being expressed to avoid “group-think” and to provide insight into the trends that will impact our markets, customers, employees and other key stakeholders?</li> </ul>	<ul style="list-style-type: none"> <li>Can we evidence the fact that we have asked our HR team or recruitment consultants to identify and present to us candidates that represent ethnically diverse backgrounds to join our board?</li> </ul>
<b>Accountability</b> <ul style="list-style-type: none"> <li>The board should present a fair, balanced and understandable assessment of the company’s position and prospects.</li> <li>The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives.</li> </ul>	<ul style="list-style-type: none"> <li>Would the outside world (specifically customers, suppliers, partners, regulators and legislators) currently see our board as appropriately reflective of our stated values, our commitment to the markets and communities in which we operate and the people we employ in our organisation?</li> </ul>	<ul style="list-style-type: none"> <li>Do we have an internal process to identify, develop and promote high-potential minority ethnic employees in order to develop “board-ready” candidates for internal subsidiary and external appointments, and can we evidence that?</li> </ul>
<b>Remuneration</b> <ul style="list-style-type: none"> <li>Remuneration should be designed to promote the long-term success of the company.</li> <li>Performance-related elements should be transparent, stretching and rigorously applied.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>What evidence do we have that our remuneration policies promote diversity and do not favour any particular sub-group?</li> </ul>
<b>Relations with Shareholders</b> <ul style="list-style-type: none"> <li>There should be a dialogue with shareholders based on the mutual understanding of objectives.</li> <li>The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.</li> </ul>	<ul style="list-style-type: none"> <li>Have I recently asked our shareholders about the role they see diversity (including ethnicity) playing in our board composition, the overall company and the delivery of our strategic objectives?</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>

Although these questions have been cast in the context of ethnic diversity, we encourage all companies to use the principles underlying these questions to inform and guide their discussions regarding all aspects of diversity.

## Red Flags

When considering the implementation of the recommendations and the use of the “Questions for Directors”, Board directors should be cognisant of “red flags” that may exist or may develop in their organisation. For example, Boards should be cognisant of the following potential “red flags”:

- The Board does not currently have any directors of colour.
- An ethnically diverse range of board candidates has not been previously considered.
- Vague terms like “fit” or not being the right “type” are used to describe why a potential candidate may not be appropriate, without sufficient objective and detailed supporting evidence being given and tested.
- The Board consists solely of people with similar professional backgrounds/ qualifications, particularly if the relevant business has global reach.
- Board self-evaluations do not include an assessment of its effectiveness with respect to diversity and inclusion, including an analysis of whether the board has considered the strategic importance to the organisation.
- The human resources teams or executive recruitment firms indicate that there are not any qualified minority ethnic candidates available to fill a vacancy.
- The profile of executive officers or members of senior management is not ethnically diverse.
- Members of the executive management team do not sponsor or mentor any people of colour within the organisation.
- The pipeline of “high potential” candidates is predominately of one race, gender, nationality or religion.
- There is a “clustering” of particular ethnicities within specific jobs or seniorities.
- Internal engagement surveys indicate that actual or perceived bias is affecting career progression for non-majority ethnic employees.
- There is a high level of “opting-out” or non-reporting of personal information regarding an individual’s ethnicity within the organisation (as this suggests a degree of concern regarding an employee’s own ethnicity).

Of course, we do not suggest that the existence of any of these conditions to mean definitively that there is a problem to be rectified within the relevant organisation. However, we do suggest that the presence of any or all of these “red flags” should indicate that further investigation by the Board is warranted.

## Appendix B: The Directors' Resource Toolkit

This Directors' Resource Toolkit has been developed to provide key information to Chairs and other Board directors responsible for implementing the recommendations made in this Report. These are not meant to be complete or exhaustive, and we expect that resources, practices and issues will evolve over time.

