Speech by Malcolm McCaig, Chairman, Unum UK "Sponsoring Diversity in a World of Unconscious Bias"

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“Sponsoring Diversity in a World of Unconscious Bias”

Many thanks for your kind introduction and I am delighted to be with you today.

It is a great pleasure, albeit a difficult task, to follow Yvonne and her discussion panel.

When I first took on the job of Chairman at Unum, and chose Diversity and Inclusion as one of my key priorities, I went home and looked in the mirror. What I saw might be classified as “White, Stale and Male”. Not a great start. I knew I couldn’t change two of those qualities, but I have been working to overcome the “stale” part and find the champion within. It’s been an interesting and worthwhile journey.

In my speech today, I want to focus on the role of the board in relation to diversity and inclusion. As we all know and indeed acknowledge, the lack of diversity is not an isolated problem but a widespread concern affecting many companies and public sector bodies. The tide may be turning however progress is slow – painfully slow. Diversity is not a tick-box exercise or a set of targets but an essential component of companies’ robust corporate governance as well as a significant contributor to enhanced competitiveness and productivity.

What I am hoping to do in my speech, and in the question session that follows, is to put forward a number of suggestions on how boards can embrace diversity and inspire the next generation of leaders. One area that I am particularly keen to explore is what it is generally known as the “pipeline problem”. Unless we tackle the issue of a more diverse workforce in senior positions across all sectors of the economy the pool of available people to join boards will remain rather limited and certainly not reflective of society as a whole.

Let me begin by giving a brief reminder of the state of corporate governance in the UK.

Speech by Malcolm McCaig – Russam GMS

It is 25 years since the Cadbury Report ushered in our modern framework for corporate governance, following on from a number of high profile governance failures and company bankruptcies. This report, and its successors, established an approach to corporate governance that mainly relied, not on hard law and enforcement mechanisms, but on best practice. Good corporate governance underpins and encourages trust between boards and their shareholders. In the UK, our regime is based on a "comply or explain" principle of accountability, and overseen by the Financial Reporting Council.

Since the Cadbury Report, corporate governance has continually evolved, usually following reviews and upgrades to tackle a particular failing. This approach to reform, frequently reactive in nature, has served to enhance the UK's corporate governance framework and helped to keep it at the leading edge of international standards. Strong corporate governance should not be seen as excessive regulation – it is in the interests of business for these standards of good practice to be maintained, both as the driver of productivity and economic growth, and to fulfil obligations to the wider society in which it operates.

A key issue at hand is whether corporate Britain can continue to adapt 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. In my opinion, robust corporate governance is part of the answer to that challenge.

The UK Corporate Governance Code describes how the culture of a company should be set: "*One of the key roles for the board includes establishing the culture, values and ethics of the company. It is important that the board sets the correct tone from the top. The directors should lead by example and ensure good standards of behaviour permeate throughout all levels of the organisation. This will help prevent misconduct and unethical practices, and support the delivery of long-term success.*"

If the board is not taking the trouble to deep dive and discover whether the words expressed in the boardroom are being performed further down the organisation, then you can expect to get a disconnect. It is an important part of the board's responsibility to be setting and monitoring the culture of the business.

Culture, value and ethics are therefore fundamental. And a key component of that culture, I would strongly argue is diversity and inclusion. So, how well is diversity and inclusion being embraced by today's boards?

Individually, directors need to act independently and challenge constructively. To be an effective board, they need the ability to work together as a cohesive unit, and deal with all the relevant stakeholders. As Malcolm Forbes put it: "*The art of thinking independently together.*" Because they have to deal with a wide range of topics, directors collectively need to bring together different skills, experience, personal attributes, perspectives and approaches.

The Code requires companies to include in its Annual Report a description of the board's policy on diversity, including the gender balance of the board, the measurable objectives that it has set for implementing the policy, and the progress made on achieving these objectives. Regrettably, these reporting requirements have not done enough. Quite strikingly, the number of female Chief Executives has actually declined during the past three years. There were nine women Chief Executives in 2014. In March 2017, there were only six.

The benefits of diversity on the boards are not obviously reflected in their make-up, which remains remarkably uniform. Of 1,087 director positions in FTSE 100 companies, only 26.7 per cent are women, and yet the total UK population is 50.6% female. Statistics are also poor on ethnic diversity. Only 8 per cent executive and non-executive positions in FTSE 100 companies are held by people from Black, Asian and Ethnic Minority backgrounds. This is despite the fact that 14 per cent of the total UK population is from a non-white ethnic group.

