EQUALITY, POVERTY AND SOCIAL SECURITY

Increasing Representation of Women on Private Sector Boards in Scotland

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Background

1. Scotland's Economic Strategy (Scottish Government, 2015) sets out the Scottish Government's purpose "*to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth*". One of the four priorities of the strategy is Inclusive Growth, with a focus on addressing long-standing barriers to **equality and diversity in the labour market**.

2. With Scotland's first gender balanced cabinet, the First Minister has challenged all public, private, and third sector organisations to commit to take action on gender inequality with the launch of a voluntary **Partnership for Change** commitment to achieve a 50/50 gender balance on boards by 2020.

3. Partnership for Change builds on the ongoing work of the Public Boards and Corporate Diversity Programme. The programme has three strands:
   - Strand 1 – To improve the percentage of women and other under-represented groups in leadership roles in Scotland, by fostering an enabling environment and securing a commitment to improved diversity by 2020.

   - Strand 2 – To make Ministerial public appointments more diverse reflecting broadly the general population in Scotland by 2020.

   - Strand 3 – To make Scottish Government's senior leadership more diverse reflecting broadly the general population in Scotland by 2020.

Purpose, Aims and Scope of Research

4. The **aims** of the research are to:
   - Build on previous research to improve the evidence base on overcoming the barriers to diversity on corporate boards in Scotland.

   - Inform the Scottish Government's approach to improving diversity on boards, with a focus on informing the development of the Partnership for Change commitment.

5. Whilst the main focus of the research has been on women's representation on private sector boards, it has also examined the diversity of boards in terms of the other protected characteristics set out in the Equality Act 2010[i].

6. This study is part of a broader programme of work being undertaken by Scottish Government to improve gender equality and diversity, including programmes to give individuals insights into how boards operate and what is involved in being a board member, mentoring and peer support programmes and the introduction of the Scottish Business Pledge[ii].

Research Methods

7. The research has involved:
   - A review of the policy and academic literature.

   - Interviews with key stakeholders including Scottish Government, Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland, Investors in People, key business representative organisations, the Equality and Human Rights Commission and a range of organisations and individuals with a particular interest in improving the gender balance of the workforce and/or private sector boards.

   - An e-survey of private sector companies. 55 companies with boards took part in the e-survey.

   - Case studies with 10 private sector companies. These were selected to reflect a range of different experiences – including both companies that were actively seeking to improve the gender balance and broader diversity of their board and those that were not.

Rationale for Improving Gender Balance and Broader Diversity of Boards

8. The literature suggests that there are two main *rationales* for improving the diversity of private sector boards:
   - Diversity leads to more effective boards by broadening the range of perspectives and expertise, which in turn delivers *business benefits* including improved organisational performance, improved access to resources (especially human resources) and increased financial value.

   - An *equalities perspective* requires that individuals from across the protected characteristics are represented across all aspects of the labour market (and society more generally), including at board level.

9. Both of these rationales were also highlighted by the key stakeholders interviewed as part of this study – although there were different views across the stakeholders about which was more important or the balance in emphasis that should be placed across these different rationales.

10. Many companies completing the e-survey felt that the composition of their board was having *no impact* on the company, how it is perceived or its performance. In addition, a substantial proportion of companies had no idea whether the composition of their board was having an impact on these factors.

11. The elements that the composition of the board were most likely to be seen to be having an *impact* on by companies included:
    - Range of skills, capabilities, experiences and perspectives available at board level).

    - Perceptions of existing staff and potential recruits.

    - Understanding of customer need.

    - Quality of corporate governance.

12. Companies where females accounted for 40% or more of the board or where the number of female board members had increased over the last 5 years were more likely to say that board composition was having an impact on each of the elements of the company, how it is perceived and its performance. This is important evidence in support of the concepts set out in the literature about the benefits of improving gender balance and broader diversity of boards. It also suggests that companies do not necessarily need to have achieved 50/50 gender balance to see these benefits – moving towards gender balance can help generate these benefits.

13. Case study companies generally felt that equality and diversity are important principles – but had mixed views on:
    - Whether taking action to address the gender balance or broader diversity of their board was necessary or even appropriate.

    - Whether improving the gender balance and broader diversity of boards brought business benefits.