### Executive Search Firms

The following executive search firms have committed to extend the principles of the Voluntary Code of Conduct to the identification and presentation of minority ethnic candidates for Board roles:

[Names Subject to Consultation]

### Senior Leadership Diversity & Inclusion Training

The following professionals and organisations have been identified as being able to provide Board and senior executive diversity and inclusion training and development:

[Names Subject to Consultation]

### Other Available Resources

Boards and their advisers may find these other resources to be helpful when considering implementing the recommendations set out in this Report:

#### Board Apprentices

<http://www.boardapprentice.com>

#### Business in the Community

<http://race.bitc.org.uk/all-resources/toolkits/how-conduct-diverse-recruitment>

## Appendix C: Case Studies

The Steering Committee believes it important to highlight developing best practices relating to efforts being made to increase ethnic diversity in the Boardroom and other senior leadership positions within the corporate environment.

As a result, as part of the consultation prior to the finalisation of this Report, the Steering Committee welcomes leading UK-based companies to share with us examples of successful efforts they have made to embed ethnic diversity within their organisations and corporate strategies. We ask that these are provided to us in the form of brief case studies (no more than two pages), which the Steering Committee will consider for inclusion in the final Report.

# Case Study: EY

## Cultivating Racially Diverse Leadership

The global workforce is becoming more diverse as a result of increasing international mobility and demographic and social shifts. We serve global clients and we help our clients succeed by creating and building the highest performing teams through the right working environment and inclusive leadership.

Developing inclusive leaders who can connect and engage with anyone – regardless of their background, style or culture – is a crucial part of EY’s approach to our people and our clients.

We have built the skills of all our people to team and lead inclusively, implementing an extensive Inclusive Leadership Programme. This programme has now been delivered to 84% of our partners in the UK and over 1,500 of our managers and directors.

We are proud that EY member firms are regularly cited by external organizations as being leaders in Diversity and Inclusiveness (“D&I”) and for providing an excellent working environment.

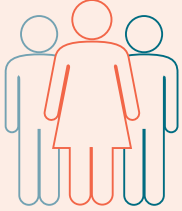
## How we have Moved the Dial on Diversity:

### Diagnosis and the Catalyst for Change

In 2011, 96% of EY UK Partners were white. Despite the roll-out of programmes targeting the development of non-white leaders, the dial was not moving on racial diversity and we realised we needed to shift our strategy if EY was to become more representative of our people and our client base.

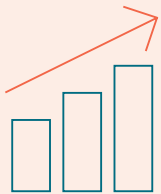
Steve Varley, EY UK Chairman, initiated an examination of the culture and processes in the firm which were persisting in generating the same disproportionate outcomes to under-represented groups. We made D&I a business issue and engineered transparent changes to accountability:

- D&I ownership was moved to the four service lines with clear leadership and direction from Steve Varley, through a new governance structure with monthly accountability meetings.
- D&I targets were added to Partner scorecards – an enabler for accountability. We also invested in building a pipeline of diverse internal talent.
- Public targets were announced. These stated that 10% of New Partner admissions should be from an ethnic minority; the target was set on a rolling three year basis.
- We improved management information which enabled the four service lines to diagnose which of the following metrics (shown in the graphic below) needed to be addressed most urgently.



## Representation

- Reasonable proportion of women and ethnic minorities at junior levels (approximately 50% and 25% respectively)
- Representation declined to 17%-4% at partner



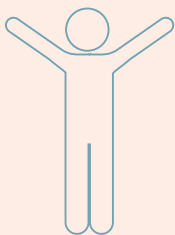
## Ratings and promotions

- Performance ratings were not always distributed in a representative way
- Promotions not always proportional to gender and ethnicity of our population



## Attrition

- Disproportionate attrition amongst our ethnic minorities
- When recruiting at experienced levels we tended to recruit mainly white men



## Satisfaction

- Our women were less satisfied than our men in our people survey, and our ethnic minorities were less than satisfied than our white people

## Promoting Inclusive Leadership

We realised in 2011 that the key to achieving fair and inclusive representation amongst our leaders was not just to target the under-represented groups. We implemented a cultural and behavioural change programme to equip all our leaders with the skills and awareness they needed to be inclusive leaders.

