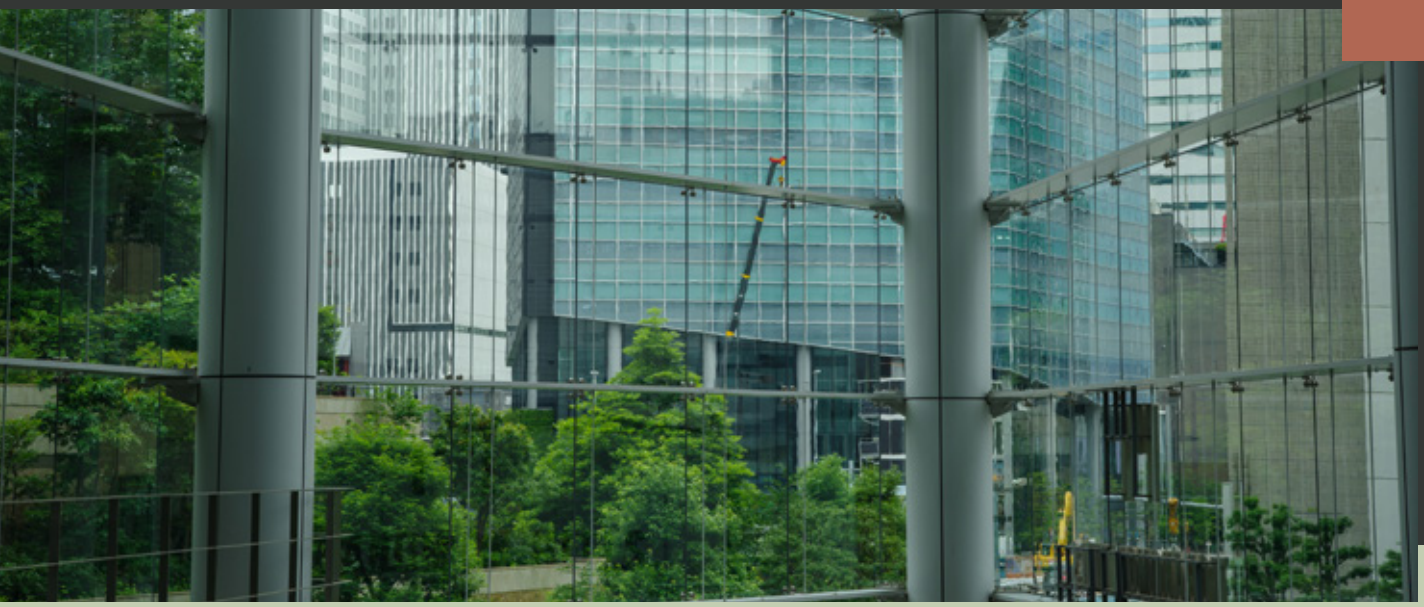
appg Environmental, Social, and Governance

Transparency, coordination and ambition:

Delivering gender equality through ESG

October 2023



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Foreword from the Chairman

Participants at the APPG on ESG's roundtables since it was formed in 2021 will be aware of both my enthusiasm for environmental, social, and governance's capacity to help meet public policy objectives through commercial enterprise and my keen interest in delivering on the 'S'.

The social pillar of ESG is often overshadowed by the urgency of meeting net zero and related environmental objectives. One of ESG's inherent strengths is that it asks businesses and investors to take a holistic view. Often labelled as 'just transition', I view this as common sense. Policy delivery is about people, and we need to be moving forward on the 'S' as quickly as possible.

In February, the Government proudly announced it had reached the 40% target for female representation on FTSE 350 boards, three years ahead of schedule, without a mandatory quota in sight. However, only a fraction of women occupy executive directorships in the FTSE 100. Just three women were among the 20 newly-appointed CEOs in the year to May 2023. Out of 22 chair roles, only four went to women.

We must recognise the ability of businesses to embrace equality, and diversity too. The Rose Review of Female Entrepreneurship estimates that helping women to scale up businesses at the same rate as men would add £250bn to the UK economy. There is a job to be done in signalling to businesses that equality delivers value and plenty more besides.

The materiality of equality is undisputable, and this needs to feed through to our corporate governance regime. We are seeing positive signs, but we can go further. One of the ironies of our investigations for this report is that arguably the country we can learn most from is our own. The tremendous work of the Rose Review and other related initiatives in female entrepreneurship are outstanding examples we should transfer to the corporate side, where we are already a world leader. This is a reminder that we should be not ranking ourselves against our international peers, but taking the steps to achieve genuine equality. I hope this report goes some way to that end.

Alexander Stafford, Conservative MP for Rother Valley and Chairman of the All-Party Parliamentary Group on Environmental, Social, and Governance

Executive summary

There is a long way to go before we achieve genuine gender equality in the private sector, both in entrepreneurship and in the corporate world. Less than one in eight loan applications are made by female entrepreneurs, on average loans secured by male entrepreneurs are three times bigger. In 2023, the UK Government celebrated just over 40% of FTSE 350 board positions being occupied by women, however the 100 index features only nine female CEOs. This report explores how we can begin to bridge these gaps with the application of ESG practices and principles.

The Rose Review of Female Entrepreneurship, the UK Government's women-led high-growth enterprise taskforce, and the Investing in Women Code (IIWC) are performing important functions to break down barriers. From an ESG perspective, the IIWC is pivotal in encouraging investors to disclose more information, enabling other actors to change their behaviour. The missing component is visibility. The UK Government needs to do more to raise awareness of the gap in female entrepreneurship, while also encouraging investors to sign up to the IIWC in particular.

On the corporate side, the landmark initiative is the FTSE Women Leaders Review, which oversees the voluntary 40% boardroom target. Regulators are playing an important role in encouraging more balanced boards and having more women in senior roles, but reporting provisions allow companies to "explain away" gender inequality instead of encouraging them to engage with the issue. Again, raising awareness is pivotal, this is the example set by New Zealand, which does not have voluntary targets, let alone the quotas common in Europe, but is coordinated in its approach.

The UK can also learn from its own playbook on female entrepreneurship. The first step would be to establish a Government-backed scheme like the IIWC to encourage disclosures of disaggregated data. The equivalent code should borrow from private sector initiatives already in place in the knowledge that they are geared towards larger businesses that typically have more capacity to report granular information; smaller businesses are more likely to struggle.

The APPG recognises there is a trade-off here. Reporting burden on the one hand, on the other, the material benefit of being more equal and diverse and the social benefits that brings. This report advocates a separate 40% target for executive board positions, among other recommendations to spur momentum. But these actions need to be undertaken in consultation with the companies being affected.

Identifying the optimum selection of disclosures is an essential undertaking. We need ESG frameworks to enable boards to benchmark progress, working in tandem with internal programmes to ensure talent pipelines are bringing up and supporting women at all levels. Another important consideration is that individual and institutional investors have increasingly higher expectations. Businesses should be mindful that it is in their interest to develop and apply policies and practices to drive social progress and provide the relevant data to prove it, attracting investment along the way.

Statistics featuring in the foreword and executive summary feature throughout the report and are referenced.

Recommendations

Overarching recommendations

- For the **UK Government** to make clear statements calling for **progress towards gender equality** in entrepreneurship, and for progress to rapidly accelerate in the corporate world.
- To abide by a largely **voluntary approach**, but ensure that various initiatives function in **coordination** with one another.
- To ensure progress towards greater female entrepreneurship and corporate equality are **coordinated with one another**.

Female entrepreneurship

While strides have been made, there remains much to be done to ensure women trying to set up businesses receive loans at the same rate and value as their male counterparts.

- The UK Government must scale up its efforts to raise **the profile of the Investing in Women Code (IIWC)** to increase participation in terms of signatories, engagement with investors, and critically, the sharing of data.
- The UK Government should continue to **support and heighten the visibility of the women-led high-growth enterprise taskforce**, paying attention to the taskforce's recommendations in coordination with other initiatives.

Corporate gender equality

This report calls for the Government to convert initiatives underpinning the entrepreneurship agenda to support gender equality to the corporate world.

Level up the 40% board target

- The target would only be met if **women held at least 40% of executive board positions**. At least 40% of non-executive directorships should be held by women, in line with the FTSE Women Leaders Review's existing recommendation.
- **Widen the scope** of the target to include the 500 largest publicly listed companies and 100 largest private companies.
- Develop **new targets** aimed at raising the number of women senior leaders.
- The UK Government should **raise the profile of gender board targets** and communicate a **clear ambition for more women to reach senior and executive leadership roles**.

Launch a **consultation** assisting the FTSE Women Leaders Review

- Identifying the highest value and lowest burden **data disclosures**.
- The consultation will also seek feedback on the **next series of targets**.
- Additionally, for the Government to consider rolling out a **national successor** to the Treasury Select Committee's **'Sexism in the City' consultation**.

Disclosures

- Listed companies must **publicly disclose board members' salaries** on their website, and annual and sustainability reports, explaining gaps in pay between male and female board members.