14. Some stakeholders highlighted *concerns* that seeking gender balance and broader diversity on boards may lead to tokenistic approaches that may underpin the achievement of women (if they are perceived to be appointed to achieve parity rather than as a result of their skills and experience) and/or to raising expectations that cannot be met. Similarly, many case study companies had concerns – normally focused around whether this would lead to them recruiting individuals to their board that do not best meet their needs.

Barriers to Improving Gender Balance and Broader Diversity of Boards

15. The literature suggests the *main barriers* to improving gender balance and broader diversity of private sector boards can be categorised as:
    - *Individual characteristics* including different aspirations about board membership and a lack of relevant skills and experience. However, there is

mixed evidence in relation to this – and many researchers criticise this perspective as it places the emphasis on women rather than on changing the broader organisational and cultural issues that influence women's decisions.

- **Interpersonal characteristics** including more limited social networks and board culture being unable to accommodate diversity – making it difficult for women and other underrepresented groups to integrate.

- **Appointment and recruitment processes** with, for example, a lack of diversity on nomination committees, unclear selection criteria, unconscious bias and the language and framing of directorships all acting as barriers to women and other underrepresented groups gaining board positions.

16. However, the findings of the e-survey show quite a different picture:
- The most common barrier to achieving gender balance on their board highlighted was the **low turnover of board membership** – reflecting the fact that most companies completing the survey were small and medium-sized enterprises (SMEs) and many were family-owned companies (whereas most earlier research has focused on larger, listed companies).

- Just under a third of companies felt that there were **no barriers** to improving the gender balance of their boards. Boards that were more equal were more likely to think this was the case.

- Where companies did identify a barrier that specifically related to gender, the most commonly mentioned were a **lack of female candidates** coming forward for board positions and that **female candidates lack the industry-specific skills and experience** required.

17. The case studies and stakeholder interviews provide further insights into these barriers.
- The lack of female candidates is thought to reflect differences in aspirations across genders (with many of the 'potential board members' interviewed for this research feeling that board positions were not for them), perceptions that boards are a 'male-dominated culture' where they may not fit in and more limited social networks amongst women.

- The major factors underpinning the lack of skills and experience amongst female candidates are the lack of women in senior management roles and time out of the labour market due to caring responsibilities which limits the volume of experience women have accrued compared to men. A further consideration is the type of skills and experience companies are looking for – with some consultees raising concerns that these are too narrow. The concern here is that there is unconscious bias amongst the often cited focus on getting 'the right person for the job'.

18. One of the most notable findings is that many of the companies that participated in the research felt that there were no barriers to improving the gender balance of their board – but the low proportion of boards with gender parity and the evidence from other literature suggest that at a broader societal level there are

barriers. In addition, many of barriers that were identified related to the choices women make in the labour market (for example, around career choice, whether to remain in work after having children, etc.). It is important to recognise that these are influenced by *wider organisational, structural and cultural barriers* and unless there is wider recognition of these (and action to address them) it will be difficult to make sustainable inroads into tackling this issue.

Approaches to Improving Gender Balance and Broader Diversity of Boards

19. At a policy level, there are three established approaches to improving gender balance and broader diversity of private sector boards:
    - Setting *quotas* for the number of women on private sector boards. Over 20 countries have adopted quotas and whilst they are effective in changing the composition of boards, they are contentious with concerns that they can undermine women's achievements. In addition, the introduction requires appropriate supports to be in place and for sufficient time to be allocated to enable companies to achieve the quotas.

    - *Voluntary targets* (sometimes referred to in the literature as coaxes) aim to increase the number of women on private sector boards without enacting legislation. This is the approach adopted by Scottish Government through Partnership for Change and the UK Government through the Lord Davies Review process.

    - *Corporate transparency* requires companies to report on equality and diversity policies, initiatives and outcomes alongside other statutory reporting (such as financial reporting). This is intended to encourage companies to adopt approaches to improve the gender balance of their board – with some countries adopting a 'comply or explain' approach.

20. The vast majority of stakeholders and companies consulted during this research felt it was *important Scottish Government does not impose quotas* – as these could lead to inappropriate appointments, could lead to undermine the progress of women and in some cases impact on the sustainability of companies. Whilst there was broad support for the Partnership for Change voluntary commitment, some consultees expressed concerns it could become perceived as a quota over time.