These are the kind of statistics that attract political criticism. In her keynote speech at the Conservative Party Conference in October 2016, the Prime Minister stated: "*Too often the people who are supposed to hold big business accountable are drawn from the same, narrow social and professional circles as the executive team. And too often the scrutiny they provide is not good enough. A change has got to come.*"

The Business, Energy and Industrial Strategy (or BEIS) Committee's Report on Corporate Governance of 5 April 2017 stated: "*Directors should not be appointed to the board solely on the basis of one particular background or area of expertise. Greater cognitive diversity promotes more effective challenge and more informed decision-making.*"

It rankles me that the politicians are throwing stones at corporate governance, but I have to give them some credit. We have a woman Prime Minister, the First Minister of Scotland is a woman and her Conservative opposition is also a woman. In Northern Ireland, the leader of the main party is a woman. In Wales, the leader of the Welsh Nationalists is a woman. There are six women in the Cabinet, which is 26% of the Cabinet posts. And, at the last General Election, 208 women MPs were elected, 32% of all MPs.

Returning to the question of board composition, I think I have been fortunate that most of the boards I have served on have been cognisant of the need for a mix of experience and skills round the board table. And in recent years, there has been increasing attention to gender diversity on boards, accelerated by the Davies Review and the more recent Hampton-Alexander Review The case, both commercial and moral, to remedy this deficit has attracted widespread support from the business community. However, the lack of other aspects of diversity on UK boards has not gone unnoticed by the public and indeed by key decision-makers.

For instance, let's take the LGBT community, an area where data in relation to boards is perhaps not as robust as other groups and frankly an area that it has not received as much attention and focus as it deserves. Some people do not feel comfortable disclosing their sexual orientation. And yet, an important aspect of making progress is to ensure that people in the workplace are comfortable with whom they are.

Stonewall's survey of employers, which it uses to define its Workplace Equality Index, found that:

- Only 1 in 4 lesbian, gay and bi people feel comfortable disclosing their sexual orientation to their colleagues. Figures were lower for lesbians at 23%, higher for gay men at 33%, and considerably lower for bi individuals at 12%
- According to the survey, two-thirds of people who have come out as LGB at work then experience better job satisfaction and have a higher sense of achievement
- The survey also suggests we need to see more visible LGBT role models. Just 11% of respondents believe there are bi role models at work; 19% see trans role models; 42% lesbian role models; and 53% see gay role models at work

So who is the best of the bunch? Stonewall's Equality Index in 2016 put MI5 in top place. Commenting on taking the number one spot, the Director General, Andrew Parker, said: "*Diversity is vital for MI5, not just because it is right that we represent the communities we serve, but because we rely on the skills of the most talented people whoever they are, and wherever they may be*."

I am delighted that last week, Unum became a Stonewall Diversity Champion. We will be working closely with Stonewall to enhance and strengthen our current policies on LGBT as part of Unum Group's diversity and inclusion programme. And to show our commitment to creating an equal workplace, within 5 years Unum aims to be in the top 100 companies listed in Stonewall's Workplace Equality Index.

The motto is: "*We want the best people, at their best.*"

Another area where we have to challenge our board diversity and we have better data is on the number of ethnic minorities on boards. But I am afraid this does not make pretty reading.

53 out of the FTSE 100 companies do not have any directors of colour. Seven companies account for over 40 per cent of directors of colour. Only nine people of colour hold the position of Chairman or Chief Executive. Moreover, of the board appointments made following the Davies Review, a relatively small number of those board positions have gone to women of colour.

One of the three main recommendations from the Parker Review stated: “develop candidates for the pipeline and plan for succession”.

Historically, people from ethnic minorities within the UK have not had the same opportunities as many mainstream candidates to develop the skills, networks and the senior leadership experience desired in a boardroom. However, some evidence suggests that there are many board-ready candidates.

In 2016, two reports, one by Green Park and the other one by Audeliss in conjunction with The Financial Times, claimed hundreds of high-calibre, board-ready candidates who were from minority ethnic backgrounds. In addition, there are professional organisations such as the Executive Leadership Council, in the UK and in the USA, with significant access to people of colour who are experienced senior executives and senior members of professional service firms. These known and identified professionals from an ethnic background represent a broad spectrum of experience, expertise and skills, all of which can benefit companies now. So, if it is not just a pipeline issue, what else is holding us back?