This, we believe, is the key to creating a more diverse senior leadership having as it does the mantra “to interrupt the status quo” where the white (and male) population has historically been more successful.

Our strategy is to develop the inclusive leadership capability of all our people at every level and to build inclusion into all our business processes.

In addition to our Inclusive Leadership Programme we continue to have a number of targeted programmes aiming to ensure our diverse talent progresses through to leadership positions. Sponsorship is key to career progression and we have implemented “CareerWatch”, which matches our high-performing female and Black and Minority Ethnic (“BME”) talent at manager level with influential Partner sponsors. Alumni of our award-winning BME Leadership Programme mentor the next generation of BME talent.

Our employee networks provide informal development events and networking support, as well as helping us to recognise the intersectionality of our employees across gender, race and ethnicity.



### Transparency and Targets

EY believes that public targets matter. As signatories to the UK Government Equalities Office “Think, Act, Report” voluntary framework, EY looks beyond gender reporting to include reporting on BME statistics.

Our UK business aims to have at least 30% female and 10% BME representation in our new partner intake, measured over a rolling three-year financial period. The table below shows how we have neared or exceeded our own targets.

### Actual results

	Target	FY16 New Partner intake	Rolling 3 years to 1 July 2016
Female	30%	29%	27%
BME	10%	13%	12%

### What have the results been so far?

Our UK Leadership team is currently 40% female and 10% BME. Within our UK Partner population; our Partner representation is now 20% female and 8% BME.

Five years since we implemented the change programme described above, BME representation in our Partnership has doubled to 8%. 30% of our graduate intake in 2016 were non-white and recruitment targets are starting to deliver results. Challenges persist and we continue to focus on equalising outcomes across the people metrics as we drive forward our agenda to promote greater inclusivity in EY.

### The Inclusive Leadership Programme (ILP) at EY

is helping individuals learn to identify their unconscious biases, how those biases affect organisational culture and how to interrupt the impact of their biases to enable individuals to achieve their potential. The programme is on-going and is presently in its 3rd phase.

- **84%** UK&I Partners & **612** Managers to Directors have attended the Inclusive Leadership programme for Phase 1 & Phase 2
- **Finalists** for 2015 Race for Opportunities Awards
- **Winner** of Opportunity Now Inclusive Culture Award
- **Winner** of 30% Club Everyday Inclusion Award

### Impact to date

- The programme has raised awareness and action beyond traditional Unconscious Bias training
- The language from the ILP Programme is now embedded within the organisation and used widely
- Inclusive Leadership is a priority on scorecards and embedded into processes which determine outcomes for our people
- Summer of Inclusion campaign in 2015 reached all our people in UKI and is now being utilised externally via Social Media