- Public companies to publish **post-maternity retention rates**, including retention after six months and after a year.
- The Government should implement necessary measures to encourage businesses and sectors to be **transparent about why they are failing to bring more women through the talent pipeline** and disclose their plans to address failures to meet targets.

New initiatives

- For the Government to create a **new unit** as part of the Gender Pay Gap Service. The new unit will **coordinate initiatives** towards achieving corporate gender equality, and publish guidance on how to avoid gender washing.
- The new workstream must engage with existing gender reporting frameworks as part of the development of an **equivalent corporate code** to the IIWC and be plugged into Government.
- The UK Government should **create a corporate-focused taskforce based** on the women-led high-growth enterprise taskforce. The new group would be attached to the FTSE Women Leaders Review.

Sustainable investing and finance

The Department for Work and Pensions' **social factors pensions taskforce** should **coordinate with the new corporate gender equality taskforce** proposed by the APPG in guiding companies to appropriate frameworks and metrics to help them attract sustainable investment. The two bodies should also develop guidance and basic standards to **tackle gender washing**.

Introduction

The effective application of ESG principles, and practices in addition to disclosures is dependent on common frameworks and standards. In social, there remains a long way to go, partly because it is so far behind environmental in the development of these tools, but also because the 'S' is intrinsically more challenging to capture and benchmark, as documented in the APPG's inaugural report on impact and performance assessment.

On the face of it, gender lends itself to quantitative reporting. The gender of board members and employees can be and is easily captured, but as this report will demonstrate, ascertaining a board's level of commitment towards gender equality requires a more extensive and sophisticated range of disclosures and engagement with regulators. This report also firmly acknowledges that ESG can only achieve so much.

In July, the APPG held a roundtable on gender equality and gender washing, attended by Jill Pay of The Gender Index and Yvonne Greeves, Director of Women in Business at the NatWest Group, which oversees the Rose Review on female entrepreneurship (see Figure 1). The session acted as the platform for this report. Aside from highlighting ESG's role in tackling inequality, the discussion brought to the surface many of the structural factors inhibiting progress. These obstacles feature in this report so that ESG's role is understood alongside the many other actions that need to be taken by the Government and within civil society to achieve real change.

Figure 1. Contributors to APPG's gender equality report: the Rose Review and The Gender Index

The Rose Review

The Rose review was commissioned in 2018 by the UK Government, and conducted by Alison Rose, former CEO of NatWest. The primary objective of the Rose Review was to examine the barriers and challenges faced by female entrepreneurs in the UK and to make recommendations for promoting female entrepreneurship and closing the gender gap in business ownership. The Rose Review is involved with both the Investing in Women Code and the UK Government's women-led high-growth enterprise taskforce. Yvonne Greeves is Director of Women in Business at NatWest.

The Gender Index

The Gender Index is a non-profit organisation that tracks every active UK company, accurately measuring the number of female-led businesses in the UK and their impact on the economy. The Gender Index segments gender-based data across ethnicity, industries, regions, types of investment, and other key metrics. The organisation provides a clear, real-time picture of the UK company landscape, highlighting the challenges and opportunities for female entrepreneurs in the UK. Jill Pay is Chairman of The Gender Index.

Yvonne Greeves and Jill Pay attended the APPG's roundtable on gender equality and gender washing and supported the APPG with this report.

This report is principally concerned with gender equality for the simple reason that we are still a long way from achieving a gender balance in the corporate and entrepreneurial world, and indeed wider society, progress is occurring, but slowly.[1]

This report is divided into three parts. Part 1 summarises the ongoing challenges facing women in both entrepreneurial and corporate environments. Part 2 explores the structural barriers to equality that featured prominently in the roundtable and broadly lie outside of ESG, for instance making childcare more accessible. Part 3 explores what ESG *can* do, beginning with data and the need for disaggregated data disclosures, accounting for regional disparities among other significant factors. Part 3 then explores materiality, partly through the prism of corporate governance, focusing on establishing effective female talent pipelines overseen by senior board members with or without accompanying quotas, the materiality of a diverse board and senior management round off the section. The report concludes with an examination of sustainable investing and finance.

1 The APPG recognises that the terms equality and equity are distinct from one another. Equality typically means the provision of equal resources and opportunities for all, while equity implies accounting for individual differences and allocating accordingly, to reach an equal outcome. However, for the sake of simplicity, this report uses equality as an all-encompassing term.

Part 1. State of play

1.1. Female entrepreneurship

Female entrepreneurship formed the cornerstone of the APPG's July roundtable. Women investors are more likely to invest in female-led businesses, which in turn are more likely to have more women in senior management positions.[2 3] Figure 2 lists a range of indicators showing that progress is occurring, albeit slowly. According to the Gender Index, 17.3% of UK companies are female-led, a rise of half a percentage point on the previous year.[4]

Figure 2. Key indicators of female entrepreneurship

- 17.3% of UK companies were female-led in 2022/23 (The Gender Index).
- In the 16-24 age bracket, 21.7% of businesses§ are actively led by women, considerably higher than the generational average (The Gender Index).
- 150,000 new companies were opened by women in 2022, a 150% increase on 2018 (59,000 businesses - The Gender Index).
- 13% of loan applicants are female (The British Business Bank).
- Loans granted to women are significantly lower, £174,000 on average v. £507,000 for men (The British Business Bank).
- Female angel investors typically put 30-50% of their investment into women-led enterprises (UKBAA).

More encouragingly, 150,000 new companies were opened by women in 2022, a 150% increase over a four-year period. The Global Entrepreneurship Monitor's 2022 survey of the UK found the male rate of early entrepreneurial activity (the percentage of nascent entrepreneurs and new business owners) was 13.2% compared to 9.7% for women.[5] However, progress is being made, there is considerably more appetite to set up businesses among young women. Female entrepreneurs account for 21.7% of all businesses founded by 16-25 year olds, two percentage points higher than the average.

Optimism is dimmed by the substantial disparity in levels of investment solicited and received between men and women. According to the British Business Bank, the average loan granted to a male entrepreneur is just over half a million pounds, female entrepreneurs secure £174,000 on average.[6] The OECD's policy briefing on female entrepreneurship notes that female-led start-ups are typically smaller. Just 14% of nascent female entrepreneurs started their new venture with a team of three or more,

2 'Women angel insights: the impact of female angels on the UK economy', UKBAA, 2022

3 'Beyond the glass ceiling: Why businesses need women at the top', ILO

4 'The Gender Index 2023' (annual report), 2023

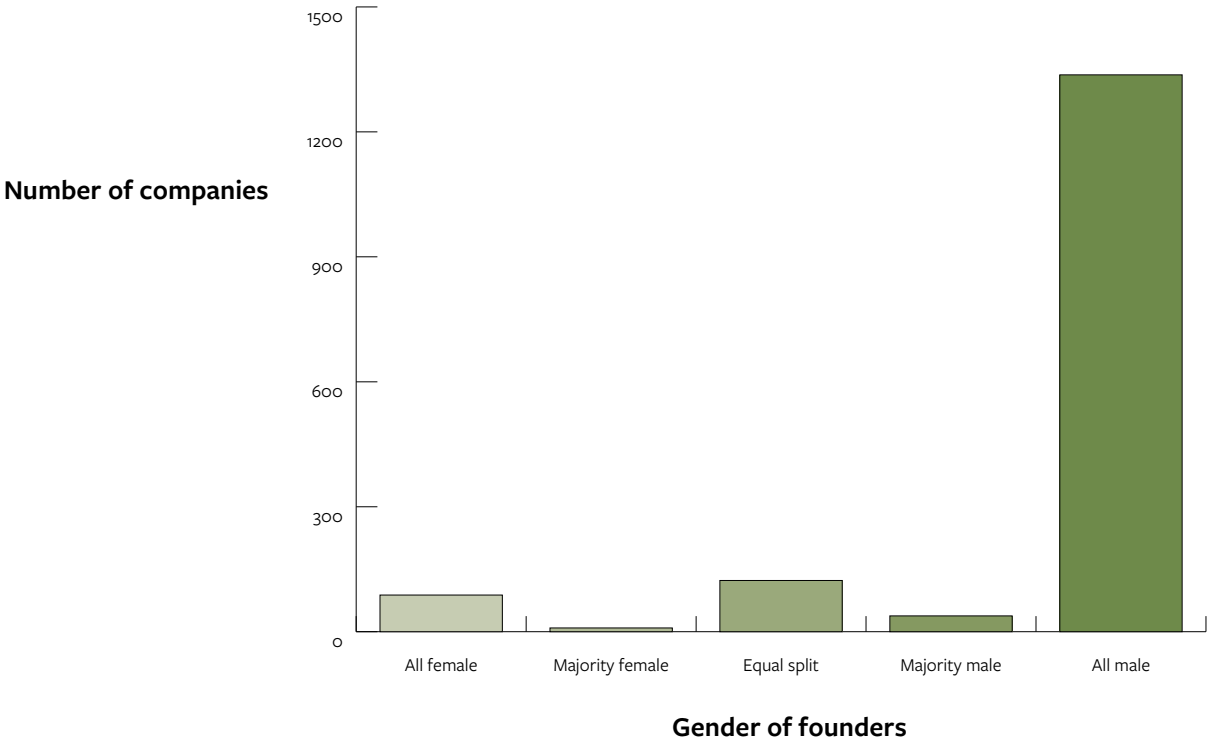
5 Global entrepreneurship monitor: UK report 2021-22, GEM, 2022

6 'Investing in women code annual report 2022', British Business Bank, 2022

compared to 21% of men.[7]

The policy briefing notes that one in ten women set up businesses in small-scale service sectors such as washing and cleaning, hairdressing, beauty, wellbeing and fitness – only 2.4% of men establish these kinds of businesses. Men are considerably more likely to set up high-growth ventures with export potential. The founders of 84% of high-growth enterprises in the UK out of a total of 1,595 were all-male. All-female teams account for less than 6% (88 companies) of high-growth enterprises.