The additional factors we have to recognise are unconscious bias and discrimination. Last year’s survey from Harvey Nash's Engage network, representing leaders from all ethnic backgrounds, showed that 71% of these leaders experienced ethnic discrimination in their career which meant they have had to work even harder to reach board level or the most senior positions. And a recent Equality & Human Rights Commission Inquiry found just 13% of FTSE 100 companies provided training on equality law and avoiding unconscious bias.

Having touched on ethnicity and LGBT, I would like to return to the aspect of gender diversity on boards. In terms of international comparisons of women representation on boards, over the past five years, the UK in particular has made important progress by exceeding its 25% target for FTSE 100 boards in 2015. The UK has moved up to sixth place globally in terms of female board representation. As the UK begins its next stage of its journey to the 33% target for women on boards of FTSE 350, its ranking will hopefully move up a few more places. This assumes we are focussing on a long term embedded solution, not just a short term target.

However, making comparisons from one country to another is rather complex. The governance arrangements in countries range in size and structure as do the frameworks and initiatives they are using to raise the number of women on boards. Indeed, the countries ahead of the UK in the rankings have also introduced quota regimes. Norway, France, Finland, Belgium, Netherlands and now Germany have all legislated for more women on listed boards.

As of 1 October 2016, Norway led the way with 38.1% of women on boards. Followed by Sweden with 35.3% , France with 36.4 per cent, Finland with 32.1%, Belgium with 29.0% and the UK with 26.6%. They are followed by the Netherlands, Denmark, Germany and Canada. It is also interesting that apart from Canada, all the other nine countries saw an increase in the percentage of women on boards from the previous year. France saw the biggest increase with 3.9%. Canada saw no increase.

In the UK, to make further progress, we need to address the pipeline issue. Companies of all sizes need to ensure that women are encouraged from early on in their careers. At Unum, we are doing this through talent management, mentoring, meaningful work experience, and a degree of pragmatic flexible working, to help women to progress to executive and director posts. Unum were in the first wave of companies to sign up for the Women in Finance initiative, and we have set goals for which the CEO and HR Director are personally accountable.

Some commentators would argue that a further issue to consider when discussing diversity is that of pay. Typically, there is no distinction between non-executive director fees when it comes to gender, and executive directors encompass board duties within their existing remuneration arrangements. However, discussions on pay should also take into consideration the impact of pay equality further down the organisation.

The Equality and Human Rights Commission's Report, "Fair Opportunities for All: A Strategy to Reduce Pay Gaps in Britain", published in August 2017 points out that the gaps experienced by women, people from ethnic minorities and disabled people arise largely from the barriers they face getting into and progressing at work. The report also points out that some elements of pay gaps result from the choices people make about balancing work with other aspects of their lives, though these choices may be dictated or constrained by "*stereotypes about the roles people, particularly women, are expected to play in society*."

The introduction of gender pay gap reporting next years is likely to reveal some interesting insights. For some companies, I expect this will show the difference in average pay between men and women is due to the lack of women in senior posts rather than just an inequality at the same grade. Again, this is the pipeline issue. And according to figures released by the Department for Business, Energy and Industrial Strategy in 2016, improving the participation and progression of ethnic minorities at work would add £24 billion a year to the economy.

This leads me to briefly touch upon the matter of whether changes to composition of boards, such as statutory quotas for boards or mandated short-lists, should be made mandatory through legislative or regulatory prompts. Personally, I am not in favour of this approach. The Parker Review 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 Parker Review also adds: "*Of course, however, should the progress we seek to make through our recommendations be limited, we will likely need to revisit that decision*." We have been warned!

I fully recognise as Chairman of a Board and a non-Executive Director of a number of boards that organisational change must begin right at the top. So, let's start at the top.

Stewardship, mentoring and sponsorship are essential components in professional development and progression. Without the appropriate commitments from Chairmen, boards and executives, UK companies will not secure the best talent, whatever their background and wherever they may be located.