## Appendix D: Methodology

1. The FTSE 100 listings were taken as at 1 January 2016. Board data were collected from 1 January 2016 until our cut-off point of 31 March 2016. In some cases, Board composition might have changed in the time since the data were collected. We accessed data on each company from multiple sources, including the BoardEx database, annual reports, and corporate and public websites (e.g., Bloomberg, Wikipedia, media). We entered data on board size and board composition (excluding Company Secretaries) into Excel spreadsheets. This methodology broadly mirrors that used by Cranfield's yearly index, the Female FTSE Board Reports.
  2. For inclusion in the index, we checked directors' names and accompanying photographs; these data were available on the vast majority of corporate websites (96%). For these data points, we sought out markers that signalled white European origin. Where this was not evident, further checks were made, such as biographic data (education, nationality) from the BoardEx database and Bloomberg entries. If additional data were required, these were triangulated with more general media and Wikipedia photos and/or autobiographical text.
  3. Once the initial list was compiled, we engaged in further validation checks by drawing on the Steering Committee's knowledge and networks regarding directors of colour of whom they were aware. Following this, and closer to publication, we checked the data again, using an alternative method of BoardEx plus cached webpages. This revealed an overall discrepancy of +1 positions on boards, which had a marginal impact on our findings.
  4. We accept that no single noun or group of nouns would be perfectly suitable and use the broad term "people of colour" to describe individuals with evident heritage from African, Asian, Middle Eastern and South American regions. Thus, our focus is on non-white directors. Although this Report is produced in the UK and is based on the top 100 companies listed on the London Stock Exchange, these organisations are, by nature, major multi-national companies.
- This creates a local versus global tension with implications for terms like "minority" which are relative, localised and contextual. Thus, included in our list are non-white individuals who may self-identify as Latina/o but may not be categorised in the UK as minority ethnic.
5. We acknowledge that ethnicity is challenging to measure and ethnic categorisation is a combination of self-identification and ascription by others. The ideal methodology for measuring ethnicity (with significant practical hurdles) would be to ask individuals directly how they self-identify. In the absence of this, we believe our methodology is one of the most robust processes for assessing ethnicity on boards.
- We used multiple methods to validate and cross validate our list.
  - Rather than select in, we adopted a method of selecting out individuals who were apparently of White European ancestry based on a combination of their names with photos. Where both photo and name did not fit with White European ancestry, additional checks were made.
  - We believe our methodology runs the risk of over reporting minority ethnicity rather than under reporting, as some people may not "look" like minorities or may not self-identify as minorities despite being of "non-white ethnic" origin (e.g., due to fore parents' historic migration), but may have been included in our list based on their names.
  - One aim of this Report is to highlight the difficulties with accurately monitoring ethnicity on boards. The reporting errors associated with conducting this or any other similar index reinforce the case we advance for organisations to strongly advocate that their employees self-categorise on the basis of ethnicity, and for organisations to report these data. In the future, we will continue to finesse our methodology with additional support and resources, drawing on this flagship report as a starting point.

# Biographies



### Sir John Parker GBE, FREng

Sir John was born into a farming family in County Down (Northern Ireland). He studied Naval Architecture and Mechanical Engineering at the College of Technology and Queens University, Belfast and joined the ship design team at Harland & Wolff in 1964 and subsequently had extensive ship design, research and engineering experience.

Sir John is Chairman of Anglo American plc and Pennon Group PLC. He is currently a Non-Executive Director of Carnival Corporation and the Airbus Group.

He has chaired five FTSE 100 companies, including National Grid PLC, P&O Group PLC, RMC Group and Lattice Group. He was Deputy Chairman of DP World (Dubai) and Joint Chairman of Mondi PLC. He chaired the Court of the Bank of England and was a Member of the Prime Minister's Business Council of Britain, Chancellor of the University of Southampton and immediate Past President of The Royal Academy of Engineering.



### David Tyler

David is Chairman of two listed companies: J.Sainsbury plc and Hammerson plc. He also chairs Domestic and General Group which is privately owned. Previously, he has chaired Logica plc and 3i Quoted Private Equity plc, and has been a Non-Executive Director at Experian plc, Burberry Group plc and Reckitt Benckiser Group plc.

David's executive career was spent in financial and general management in Unilever, NatWest, Christie's and GUS. He has an MA in Economics from Cambridge University, and is a Fellow of the Chartered Institute of Management Accountants and a Member of the Association of Corporate Treasurers.



### Sanjay Bhandari

An experienced partner, Sanjay is a member of EY's UK & Ireland Tax Leadership Team responsible for innovation; working to develop the tax practice of the future. To our clients he is a global professional providing leading analytic technology solutions, helping them meet their legal and regulatory requirements.

Sanjay is the partner sponsor for EY's diversity and inclusiveness strategy for race, and partner champion for many of EY's award winning race initiatives. He is a visible role model and an influential force for change within the firm.