Figure 3. Gender of UK high-growth enterprise founders



Source: Transparency data - OECD-defined High Growth Enterprises in the UK

The OECD's findings tally with testimony provided at the roundtable that female entrepreneurs are often drawn to familiar sectors providing local services, requiring less capital and are less scalable.

The void between low-growth local businesses often founded by women and higher growth ventures explains the Government's move in May 2022 to launch the women-led high-growth enterprise taskforce. The initiative, which operates alongside the Rose Review, seeks to identify barriers and apply "convening power to influence high-growth investors and the wider business community, and to raise the aspirations of the next generation of female entrepreneurs". In January, the taskforce revealed that it is engaging with regulators, the Prudential Regulation Authority and the Financial Conduct Authority (FCA) alongside the British Private Equity and Venture Capital Association in order to try and "accelerate" commitments to gender equality.

7 'Policy brief on women's entrepreneurship', OECD, 2016

Recommendation

The UK Government should continue to support and heighten the visibility of the women-led high-growth enterprise taskforce, paying attention to the taskforce's recommendations in coordination with other initiatives.

1.2. The corporate experience: senior management and board-level female representation

In February, the Government celebrated reaching the landmark target of women holding 40.2% of board positions at FTSE 350 companies.[8] The data was compiled by the FTSE Women Leaders Review, the latest iteration of a sequence of target-focused reviews (see Figure 4) backed by KPMG and Lloyds Bank Group.

Figure 4. Successive women-on-boards reviews

- The Davies Review (2011-2015) set a target for Women on Boards at 25%.
- The Hampton Alexander Review (2016-2020) raised the target to 33% and extended the target to the two levels below the board (executive committee and their direct reports).
- The FTSE Female Leaders Review raised the target again to 40%.

Source: FTSE Women Leaders Review, 2023

The Review adds that "much of the progress on boards is by virtue of Non-Executive Director (NED) capacity", reflecting a lack of female appointments to executive roles. In the 12 months to May 2023 just three women out of 20 were made chief executives across the top 150 FTSE companies, according to executive recruiter, Spencer Stuart, while four women from 22 were appointed chairs.[9]

It would be an error, though, to underestimate the significance of these appointments. Both Yvonne Greeves and Jill Pay, who led the panel discussion, stated their firm belief that the non-executive roles they and other colleagues have been appointed to have put them in positions to effect change. Moreover, there are generally far more non-executive than executive roles, as acknowledged by the Review: "The majority of FTSE 350 Boards are Non-Executive Directors, given requirements of the UK's Corporate Governance Code to have at least half of the Board, excluding the Chair as Non-Executive Directors. Hence, much of the progress on boards is by virtue in a Non-executive Director capacity".[10]

The fact remains, however, that female executives are profoundly under-represented, while 'overboarding' is becoming increasingly common as boards hire female NEDs from a small pool of

8 'UK Spencer Stuart Board Index highlights', Spencer Stuart, 2023

9 'UK boards prioritised experience over diversity last year, says headhunter', Financial Times, 2023

10 Ibid

prospects.[11] Women are under-represented at senior leadership level. If this is not comprehensively addressed, the pool will not grow and overboarding will continue. It is noteworthy, too, that the gap in female senior leadership appointments gives rise to gender washing allegations.[12] Consequently, the APPG favours an ambitious, separate target for executive directorships, but recognises these roles on a typical board are a fraction of the number NEDs, the deadline for reaching it should be ambitious without being unfeasible. Accordingly, there needs to be widespread consultation with businesses.

In addition, the APPG would like to see the range of companies under the target increased to the 500 biggest listed and 100 largest private companies, which would put the UK's commitment far ahead of its peers internationally (see Appendix 1 on p42). However, in its consultations with experts, the group detected concerns that widening the scope may have a negative effect on the UK's position as a natural destination to list public entities. Companies operating entirely overseas may be put off listing in the UK for fear of having to comply with UK domestic corporate requirements. A diversity and inclusion expert consulted on this matter also shared these reservations, noting that adding more companies to the FTSE Women Leaders' scope would strain resources. Clearly, there should be a balanced approach to raising the number of companies expected to meet gender equality targets, applying exemptions for instance. Nevertheless, in order to accelerate progress, more companies need to be asked to meet the 40% threshold.

The under-representation of women in executive positions poses serious questions about companies' efforts to establish effective talent pipelines enabling women to travel from management to senior leadership and up to executive level, a major preoccupation of this report. According to the Female FTSE Board report authored by Professor Susan Vinnicombe CBE and Dr Michelle Tessaro, in the period 2021-2022 the FTSE 100 featured only nine female CEOs and 18 female chairs.[13] In that period, the number of executive directorships across the index increased by just 3% to 36; 47 across the next 250 companies, a climb of 12%, and the same number as in the year prior.

The lack of executive authority held by women reflects a lack of female representation on executive committees. Women make up only 34.3% of these committees, according to the Review, up from 32.5 the previous year.[14] The FTSE Women Leaders Review points out that while the appointment rate to executive committees (ExCom) and direct reports has increased to 40%, the figure "reduces to 33% at the executive committee level, this begins to address the unexplained, yet significant skewing of appointments in favour of men in prior years".[15] Female ExCom appointments have climbed from 31% the previous year.

Ensuring women are nominated to governance and indeed ESG committees is an essential step towards more women being appointed to senior board positions, a key theme revisited in Part III. Furthermore, according to OMFIF, female members of executive committees are likely to carry less clout in a given

11 'Majority of European Financial Services Directors sit on multiple firms' boards, raising investor concerns of 'overboarding", EY, 2023

12 See 'Women shy away from senior finance careers', Financial Times, 2021 and 'When I walk into meetings I'm one of the few women there', ESG Clarity, 2023

13 'Meet Andrew, the chief executive – according to AI,' Personnel Today, 29 September 2023; note Alison Brittain (Whitbread) is no longer in post

14 Ibid

15 'Achieving gender balance', FTSE Women Leaders Review, 2023

business.[16] The financial services think tank found that 62% of women on executive committees run a major business line compared to 83% of men.[17] In 2021, the Financial Times quoted the chief executive of a firm specialising in promoting gender diversity in finance who estimated that "up to 30% of senior hires are made through referrals" – men recommending other men via social networks. "There's a lot of gender-washing [that] goes on".[18]

> *The reasons women leaders are stepping away from their companies are telling. Women leaders are just as ambitious as men, but at many companies they face headwinds that signal it will be harder to advance. They're more likely to experience belittling microaggressions, such as having their judgement questioned or being mistaken for someone more junior.*
>
> *They're doing more to support employee wellbeing and foster inclusion, but this critical work is spreading them thin and going mostly unrewarded. And finally, it's increasingly important to women leaders that they work for companies that prioritise flexibility, employee well-being, and diversity, equity, and inclusion (DEI).*

McKinsey's 'Women in the workplace' report, findings based on a survey of 40,000 employees with the participation of 333 organisations employing more than 12 million people.[19]

In financial services, asset managers have been found to recruit more women than men in non-revenue generating functions such as ESG, giving the gender balance a lopsided appearance across businesses.[20] Kronor Group found that in 2020-21, one in two ESG professionals hired by hedge funds globally were female, yet women accounted for less than a third of hires, 28.6%.[21]

1.2.1. Existing regulatory requirements and voluntary reporting

In April 2022, the Financial Conduct Authority published measures to "improve transparency on the diversity of company boards and their executive management for investors and other market participants". The "comply or explain" provisions listed in Figure 5 mirror the FTSE Women Leaders Review's recommendations (see the review's recommendations in Figure 7 on page 25).

16 'Gender balance index 2023', Official Monetary and Financial Institutions Forum, 2023

17 Ibid

18 'Women shy away from senior finance careers', Financial Times, 2021

19 'Women in the Workplace 2022', McKinsey, 2022

20 'Asset managers 'have a very long way to go' on gender', Responsible Investor, 2023

21 Ibid

Figure 5. Financial Conduct Authority's listing rules

Listed companies should 'comply or explain' their success in achieving the following targets:

- At least 40% of the board should be women.
- At least one of the senior board positions – chair, CFO or Senior Independent Director (SID) should be a woman.
- A minimum of one board member should be from an ethnic minority background (not including white ethnic groups).