I firmly believe that 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. In this context, I strongly agree with the Parker Review that boards should consider two key important points: Firstly, how they respond to the changing demographics affecting the UK, namely the increasing diversity of the workforce; Secondly, How will they ensure that they have executives and other employees that have the skills to manage diversity well. To that end, I firmly believe that boards should make diversity and inclusion explicit on the board agenda. But let me be clear on something else. Although targets are important, I believe that the main driver of change needs to be a clear and coherent commitment to a long-term direction of travel. There should be explicit objectives for the development of the various pipelines, a discipline to record and track progress against those objectives, and regular reporting on these matters to the board.

Moving down the organisation, initiatives need to be identified to address the challenges specific to that organisation. It is essential not to leap to easy answers. An organisation is likely to only have the energy and capability for limited number of challenges at a time and can expect at least two to four years before seeing substantive results. What I have seen work is to pick a few specific points and focus a lot of organisational energy on these.

This is precisely what Unum UK is doing and I am impressed by the amount of time and effort put in by senior management. The company has two excellent programmes one for emerging leaders, both male and female, and the other one specifically tailored for women. Having spoken to a number of participants in the last few weeks, I am struck not only by their dedication but also their willingness to learn, to further themselves personally and professionally, and their appreciation to their company for giving them this opportunity. This is a win-win situation for all concerned.

However, as the Hampton-Alexander Review points out making progress in the executive pipeline brings new challenges. For example, managing tensions that diversity can create will require a significant amount of attention from the senior leadership, and overcoming unconscious bias is a skill that many people will need to develop.

Current legislation requires companies to disclose the gender balance amongst directors, senior managers and employees within their annual strategic report. The current definition of senior managers does not easily lend itself to making clear comparisons between companies in order to assess progress on gender diversity. I believe that the Financial Reporting Council should, in close consultation with business, consider how best to clarify the definition of senior managers to achieve a more consistent metric. This could be based on the Executive Committee or its nearest equivalent in each organisation, and could include direct reports to members of that committee.

I also believe that businesses must help to improve social mobility by being more inclusive in whom they give opportunities to. Supporting greater social mobility is the socially responsible thing to do, and it improves community cohesion as well as setting up the country for success in the future. This starts with the work experience opportunities that a company provides.

I was particularly struck by a recommendation from the The McGregor-Smith Review, "The Time for Talking is Over. Now is the Time to Act: Race in the Workplace", published in February of this year. The recommendation calls on employers to seek out opportunities to provide work experience to a more diverse selection of individuals, looking beyond their standard social demographic. I believe this to be a sensible and pragmatic recommendation, which should be fully considered and indeed taken up by companies.

A similar programme for disabled students is already well under-way. Change 100 brings together the UK's top employers and talented disabled students to offer three months of paid work experience. Since its launch in 2014, Change 100 has partnered with over 90 employers across the UK. And I am delighted that Unum took part in this programme for the first time this year. According to Change 100, all of the interns said that their Change 100 experience has improved their confidence in the workplace.

A further area that I would like companies do more to encourage and support the internal high potential female, disabled, minority and LGBT employees, is to take on board and trustee roles with external organisations such as educational trusts, charities and other not-for-profit roles. These opportunities will give valuable experience and develop oversight, leadership and stewardship skills. I think this can be done without too many problems as many companies, especially the FTSE 100, have strong Corporate and Social Responsibility and educational programmes.

I believe that the task ahead will be challenging and the road fraught, but I am optimistic that progress will be made. The debate on whether progress should be faster than it has been for the last few years will no doubt continue – and it is a legitimate debate.

I also believe that we should be discussing corporate culture, and diversity and inclusion, in those companies other than the FTSE 100, 250 and 350. As we are aware, the recent reports on boards have primarily looked at the companies in the FTSE and this is quite right but what about those companies outside the FTSE. How do we go about getting changes there? How do we collect meaningful data for comparing those companies? In terms of boards and diversity and inclusion, do they have a better or worse record than FTSE companies? Perhaps, this is discussion for another day.

In conclusion, as I have mentioned before, it is important that we fully recognise the power of diversity. But at the same time, we need to be alert and manage the tensions that diversity can create. We need to be radical and challenge legacy thinking as well as tackling pipeline and overcoming unconscious bias. We have to commit to change, and to embedding new ways of thinking and working. Above all, we need more champions to the cause.

As Steve Jobs said: "*Great things in business are never done by one person. They are done by a team of people.*"

Thank You