21. Turning to the approaches taken by companies themselves:
    - 29% of companies completing the e-survey had *no policies or processes* in place to address the gender balance of their boards.

    - In general, most companies that had adopted policies or processes to address the gender balance of their boards had only put in place a small number of approaches. There is *limited evidence of companies adopting a comprehensive approach* to tackling this issue.

    - The most commonly adopted policies and procedures all related to *developing the pipeline* – mentoring and/or peer support for senior

managers to prepare them for board positions, creating networking opportunities for senior managers and training for senior managers to prepare them for taking on board roles.

- Few companies appeared to be adopting processes or procedures around **recruitment processes** or **placing greater priority** on improving the gender balance of the board (such as setting targets or reporting on balance in their annual report).

22. In terms of '**what works**', the factor that appears to be of most value to companies is **commitment by the board and/or Chief Executive** to improving the gender balance of the board. The other factor that appears to have an important impact is the **changing gender profile of the business** (and to a lesser extent, the sector as a whole) with this leading to more women in senior management roles. Companies that are more gender equal at the board level (40% or more of board members are female) were much more likely to say that having policies and processes in place to improve board and staff understanding of equality, diversity and potential bias had been of value to them than those with fewer women on their board.

23. **Other approaches** identified in the case studies as being of value to improving gender balance of boards included:
- Embedding efforts within wider HR policies – such as Investors in People.
- Developing flexible working arrangements to attract and retain females in senior management roles.
- Making board recruitment processes more transparent.
- Providing mentoring and peer support for new board members.

24. Few case study companies had any explicit policies, processes or procedures to help improve the **broader diversity of their board**. Where action was being taken, this tended to focus on gender rather than other protected characteristics.

25. Only half of the case study companies had accessed any **external supports** – and in many cases this was a relatively minor element of their approach. In general, both companies and stakeholders felt there was a lack of awareness of what support is available – meaning this resource is not being fully utilised. Concerns were also raised by some stakeholders about whether this support is sufficiently resourced and evaluated.

26. In terms of the **support** stakeholders and companies would value from Scottish Government, this included:
- Providing clear **leadership** on this issue – although to have credibility it was felt important that the public sector achieved gender balance and broader diversity on their boards.
- Increasing the **focus** on this issue – for example, highlighting research, using procurement to encourage companies to consider the gender balance of their

board and encouraging companies to provide information on this (through accreditation).

- Putting in place **supporting infrastructure** to develop the pipeline of women and other individuals with protected characteristics in senior management roles. This includes working with young people around career choice and aspirations, improving the availability and quality of childcare and ensuring leadership development programmes are available.

- Providing **guidance and tools** (such as checklists and good practice guides) to enable companies to make progress on this issue. Where possible, these should be embedded into mainstream business development supports (such as Business Gateway, Scottish Enterprise and Investors in People).

Recommendations

1. Many companies felt that improving the gender balance or broader diversity of their board was not an important issue for them. More work is needed to **raise awareness** of the importance and benefits of a diverse board. Scottish Government can play a key role here – both directly and indirectly through its economic and business development agencies and by encouraging other partners to raise the issue.

- Whilst the equalities argument is important in principle, the challenge is that many companies feel they 'treat everyone equally' and therefore that no action is needed. As such, arguments around the impact gender balance and broader diversity has on **board effectiveness** and **business performance** are likely to be more compelling.

- The **target audience** for these messages should be board members and Chief Executives – as the research found that a commitment by these groups was critical to making progress on this issue. Scottish Government should work with those organisations and agencies that have strong links to these groups – such as Confederation of British Industry (CBI), Institute of Directors (IoD), Scottish Chambers of Commerce and Scottish Council for Development Industry (SCDI). In addition, consideration should be given to how these messages can be incorporated in the Scottish Business Pledge.

- These messages are likely to be most effective if they are **built into mainstream business development supports** (such as Business Gateway, Scottish Enterprise, Highlands and Islands Enterprise and Investors in People) – as this helps reinforce the key message that this is a key part of ensuring the business has the resources available to achieve its goals and aspirations. Scottish Government should work with these agencies to identify how to embed these messages into their approach.

- Scottish Government and their agencies also have the potential to use **public sector procurement** to prompt companies to think about their board composition – although any approach must comply with legislation.