### Neil Carberry

Neil is the Director of People & Skills at the CBI and is responsible for setting out a framework to make the UK a great place to invest and create jobs. Neil leads a team that campaigns on behalf of CBI members on labour market and skills issues, including employment law, employee relations, equality and diversity, pay, pensions, education, skills and in-work learning, immigration, health and safety, and human rights.

Neil is a member of the council of ACAS and of the Low Pay Commission, which makes recommendations about the level of the National Minimum Wage. He is a Chartered Fellow of the CIPD. Before becoming director, Neil spent four years as Head of Employment and Pensions Policy and he has previously worked in the CBI's public services team as Head of Public Procurement.

Neil joined the CBI in 2004 after completing a postgraduate degree at the London School of Economics in industrial relations. Before this, he worked as an HR consultant for a number of major financial institutions.



### Helen Mahy CBE

Helen is chair of The Renewables Infrastructure Group. She is also a non-executive director of SSE plc, SVG Capital plc and a Norwegian Energy company, Bonheur ASA. She was, between 2003 and 2013, Company Secretary and General Counsel of National Grid plc where she was also executive sponsor of inclusion and diversity, about which she is passionate. She is a former supervisory board member of Opportunity Now.

Helen has also been a non-executive director of Aga Rangemaster Group plc and Stagecoach Group plc as well as being a former chair of the GC 100 Group. She was born and brought up in Guernsey and qualified as a barrister and was also an associate of the Chartered Insurance Institute. Prior to joining National Grid she was General Counsel and Company Secretary of Babcock International Group PLC.



### Ken Olisa OBE

Ken is Founder and Chairman of Restoration Partners, the boutique technology merchant bank and architects of the Virtual Technology Cluster model. Ken's technology career spans over 30 years commencing with IBM from whom he won a scholarship while at Fitzwilliam College, Cambridge University. In 1992, after twelve years as a senior executive at Wang Labs in the US and Europe, Ken founded Interregnum, the technology merchant bank. He was elected as a Fellow of the British Computer Society in 2006.

He has considerable public company Board-level experience on both sides of the Atlantic. He is currently a director of Thomson Reuter. He is also on the board of The Institute of Directors as a Non-Executive Director.

Ken is a Freeman of the City of London; Past Master of the Worshipful Company of Information Technologists; a Director of the Thomson Reuters Foundation; Chairman of Thames Reach (for which he received an OBE in 2010); Chairman of Shaw Trust, was an original member of IPSA (Independent Parliamentary Standard Authority) and Founder and Chairman of the Powerlist Foundation. In 2009, he was named the Sunday Times Not for Profit Non-Executive Director of the year. Ken was voted number one in the Powerlist's Top 10 most influential British black people in 2016. In 2015 Her Majesty the Queen, appointed him as her Lord-Lieutenant of Greater London.



### Trevor Phillips OBE

Trevor is a writer and television producer. He is co-founder of Webber Phillips Ltd, a data analytics provider.

Trevor currently serves as the President of the Partnership Council of the John Lewis Partnership. He is the first external appointment since 1928. He is also currently the deputy chair of the Steering Committee of the National Equality Standard and Chair of Green Park Diversity Analytics.

Trevor is the former chair of the Equality and Human Rights Commission. He had previously been the Chair of the Commission for Racial Equality and the elected chair of the Greater London Authority.

Trevor is the recipient of several honorary doctorates, the OBE, and was awarded the Chevalier de la Legion d'Honneur by the French Government in 2007.