The disclosure should be made in the company's annual financial reports, consisting of a standardised numerical table on the diversity of the board and executive management by gender and ethnicity. Listed companies are also required in their corporate governance statements to submit the diversity policy of the board and that of the key board committees – audit, remuneration, and nominations.

Source: FTSE Women Leaders Review, 2023

The FCA's requirements do little to trigger change, although, as we shall see in section 3.2.2. on quotas, a voluntary approach that fosters transparency is to be welcomed.[22] The bar could be set higher, however. For instance, the second objective under the FCA's provisions and the Review's recommendations is for a woman to occupy the role of CEO or CFO and/or chair or Senior Independent Director.[23] The use of and/or implies at least two women should occupy the four roles, one serving as either CEO or CFO and another woman in the chair's seat or in support as SID. However, as one expert pointed out to the APPG, the actual expectation is to have just one across the four roles.

The Bloomberg Gender Reporting Framework goes several steps further in promoting transparency and accountability.[24] The framework consists of a set of standardised questions and metrics that companies voluntarily use to report on their gender-related policies, practices, and outcomes. Reporting encompasses key issues such as gender diversity in leadership positions, pay gaps, parental leave policies, and initiatives to promote gender equality. The disclosures enable investors and other stakeholders to make informed assessments of a given company submitting to the framework.

Case Study 1. Bloomberg Gender Reporting Framework

The Bloomberg Gender Reporting Framework aims to promote transparency and accountability in addressing gender-related issues within organisations, providing a structured framework for companies to report on their efforts to advance gender equality and diversity in the workplace.

22 'Policy Statement: diversity and inclusion on company boards and executive management', Financial Conduct Authority, 2022

23 'Achieving Gender Balance', FTSE Women Leaders Review, 2022

24 'Bloomberg gender-equality index', Bloomberg Gender Reporting Framework, 2023

Purpose

The framework aims to encourage businesses to disclose relevant gender-related data and information. It helps companies identify areas where they can improve gender diversity and equality within their workforce, leadership, and operations.

How It Works

The framework consists of a set of standardised questions and metrics that companies can use to report on their gender-related policies, practices, and outcomes. Companies are asked to report on various aspects, including gender diversity in leadership positions, gender pay gap, parental leave policies, and initiatives to promote gender equality. The framework provides a consistent format for reporting, making it easier for stakeholders to compare and evaluate companies' progress.

Benefits

- Transparency: The framework encourages companies to be more transparent about their gender-related efforts, allowing stakeholders, including investors, policymakers and civil society, to assess their commitment to gender equality.
- Accountability: By setting specific reporting standards, the framework holds companies accountable for their gender-related initiatives and promotes greater consistency in reporting.
- Benchmarking: Companies can benchmark their performance against industry peers, identifying best practices and areas for improvement.
- Investment and Talent Attraction: Investors and job seekers increasingly value gender equality and diversity, and companies that excel in these areas may attract more investment and top talent.

Contributions to Gender Equality

By encouraging companies to disclose gender-related data and information, the Bloomberg Gender Reporting Framework creates a culture of transparency and accountability that can lead to positive change. The framework facilitates data-driven decision-making by providing companies with insights into their gender diversity efforts, enabling them to make targeted improvements. It fosters healthy competition among companies to improve their gender equality performance, ultimately pushing more organisations to adopt policies and practices that promote gender balance and inclusion.

The 2023 edition of the FTSE Women Leaders Review asserts that getting more women into CEO and CFO roles is "where the most work is still to do".[25] This section has shown the picture is mixed. Significant strides have been made in reaching 40% female representation across FTSE 350 boards, and while non-executive roles dominate, this needs to be recognised as a necessary part of the journey. However, there is a big disparity between the companies aiming for the 40% target and above, making gender balance a board priority, and those companies that are explaining away their failures in meeting the target – the median percentage among the bottom 10 of the FTSE 100 is 30%, 20 points lower than the top 10.[26]

We cannot take reaching the 40% target at face value. Accelerating progress will be addressed fully in part 3, however from this evidence there clearly needs to be a greater level of ambition.

25 'Achieving gender balance', FTSE Women Leaders Review, 2023

26 'The Female FTSE Board Report 2022: what works?', Cranfield University, 2022

Recommendations to level up the 40% board target

- The target would only be met if women held at least 40% of executive board positions. At least 40% of non-executive directorships should be held by women, in line with the FTSE Women Leaders Review's existing recommendation.
- Widen the scope of the target to include the 500 largest publicly listed and 100 largest private companies, this may require dedicating more resources to the FTSE Women Leaders Review.
- Develop new targets aimed at raising the number of senior women leaders.
- The UK Government should raise the profile of gender board targets and communicate a clear ambition for more women to reach senior and executive leadership roles.

Part 2. Structural issues

The APPG's July roundtable engaged with disparities in the corporate world and between male and female entrepreneurs, highlighting structural issues that need attention in a policy context beyond ESG, namely: family life and education, which are both intertwined with an investment culture that is not friendly to women.

2.1. Family life

Without low-cost and easy-to-access childcare, the majority of women will continue to be at a structural disadvantage compared to men. The APPG repeatedly returned to the issue of family life impeding women's professional development and career prospects at its gender roundtable. Evidently, we will not see a breakthrough in the number of female senior managers, directors, and CEOs without deeper Government intervention through conventional policies.

At the 2023 UK Budget, the Chancellor of the Exchequer announced considerably larger childcare provisions for working families. From September 2025, working parents of children under the age of five will be entitled to 30 hours of free childcare per week. The provision will be available from the age of nine months instead of three years as is currently the case. The impact of this considerable expansion in childcare provision could be revolutionary, although it will continue to be limited to 38 weeks of the year. 5.6 weeks of statutory holiday entitlement accounts for less than half of the remaining 14 weeks.

Figure 6. Childcare reforms in the 2023 budget

- From April 2024, working parents of two-year-olds will be able to access 15 hours of free childcare.
- From September 2024, 15 hours of free childcare will be extended to all children from the age of nine months.
- From September 2025, working parents of children under the age of five will be entitled to 30 hours of free childcare per week.

Source: UK Government

According to the Trade Unions Congress, one in 10 women in their thirties leave the labour market to take on care responsibilities full-time, a commitment made by just one in 100 men.[27] The consequences for women who choose to put their careers on pause and even semi-pause for family reasons are significant. The Institute for Fiscal Studies (IFS) found the female employment rate fell from 90% to 75% post-childbirth, and average weekly hours of paid work dropped from around 40 to less than 30 marking the "start of a long period over which women's hourly wages stagnate – partly because working fewer hours tends to shut down wage progression – and hence is key to

27 'New TUC analysis finds more than 1.46 million women are kept out of the labour market because of their caring responsibilities', Trade Unions Congress, 2023

understanding the gender wage gap".[28] In recent years, the four-day working week model has gained popularity in regard to improving business productivity and work-life balance for employees, especially the management of childcare responsibilities (see Case Study 2).

Case Study 2. Tyler Grange's four-day work week

Tyler Grange, a B-corp certified environmental consultancy, has introduced a four-day working week, which in the firm's view has had a significant positive impact, benefiting working mothers in particular. The initiative was motivated by the recognition that women with families working part-time were highly productive, challenging the 'motherhood penalty' often faced by women in the workplace.

The move to a four-day work week has destigmatised part-time and flexible working. This change has been well-received by clients and has created a level playing field for colleagues, eliminating the need for employees to feel embarrassed about their schedules.

The four-day work week has also proven to enhance commercial performance. Tyler Grange measures productivity and outputs instead of presenteeism with the company producing over 9% more work in four days on average than in five, resulting in a 109% increase in productivity. Employees are 28% less tired and 14% happier, contributing to a healthier and more balanced work environment.

Tyler Grange's findings correlate with a pilot in 2022-23. Over six months, the trial of a four-day work week was conducted within 61 companies. The pilot's organisers, the 4 Day Week Campaign, reported that a shorter working week was found to improve work-life balance, making it easier for employees to manage work alongside family and social commitments. 92% of companies that participated in the pilot have opted to continue with the reduced work pattern, including Tyler Grange.[29]

Jess Heagren, founder of What Works For Me, a recruitment firm that champions flexible working to support mothers in particular, surveyed 848 women across the UK to build a more granular picture.[30] Heagren found that while 98% of respondents intended to return to work after becoming mothers, 85% reported leaving full-time employment within three years of having children. She writes:

> *Most respondents said that they had struggled to make a full-time job work alongside having children. Only 24% returned from maternity leave to their pre-maternity hours, while 57% left the workforce, with many citing redundancy, mental ill-health and the impossibility of managing their work and family responsibilities as the causes.*[31]

28 'Women much more likely than men to give up paid work or cut hours after childbirth even when they earn more', Institute for Fiscal Studies, 2021

29 'The UK's four-day week pilot', 4 Day Week Campaign, 2023

30 'Why are employers alienating working mothers when they should be celebrating them?', Raconteur, 2023

31 Ibid

These are alarming figures, underlining the need for corporate talent pipelines explored in Part 3 (see also Case Study 3) and additional support for all female workers returning from maternity leave. In the APPG's view, companies above a certain size should be obliged to disclose their post-maternity retention rates and explain poor performance.