Research[1] has found that this has been an effective approach to getting companies to change their practices in relation to other policy areas (such as recruiting disadvantaged young people). Scottish Government should issue guidance to public agencies on how the issue of board diversity could be incorporated into procurement, including giving examples of good practice.

2. However, it will not be sufficient to increase awareness of the issue amongst companies. Companies must also be able to get practical information, advice and support to understand the changes that are needed to their policies, practices and culture and how best to implement these.

- A number of **initiatives and programmes** are already in place to support companies to improve the gender balance and broader diversity of their boards. There is a need for:
  - o Greater promotion of this provision. As an initial step, Scottish Government could include linkages to relevant provision through their webpages on Partnership for Change and the Scottish Business Pledge.
  - o Scottish Government should undertake an assessment of whether there are any gaps or overlaps in provision and develop a plan about how these can be addressed.

- Scottish Government should work with its partners (including business representative organisations and business support services) to ensure that a range of information and tools – such as **checklists** and **good practice guides** – are available for companies.

- Scottish Government should also explore how it could help facilitate **learning and knowledge exchange** between and within the public, private and third sectors on their experiences of how to improve board diversity.

3. Two key barriers to improving the gender balance of boards are the lack of female candidates and the perception that those female candidates that do come forward lack the skills and expertise required. This is likely to also be the case for other protected characteristics (such as race or sexual orientation). As outlined earlier in the report, the factors underpinning these are complex meaning action is needed across a number of areas:

- Ensuring **sponsorship, mentoring, peer support and training** is available to women and those in other under-represented groups (including those with disabilities, from ethnic minority and LGBT communities) in senior management roles. This should be targeted specifically at helping develop the skills, experience and credibility to move into board positions. There is also a need for provision of this type for those earlier in their careers to help ensure they reach senior management roles and develop aspirations for

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[1] Sutherland, V., McTier, A., Glass, A. and McGregor, A. (2015). *Analysis of the Impact and Value of Community Benefit Clauses in Procurement.* Edinburgh: Scottish Government.
http://www.gov.scot/Resource/0048/00480510.pdf

board membership. This will require action from across industry, business representative organisations and the public sector.

- Ensuring that policies in other areas support women and other under-represented groups reach senior management roles. This includes policies in relation to **childcare and flexible working** and ensuring that schools, colleges, universities and careers advisors are encouraging young people to consider the widest range of **career choices and aspirations**.

- Many case study companies felt that the most important factor in selecting board members was to get the 'right person for the job'. However, there is a risk here that there is unconscious bias in what companies consider to be 'right' – and that this is excluding women and individuals from other under-represented groups from being considered. **Action is needed to challenge unconscious bias**. Whilst unconscious bias training is a key element of this, this is likely to only be taken up by companies that are aware of its presence – and therefore consideration should be given to how tackling assumptions and practices can be built into other provision. Scottish Government should consider how they could best support this to happen.

4. Another key barrier to increasing gender balance and broader diversity of boards is the low turnover of board members – especially in SMEs and family-owned companies. As a result, the actions outlined above should be **focused on those firms with a regular turnover of board membership** – at least in the early stages – as these are the companies where there is the greatest potential to deliver change. Success amongst these companies can then be used to encourage other companies to consider tackling this issue. However, it should be noted here that identifying companies with regular board turnover is, in itself, a challenging task.

How to access background or source data

The data collected for this social research publication:

☒ cannot be made available by Scottish Government for further analysis as Scottish Government is not the data controller.

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[i] The 9 protected characteristics are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. More details on the Equality Act are available from: http://www.legislation.gov.uk/ukpga/2010/15/contents

[ii] The Scottish Business Pledge is a voluntary commitment that companies in Scotland can make to adopt fair and progressive business practices. The Scottish Business Pledge has nine components.
- Paying the Living Wage.
- Committing to an innovation programme.
- Pursuing international business opportunities.
- Not using explotative zero hours contracts.

- Supporting progressive workplace policies.
- Supporting Invest in Youth.
- Making progress on gender balance and diversity in the workforce and boardroom.
- Playing an active role in the community.
- Paying suppliers promptly.

To make their Business Pledge a company has to be paying the Living Wage, already delivering at least two other elements and committed to achieving the rest over time.