### Tom Shropshire

Tom is a Partner in the Corporate department of the global law firm, Linklaters LLP, and is also co-head of the firm's Operational Intelligence Group. Tom has been based in London for nearly 20 years. Tom advises on M&A and equity capital markets transactions in the US, Europe and South Africa. Tom also regularly advises UK and global corporates on governance, sustainability, enterprise risk and regulatory change. From 2011-2014, Tom was a member of Linklaters' Partnership Board. Tom is also the past-chair of Linklaters Global Corporate Responsibility Committee. Tom is currently a Trustee of Prostate Cancer UK and in 2016 was noted as one of the top ethnic minority executives in the UK and US. Tom is a UK and US citizen, a graduate of the University of Southern California, and obtained his Juris Doctor and Masters of Business Administration (Finance & International Business) from New York University.



### Yvonne Thompson CBE

For the last 30 years, Yvonne, as an entrepreneur has worked in the Communications, Marketing and PR industry. During this time she has advised corporates, public sector, educational establishments and government, developing a stellar reputation as being an activist and a campaigner for supporting women and minorities in business, as well as tirelessly championing equality and diversity, particularly in the workplace.

In 2003 she received a CBE in Her Majesty Queen Elizabeth II Birthday Honours List for her work with small business, women and minorities. In 2005 she received a doctorate for her work with women and minorities in small businesses and supporting entrepreneurs from London Metropolitan University, and in 2015 she received her second doctorate for work in Global Diversity and Equality from Plymouth University.

In 2015 she published her first book, "7 Traits of Highly Successful Women on Boards". A book promoting greater gender diversity in company board rooms, it charts the rise to the top of 22 female boardroom executives, distilling seven key traits of their success in the process. An Amazon Best Seller in 3 categories before it was released, Dr Thompson has since gone on to inspire thousands of women careerists in public, private, educational and charitable sectors globally.



### Amy Winepress

Amy Winepress is an Audit Director at EY. She advises a range of listed clients across several industry sectors, working with diverse international teams. Amy was based in New York for two years and on her return to London, spent 18 months working as Chief of Staff to EY's UK&I Chairman, Steve Varley.

Amy has led EY's contribution to the Parker Review.



### Professor Susan Vinnicombe CBE

Susan's research interests focus on the lack of women in leadership, specifically on corporate boards; women's leadership styles and the issues involved in women developing their executive careers. Susan was Founder Director of the Cranfield International Centre for Women Leaders from 1999 to 2016 and the Deloitte Ellen Gabriel Endowed Chair in Women's Leadership at Simmons College (Boston) from 2013-2016. She and her co-authors produce the annual Female FTSE Board Report, which she launched in 1999 and is regarded as the premier research resource on women directors in the UK and is renowned globally.

Susan is the Founder and Chair of the judges for Women in the City Awards and is a judge for the Sunday Times best NEDs of the year awards. She is Vice Patron of the charity, Working Families. Susan was a member of the Davies Steering Committee from 2010 – 2015 and has been invited onto the Advisory Board of Sir Philip Hampton/Dame Helen Alexander's Review on the lack of women in the executive pipeline.



### Dr Doyin Atewologun

Doyin, a Chartered Organisational Psychologist, is a researcher and consultant with expertise in organisational development, diversity & inclusion, intersectionality and leadership. Doyin is a Lecturer in Organisational Leadership & Learning at the School of Business & Management, Queen Mary University of London and Visiting Fellow at Cranfield School of Management, UK, the Lagos Business School, Nigeria and University of Pretoria, South Africa. Doyin is also a founding member and Deputy Chair of the British Psychology Society's Diversity & Inclusion at Work Group.

Doyin obtained her PhD on leader identity development of Black, Asian and Minority Ethnic senior managers from the International Centre for Women Leaders, Cranfield School of Management. Her research has gained several international awards. Doyin is Research Lead of the Black British Business Awards, which recognises, rewards and celebrates exceptional performance and outstanding achievements of black people in businesses operating in Great Britain.

Prior to her academic career, Doyin worked as Lead Consultant in OPP Ltd, a pan-Europe business psychology consultancy, specialising in assessment & recruitment, talent development, executive coaching and team building facilitation, for nine years.