Case Study 3. Speedy Hire's strategies to support its objective of attracting women into the workforce, retaining and developing female employees to progress into senior management roles

Speedy Hire is the UK's leading tool and equipment hire services company and a sector leader in ESG. Operating in a predominantly male industry, Speedy Hire has joined the UN Women Empowerment Programme to develop a framework to support achieving the company's target of 30% female participation in the workforce by 2030, the company is currently at 22%.

Speedy Hire is signed up to the UN programme's Empowerment Principles (see below), requiring the company to complete a benchmarking assessment upon joining the 9-month programme and then annually thereafter. This has helped the Chair of Speedy Hire's Gender Affinity Group and its members to create a corporate strategy and action plan to advance the company's gender equality programme.

UN Empowerment Principles

- Establish high-level corporate leadership for gender equality
- Treat all women and men fairly at work – respect and support human rights and non-discrimination
- Ensure the health, safety, and well-being of all women and men workers
- Promote education, training, and professional development for women
- Implement enterprise development, supply chain, and marketing practices that empower women
- Promote equality through community initiatives and advocacy
- Measure and publicly report on progress to achieve gender equality

As part of its drive to increase the number of female colleagues at all levels, Speedy Hire has implemented internal talent pipelines and accelerator programmes to nurture and further develop individuals. One of the aims is to have more women in senior management levels who may then progress in the future to Executive Team roles.

One such programme, the Senior Leaders programme, has seen an increase in female participants who have all been identified as future senior leaders. Under the programme, each member is tasked with developing, owning and implementing a project or programme of works that will enhance the performance of the business. The project culminates in a pitch to the Executive Team for approval.

In addition, Speedy Hire completes regular talent reviews across the business with board-level oversight. The Executive Team members have oversight of all succession planning and talent mapping within their respective areas of the business. They will also complete the talent pipeline calibration of their direct reports. This involves discussions and agreement between the Executive Team members

regarding each of their direct report's performance in their current role, the motivation, capability, and drive to succeed in a more senior role or remaining in their existing role with additional and stretching responsibilities.

These initiatives enable Speedy Hire to report clearly to regulators how it intends to raise the level of female representation at all levels.

2.1.1. Family life and attitudes towards risk

Roundtable participants asserted that attitudes towards risk were tied in with family life, accounting for a key dividing line between male and female entrepreneurs. The distinction was characterised in the roundtable by women entrepreneurs' common reluctance to put up the family home as collateral, a value judgement less associated with men. A study by the University of Bath found that women were more sensitive to loss aversion by a margin of 53% compared to men.[32]

However, attitudes towards risk cannot account for the gap in the number and size of loans. Participants at the roundtable reported that it is commonplace for investors to ask women whether they plan to have children. This illustrates that while some cultural change, such as with risk, needs to be managed carefully, in other areas we need to move more quickly and purposefully. The APPG is following closely the House of Commons Treasury Committee's inquiry, 'Sexism in the City' and recommends that findings pertaining to female entrepreneurship are explored further, throughout the United Kingdom as there is a clear need for strategy, guidance and potentially legislation to change behaviour at a faster rate.[33]

Recommendation

Public companies should publish post-maternity retention rates, including retention after six months and after a year.

2.2. Education

Roundtable participants attested to female entrepreneurs being asked far fewer sophisticated and technical questions by investors. Numerous participants at the session said men are typically probed more extensively about their business and financial acumen during pitch meetings. This tendency reflects two issues, first that women are presumed to know less and therefore lack the opportunity to present their credentials and that of their business proposal. The second is that males, from an early age, are thought to acquire a familiarity with business and finance that puts them at an advantage.

32 'Gender differences in optimism, loss aversion and attitudes towards risk', University of Bath, 2023

33 House of Commons Treasury Committee inquiry: 'Sexism in the City', July 2023

Participants at the roundtable established a strong level of consensus that boys in schools are more confident with numbers and are more curious about enterprise than girls. We see this in girls' and boys' A-level choices. Maths and business studies are the first and fourth most popular subjects among boys, respectively, compared to third and tenth for girls.[34] A document published by Cambridge Assessment notes that the "pattern of AS and A2 level choices of subjects tended to follow gender stereotypes. Boys preferred to take more practical subjects such as Mathematics, Physics, Computing, ICT, or Business Studies and were more likely than girls to choose two or more science/maths subjects".[35]

The UK Government is taking steps to familiarise women with more technical subjects. In February 2023, the Equalities Office launched a retraining pilot scheme to get women into science, technology, engineering, and maths (STEM) based careers. The programme reflects skills deficits in the UK economy, a challenge facing businesses across the country. The APPG would like to see such initiatives rolled out nationally as soon as possible and linked in with corporate gender diversity policies and strategies alongside reporting. However, schemes such as this aimed at women rather than girls are less likely to deliver the necessary cultural shift towards entrepreneurism.

Participants at the roundtable expressed concerns that girls in school are often made to feel that "numeracy is beyond their scope", suggesting that financial acumen should be nurtured alongside maths teaching, ideally incorporating cash management to ensure that both girls and boys become knowledgeable of and comfortable with how businesses function, fostering curiosity and ambition, while ensuring enterprise is not perceived by young girls as either a male domain or unfamiliar.

Additionally, in view of the continuing gap between male and female senior managers, directors and CEOs, companies must ensure human capital development programmes support women.

34 Which A-Level subjects have the best (and worst) gender balance?, FFL education datalab, 2021

35 'AS and A Level choice: gender makes a difference', Cambridge Assessment

Part 3. ESG

The final part of this report builds on parts 1 and 2, incorporating key aspects of ESG, namely data disclosures, materiality, corporate governance, and investor activism. An overarching theme of this section is to transfer some of the approaches and thinking applied to female entrepreneurship to engineering progress in corporate settings. Other important considerations are to ensure new reporting frameworks do not unnecessarily overlap with existing ones causing burden and confusion, which is why this report emphasises the need for wide consultation with businesses and investors and by the same token the policy response needs to be coordinated and Government-led.

While we are seeing a level of coordination with regard to female entrepreneurship, that is not to say that progress is not being made on the corporate side. Gender pay gap reporting brought in under the 2010 Equality Act together with analysis and targets established under successive reviews have been successful. We see this in female board representation, which as Part 3 will show, positions the UK ahead of most of its international peers. Nevertheless, much remains to be done.

Figure 7. FTSE Women Leaders' recommendations

FTSE 350 companies and their boards

- Continue raising targets, notably the 40% female representation target to extend to leadership teams.
- At least one woman, the Chair or Senior Independent Director role on the Board, and/or one woman in the Chief Executive Officer or Finance Director role, allied with efforts to remove selection bias.
- Investors and corporate governance agencies should set best-practice guidance to support progress in companies that failed to meet the 33% target in 2020. Companies still under this threshold should seek to prioritise female appointments.

Private companies

- The targets should encompass the 50 largest private companies by sales.

Source: FTSE Women Leaders Review, 2023

Figure 7 depicts the current targets under the FTSE Women Leaders' review, which largely mirror the FCA's "comply or explain" framework for the majority of listed companies, not just the 350. Part 3 aims to explore how ESG-related voluntary and flexible reporting can deliver on these objectives. There is also an important corporate governance component, as noted by the FTSE Women Leaders Review's third recommendation "to improve UK corporate governance in the round, and for the business-led framework to be a long-term success, all companies need to challenge existing mindsets and practices, and play their part."

3.1. Data

The APPG's previous report, 'Defining ESG', published in April 2023, characterised Environmental, Social, and Governance as a "flow of information". Accordingly, what data and how it is disclosed have featured prominently in the majority of the APPG's roundtables, including the session on gender. "Data is critical", remarked one participant at the gender meeting, who added that not enough is being disclosed and more needs to be published.

3.1.1. Disaggregated data

The key ask is for more disaggregated data. Gender-related information should be broken down into specific components or categories, of which the gender pay gap information (see Figure 8) is just one. Dissecting the data in this fashion provides a more nuanced, insightful, and ultimately representative picture of a company's gender-related policies and practices. This section will explore what is already being done in female entrepreneurship and corporate environments and what is necessary in order to move forward.

Figure 8. Gender pay gap reporting

Gender Pay Gap Reporting is a legal requirement for large employers in the UK (those with 250 or more employees) as of April 2017.

- The reporting mandate obliges covered employers to publish annual data on their gender pay gap: the mean and median gap, the proportion of men and women in different pay quartiles, and information on bonuses.
- The objective is to identify and publicly disclose gender pay disparities within organisations to promote gender equality in the workplace and hold organisations accountable for their pay practices, thereby encouraging them to take steps to reduce gender pay gaps.
- The reporting deadline is typically April 4th each year, and the data must be published on the employer's website and reported to the government using the Gender Pay Gap Reporting Service.

The Gender Pay Gap Service is an online Government platform. Employees, campaigners, and investors can access and compare gender pay gap data. By making this information publicly accessible, the Service helps facilitate compliance with the reporting requirements and ensures consistency in reporting across organisations.

Source: UK Government

It is very difficult to assess whether a company board is genuinely committed to gender equality without these types of disclosures. Furthermore, disaggregated data helps investors and other stakeholders identify areas where progress has been made and areas that require further attention and improvement.

Yvonne Greeves, Director of Women in Business at the Natwest Group which oversees the Rose Review, highlighted the importance of disaggregated data at the APPG's roundtable. Only through more granular information going beyond the board and pay, encompassing key factors such as region, can regulators and investors make an informed assessment of a given company. At the macro level, policymakers can identify patterns to inform policy reform.

However, the APPG is not recommending a raft of gender-related disclosures that could prove to be too burdensome for businesses. The group favours identifying a selection of qualitative and quantitative information points that will deliver the greatest value to key stakeholders, including Government. Consequently, the APPG strongly recommends launching a consultation towards ascertaining what these gender-related disclosures should be.

Recommendation for a consultation assisting the FTSE Women Leaders Review

- The consultation should identify the highest value and lowest burden data disclosures.
- The consultation will also seek feedback on the next series of targets.
- Additionally, the Government should consider rolling out a national successor to the Treasury Select Committee's 'Sexism in the City' consultation.

3.1.2. The Investing in Women Code

The importance of disaggregated data disclosures is recognised by the UK Government through the Department of Business and Trade's (DBT) sponsorship of the Investing in Women's Code (IIWC). Signatories to the IIWC commit themselves to supporting the advancement of female entrepreneurship by adopting certain principles and by providing disaggregated data disclosures (see Figure 9). The scheme aims to identify opportunities for investment and areas where support for women could be improved or is completely absent. The IIWC is administered by the British Business Bank and feeds directly into the DBT.

Figure 9. Three pillars of the Investing in Women Code

1. Assign a senior leadership team member or a key individual with responsibility for supporting gender equality in all interactions with female entrepreneurs.
2. Implement best practices to enhance women entrepreneurs' access to necessary tools, resources, and financing, with annual reviews.
3. Provide an industry body designated by DBT with a standardised package of disaggregated data on the organisation's investment or lending activities, including information about its staff and leadership team. The data is aggregated and anonymised before being transferred to DBT for inclusion in an annual report.

Source: 'About the Investing in Women Code', British Business Bank, 2023

Under the third pillar of the IIWC, signatories disclose annual investment data disaggregated by gender to an industry body – the information is then anonymised and aggregated before being sent to DBT. The IIWC was created in 2019 via the Rose Review, which reports annually on female entrepreneurship. The Review notes that providing data and analysis according to the guidelines set by the IIWC "helps to promote greater transparency across the industry, highlighting where measures are working and where further measures may be needed".[36]

The IIWC has grown to 235 signatories and partners, a 75% increase on the beginning of 2022.[37] The roundtable emphasised the scheme's effectiveness in getting financial institutions to disclose data that at scale has the potential to deliver real progress for women. Accordingly, the APPG calls for the UK Government's Equality Hub to support the British Business Bank, which administers the IIWC, by publicising its achievements and encouraging more investors to sign up.

The Bloomberg Gender Reporting Framework (see Case Study 1 on page 17) is the corporate equivalent, which like the Investing in Women Code, is voluntary, however it is not linked to a Government Department. Moreover, the Bloomberg Gender Reporting Framework is a commercial undertaking, not a policy instrument, geared towards publicly listed companies. Only a PLC can open an account on the framework's portal, and only companies with a market capitalisation above one billion USD are eligible for inclusion on the accompanying Gender-Equality Index.[38] Nevertheless, there is clear scope for the Department for Business and Trade to engage with the Bloomberg Gender Reporting Framework and consider it alongside the IIWC with a view to establishing an equivalent scheme dedicated to corporate equality that is suitable for both small and large businesses.

A broadly equivalent framework to Bloomberg's is the Asset Owner Diversity Charter (see Case Study 4). Pension funds, including Brunel, Avon Pension Fund, and the Church of England have signed up to the Charter and the accompanying questionnaire, consisting of more than 300 lines of enquiry – the quantitative half, which breaks down to both the gender ethnicity consists of more than a 1,000

36 The Alison Rose review of female entrepreneurship: progress report 2023, Rose Review, 2023

37 'Investing in Women Code signatories', British Business Bank, 2023

38 'Frequently asked questions', Bloomberg Gender-Equality Index, 2021

individual data entries.[39] Prospective asset managers of the Charter's signatories are required to complete the questionnaire.

Amanda Latham, Director of Sustainable Investment at IFM Investors, which is closely linked to the Department for Work and Pensions' social factors pensions taskforce (see section 3.3.) told the APPG it was telling that only a handful of large pension funds – totally more than £1 trillion under management – have signed up to the Charter as the volume of information is vast. A significant amount of in-house resource is required to analyse, thus the questionnaire is unlikely to set a workable common standard for the rest of the industry. Indeed, the questionnaire is billed by the Charter as the "gold standard". Furthermore, according to Latham, the body of data in being so large represents a "considerable barrier to being useful". Nevertheless, the Charter has been pioneering in aiming to standardise both qualitative and quantitative information. The APPG's inaugural report, 'Recommendations on standardising and regulating ESG performance and assessment, and defining impact in the UK', strongly emphasised the difficulty in delivering suitable social frameworks given the need to gather and assess qualitative information. This will be an important consideration for the consultation recommended in this report.

Case Study 4. The Asset Owner Diversity Charter

The Asset Owner Diversity Charter (AODC) establishes a set of commitments to ensure asset owners improve diversity across the investment industry. The Charter is made up of two components:

- The Asset Manager Diversity and Inclusion Questionnaire, a "gold standard" reporting framework that aims to standardise gender and diversity metrics. Asset managers partnering with signatory asset owners of the Charter are required to complete the questionnaire.
- The Asset Owner Charter Toolkit, a supporting document to support the Charter's implementation.

The Questionnaire consists of both a list of quantitative and qualitative questions, encompassing ethnicity as well as gender. The quantitative part of the questionnaire asks asset managers to segment their gender balance according to ethnicity at various levels, including senior management, executive leadership and at board level; and tracks key metrics such as promotions, tenure, and the return rate from parental leave.

The qualitative half of the questionnaire covers whether the asset manager has a diversity policy or strategy and whether DEI is included within the organisation's performance objectives. It goes on to ask whether these KPIs are linked to remuneration and invites the prospective partner to describe processes in place to ensure promotion opportunities are equal, among other processes and policies.

Source: Asset Owner Diversity Charter

39 'Diversity for asset managers is at a critical tipping point, as asset owners we have a crucial role in holding them to account,' Asset Owner Diversity Charter

The APPG is conscious that investors and companies reporting to the Investing in Women Code, Bloomberg's Gender Reporting Framework and the Asset Owner Diversity Charter comprise a coalition of the willing. The group takes the view that inviting larger firms to disclose information and commit to raising gender equality will have spillover effects on the smaller companies, provided that the IIWC is coordinated with other policy initiatives and consultations, according to the recommendations in this report.

It is worth noting that many IIWC signatories are small angel investors, accordingly, the equivalent corporate code should seek to include businesses of all sizes, limiting burden for them is a priority. Similarly, the APPG recognises that there will be a natural overlap between the IIWC and its corporate equivalent. Efforts should be made to ensure this overlap takes the form of interoperability as much as possible, alternative provisions that can be avoided, should be, underlining once again the need for consultation.

The APPG also recognises the value of initiatives like the IIWC in not only making disaggregated data available, but also in opening up dialogue and feedback loops to aid policy development. In tandem, the UK Government should grant the FTSE Women Leaders Review a stronger mandate to accelerate and scale up target-setting, making substantive policy proposals towards delivering gender equality from the top to the bottom of the corporate ladder.

The APPG believes that the establishment of a Government-sponsored code or framework together with expanding and deepening the remit of the Review needs to be accompanied by a public consultation. The consultation should seek to identify the highest value and least burdensome disclosures, recognising that investors are required to gather a wide range of data, much of which they pass on under the IIWC. The range and quantity of information are not necessarily comparable with the data gathered by corporates, the consultation should therefore identify the baseline stock of information companies accumulate across all sectors.

The UK Government should not lose sight of the fact that employee data relating to gender and many other data points are automatically harvested, therefore much of the disaggregated data sought by policymakers and other stakeholders should be relatively unburdensome for companies to disclose. Secondly, the consultation should include provisions for a more ambitious round of follow-up targets to be fed into the next iteration of the review.

Recommendations

The UK Government must scale up its efforts to raise the profile of the Investing in Women Code (IIWC) to increase participation in terms of signatories, engagement with investors, and critically, the sharing of data.

3.1.3. Regional disparities

Jill Pay, Chairman of The Gender Index which measures and segments the number of female-led companies across the UK emphasised the need to take a regional approach to raising equality. "Data

should not be London-centric", Pay told participants. According to data compiled by The Gender Index, 21% of companies in London are female-led. London lies at the top of the index, at the bottom are the North East of England (17%) and Northern Ireland (15%).

In March, the women-led high-growth enterprise taskforce identified the North East as a target region.[40] Data gathered by the taskforce via Beaufort found that not a single high-growth business in the North East had been founded by an all-female team, only four were mixed out of 45.[41]

> *There I was, a 5ft tall Welsh woman knocking on the doors of firms saying, 'I'm going to start a bank'. Who would really want to take a risk on a woman in her fifties? Who in their right mind starts a bank anyway?*
>
> *I know the challenges that women, particularly those outside the London tech bubble, face when setting up a business, as do all the women on the taskforce. We want to ensure every woman who wants to succeed as a high-growth entrepreneur has a fair crack at doing so.*
>
> Anne Boden, chair of the women-led high-growth enterprise taskforce and founder of Starling Bank

The taskforce's work is an example of data in action through the use of regional segmentation, and an example of the progress policymakers, allied with commercial stakeholders, can make with the application of accurate disaggregated data. It also illustrates the importance of making data freely available, a point made assertively by the chair of The Gender Index, which is an open resource. The APPG is encouraged to see the taskforce using data in this manner and will closely follow its progress.

Recommendations for data disclosures

- Listed companies must publicly disclose board members' salaries on their website, and annual and sustainability reports, explaining gaps in pay between male and female board members.
- The Government should implement necessary measures to encourage businesses and sectors to be transparent about why they are failing to bring more women through the talent pipeline and disclose their plans to address failures to meet targets.

40 'Government-backed taskforce is tackling the entrepreneur gap, as stats reveal the North East has the least female-founded high-growth businesses', UK Government, 2023

41 'OECD-defined High Growth Enterprises in the UK', UK Government's women-led high-growth enterprise taskforce, 2023

3.2. Materiality

Previous roundtables and the APPG's Defining ESG report have grappled extensively with the issue of materiality. The group unequivocally views gender equality as material to UK companies. Businesses face reputational damage if they are known to be poor at recruiting and retaining women. If they claim otherwise and commit gender washing, the consequences can be even more serious, graver still if a company is found to lack appropriate policies to deal with discrimination and sexual harassment when it occurs.

Equality and diversity are also material to a company's bottom line. McKinsey determines a 48% difference in performance between the most and least gender-diverse companies.[42] The Inaugural edition of the Rose Review, published in 2019, estimated that £250bn would be added to the value of the UK economy if women started and scaled businesses at the same rate as men. A survey by the International Labour Organisation (ILO) published in the same year found that 57% of companies said that schemes to support gender equality have enhanced business outcomes; profit, and productivity were identified as such benefits in 6 out of ten 10 cases.[43]

However, there is a danger that 'S' factors in ESG are recognised as material only superficially and limited to data disclosures, lying on the periphery of corporate governance with little potential to effect cultural change, which in turn raises the possibility of gender washing. CEOs, most of them male, will "hide behind the data", social sustainability academic and co-founder of VentureESG, Johannes Lenhard told the APPG. One participant at the roundtable remarked that the common approach is to "just tick it and forget about it". In short, we need to go beyond the data and look at corporate governance.

The consensus at the roundtable was that gender equality is recognised as material in some businesses at board level and with investors, but not all. The disparity between the lower and upper performers in the FTSE 350 index – the bottom 12 feature 25% or lower female board representation – attests to this, underlining the need to move the agenda forward. As this section will illustrate, corporate governance is at the heart of getting boards to adapt and recognise gender as material so that they move forward in raising the level of female representation. Beyond corporate governance there is the question of whether quotas are more appropriate than a voluntary approach, and whether we can we reasonably expect gender equality to spill over into wider diversity.

3.2.1. Boardroom reporting and engineering change

The 2022 FTSE Board Report notes there is no real home for executive succession planning at board level. In some companies it is the nominations committee, in others, the remuneration committee or corporate responsibility and ESG committees have oversight over executive succession planning. Tessaro and Vinnicombe write:

42 'Diversity wins: how inclusion matters', McKinsey, 2020

43 Women in Business and Management: A global survey of enterprises, International Labour Organisation, 2019

> *Chairs and boards need to step up in their efforts to accelerate the rate of progress of women in the executive pipeline by engaging more actively in the executive succession planning process... The guidelines for Nominations Committees need to be made far more explicit, going beyond a vague 'oversight' role. The committee should be required to report more specifically on the actions taken to increase gender diversity in executive succession planning and their progress each year.*[44]

Vinnicombe and Tessaro also call for chairs to show leadership in guiding and advising the CEO, with the board holding them to account. A similar principle applies to CEOs themselves, as they have the ultimate control and capability to reverse the current stagnation and deliver more gender balance at senior management and executive levels.

The FCA requires listed companies to comply with the FTSE Women Leaders' targets or provide an explanation if they fail to do so, known as 'comply or explain'.[45] Dr Tessaro told the APPG that most large corporations will have diversity, equality and inclusion policies and strategies, giving them a platform from which to explain why and how they may have failed to meet the 40% targets, however few will treat them as a component of the company's core business strategy, integrating DEI into their talent pipelines and benchmarking progress.

In September 2023, the FCA published a diversity and inclusion consultation paper, which encouragingly recognises that "greater diversity and inclusion can create better outcomes for consumers and markets by supporting healthy work cultures, reducing groupthink, unlocking talent and improving understanding of diverse consumer needs".[46] Far less encouragingly, women are significantly underrepresented in financial services. The consultation cites Deloitte's finding that women occupy less than one in five C-suite positions in banking, capital markets and payments.[47] The regulator has responded with a series of proposals for the sector, including annual reporting of employee numbers, for institutions to set appropriate diversity and inclusion targets, and recognising a lack of diversity as a non-financial risk. The consultation closes on 18 December 2023.

The other pivotal regulator with regard to gender equality is the Financial Reporting Council (FRC) which oversees the Corporate Governance Code. The Code is widely seen as a behavioural tool. The preface to the 2016 code, published by the FRC states:

> *One of the key roles for the board includes establishing the culture, values, and ethics of the company. It is important that the board sets the correct 'tone from the top'. The directors should lead by example and ensure that good standards of behaviour permeate throughout all levels of the organisation. This will help prevent misconduct, unethical practices and support the delivery of long-term success.*[48]

44 Ibid

45 'Policy Statement: diversity and inclusion on company boards and executive management', Financial Conduct Authority, 2022

46 'Consultation paper: diversity and inclusion in the financial sector – working together to drive change', Financial Conduct Authority, 2023

47 'Advancing more women leaders in financial services: A global report', Deloitte, 2022

48 'The UK Corporate Governance Code', Financial Reporting Council, 2016

In its May 2023 consultation, the Financial Reporting Council (FRC) suggested that under the Code, annual reports should describe the work of a company's nominations committee towards greater equality and diversity. These requirements are listed in Figure 10.[49]

Figure 10. FRC's Corporate Governance Code consultation: nominations committee provisions relating to gender and diversity

- Succession planning for both board and senior management positions, including an explanation of how the committee has overseen the development of a diverse pipeline for succession.
- The appointments for the board and senior management, including the search and nomination procedures and promotion of diversity.
- The effectiveness of the diversity and inclusion policy, including progress towards company objectives and adherence to established initiatives.
- The gender balance of those in the senior management and their direct reports.
- How the board performance review has been conducted, the nature and extent of an external evaluator's contact with the board and individual directors, the outcomes, and actions taken, and how it has or will influence future board composition.

Source: Financial Reporting Council, 2023

The proposed provisions show how the comply or explain approach can deliver transparency and insight, facilitating change in a cooperative manner. An open approach enables companies to explain why they are struggling to meet targets and implement effective policies. This is even more relevant in the UK context, given the size and diversity of the economy. The APPG favours a comply *and* explain approach, ensuring that even the best in class are obliged to explain how they plan to maintain their performance and reach for higher thresholds in future. In the same vein, companies must be encouraged not to "explain away" why they've failed to meet targets, and instead be invited to engage with the issue, identify barriers and describe steps being taken.

It is important to note that the Code is being revisited from a deregulatory perspective. The APPG is hopeful that the provisions remain intact. The Group notes that the first requirement ties in with Tessaro and Vinnicombe's suggestion to improve talent pipelines, and the third, 'adherence to established initiative', relates to initiatives like the Bloomberg framework. The APPG calls on the Government to recognise the economic and social benefits of these provisions. Furthermore, as the third provision alludes, the Code is one component among many. The following section will focus on whether a mandatory instrument should accompany the Code or whether a voluntary, but more coordinated approach, exemplified by New Zealand's gender equality policies, is more suitable.

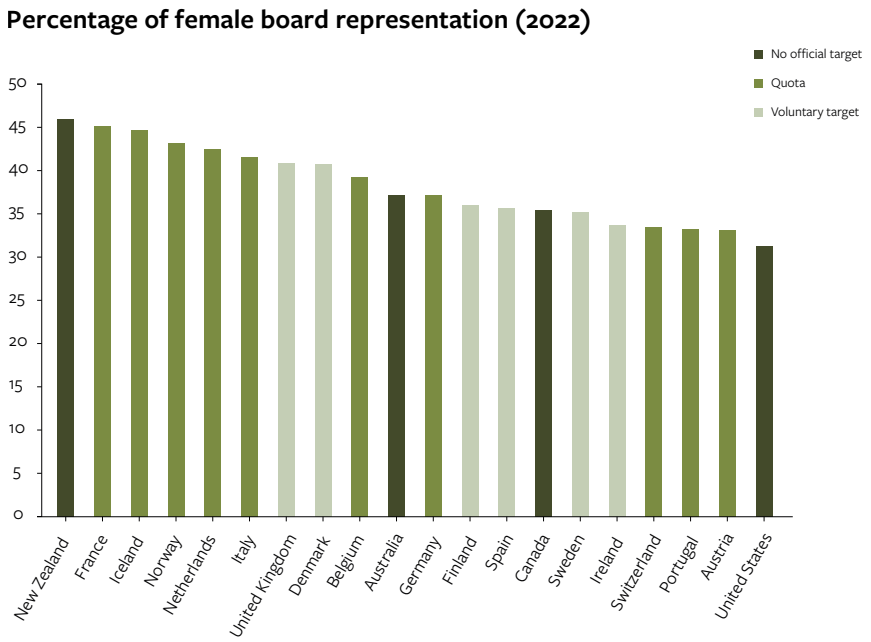
49 'UK Corporate Governance Code consultation document', Financial Reporting Council, 2023

3.2.2. Quotas vs coordinated policy

While the UK has met the 40% boardroom threshold, largely through non-executive appointments, the question is whether to go further and introduce mandatory quotas with the inclusion of more companies, both public and private. The thinking behind quotas is that obliging businesses to appoint women to their boards will have a trickle-down effect, increasing the number of women brought up from management into senior leadership.[50]

There is evidence that more voluntary approaches, provided they are led from the top of Government and coordinated through various groups and policies, can be more effective. The prime example is New Zealand, which tops the OECD's chart of board representation among larger companies (see Figure 11) in spite of having no official targets or quotas. New Zealand boasts 46% female board representation, followed closely by France (45%), which has introduced mandatory quotas.[51] The UK is in seventh place. New Zealand lies third in terms of percentage change from 2013 to 2022 (see Figure 12). The two countries that have progressed more quickly, Portugal and Switzerland in first and second position respectively, have risen from 9% and 10% female board representation, however both are still well below 40%.

Figure 11. Female board representation



Source: OECD.stat, 2022; 2013 data for Australia, Canada, New Zealand, Switzerland, and United States from OECD Working Paper, 2022.

The New Zealand Government's commitment to corporate gender equality has been exercised from the top down. Former Prime Minister, Jacinda Adern emphasised the material need for more women in leadership positions.[52] Her declarations were aligned with an internal Government target of reaching 50%

50 Illusion of Inclusion: Examining Trickle-Down Effects of the Board Gender Quota Regulation in India, Esha Mendiratta, 2023

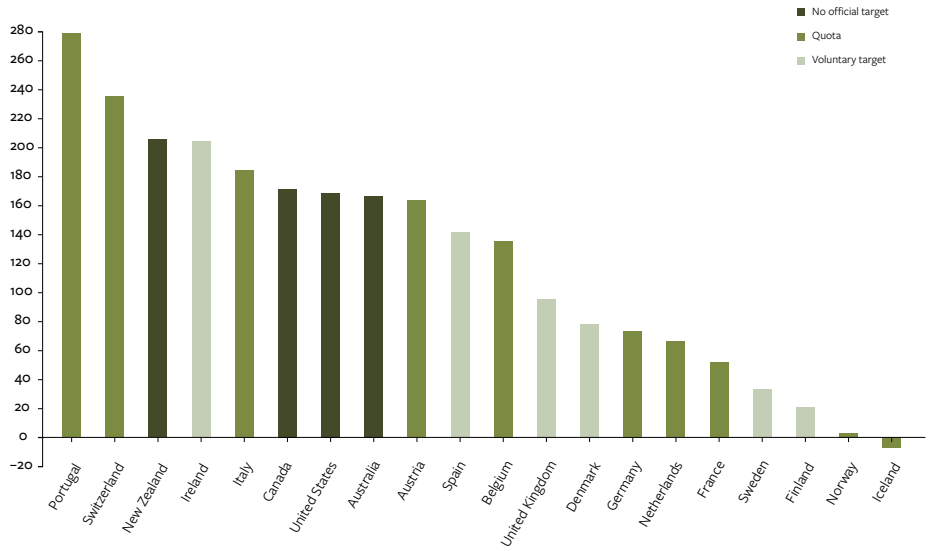
51 'Enhancing gender diversity on boards and in senior management of listed companies', OECD, 2022

52 'Women in the boardroom – seventh edition', Deloitte

female participation on public boards and committees – semi-public institutions like New Zealand Rugby, which receives generous grants from Sport New Zealand have been fined for failing to meet boardroom targets.[53] These endeavours are supported by the Global Women's Champions for Change, which has attracted signatories to the unofficial 40% target.[54]

Figure 12.

Percentage change in board representation (2013 - 2022)



Source: OECD.stat, 2022; and OECD Working Paper, 2022

The Global Women's Champions for Change is comparable to the corporate version of the Investing in Women Code envisaged by APPG. It must be noted however that organisations associated with Champions for Change have been accused of gender washing.[55] Wary of the possibility of gender washing occurring, sometimes inadvertently – what one company may see as socially sustainable is in fact nothing of the kind – the APPG strongly recommends that the new taskforce establish a gender washing workstream with a view to establishing clear guidance.

Quotas evidently have a positive impact, but it should not be overestimated. The OECD's 2022 report, 'Enhancing gender diversity on boards and in senior management of listed companies' concludes there is "no correlation" between female boards and management. This deduction is made from the opposite perspective, female representation among managers is often higher than at board level, senior leadership is therefore the missing link. We're not seeing a trickle-up effect, and we're not seeing a trickle-down effect either without additional measures. The 2021 European Women on Boards (EWOB) gender diversity index, encompassing boards, executive leadership, and committees, places the UK ahead of all European countries that have quotas with the exceptions of France and Norway (see Figure 13)[56]. In many ways, these two outliers are the exceptions that prove the rule, as both have introduced

53 New Zealand Rugby fined for not meeting gender diversity target on board, Reuters, 2022

54 'Annual diversity report shows collective approach to diversity and inclusion is working', Global Women Champions for Change, 2021

55 'Wanted: more major companies to fess up about their pay gaps', NZ Stuff, 2022

56 'Gender Diversity Index of women on boards and in corporate leadership', European Women on Boards, 2021

successful measures to nurture senior female leadership.[57&58]

The UK's peers are flattered by smaller samples of companies. The FTSE Women Leaders Review's country-by-country ranking based on board representation places France and Norway on either side of the UK in first and third place respectively (see Appendix 1 on page 42). However, only 40 companies make up France's CAC index, and just 25 feature in Norway's equivalent, the OBX, both are a fraction of the FTSE 350. Similarly, New Zealand is home to almost three times fewer listed companies than there are in the FTSE 350. According to the Sustainable Stock Exchange Initiative, there are 125 companies listed on the New Zealand Stock Exhange.[59] The differences in scale are illustrative of how far the UK has come with a much larger body of companies.

Figure 13. European Women on Boards' gender diversity index by country

	Country	Companies in the dataset	**Gender Diviersity Index**	GDI 2019	Change in GDI	Women on the board (%)	Women in leadership (%)	Women at executive level (%)	Women on committees (%)	Female chairs of board	Female
1	Norway	19	**0.72**	0.74	-0.02	41	35	32	38	26	8
2	France	76	**0.71**	0.67	0.04	45	35	21	45	3	9
3	UK	133	**0.67**	0.66	0.01	38	33	24	43	12	6
4	Finland	16	**0.63**	0.61	0.02	37	32	24	37	6	3
5	Sweden	62	**0.63**	0.61	0.02	38	32	25	31	10	10
6	Italy	33	**0.62**	0.6	0.02	37	30	17	47	15	3
7	Denmark	21	**0.61**	0.51	0.1	37	32	19	32	10	10
8	Belgium	16	**0.58**	0.57	0.01	37	29	17	36	6	6
9	Netherlands	27	**0.58**	0.57	0.01	37	29	20	35	0	7
10	Ireland	20	**0.56**	0.52	0.04	30	29	20	35	5	15
11	Spain	23	**0.54**	0.49	0.05	30	28	12	40	9	4
12	Germany	72	**0.52**	0.48	0.04	33	28	14	27	6	3
13	Portugal	16	**0.5**	0.44	0.06	30	27	14	27	6	0
14	Czechia	11	**0.46**	0.42	0.04	24	23	19	32	0	18
15	Austria	20	**0.45**	0.43	0.02	32	24	8	22	15	5
16	Switzerland	53	**0.43**	0.39	0.04	28	22	15	24	8	2
17	Poland	20	**0.41**	0.38	0.04	26	21	16	28	36	14
18	Luxembourg	9	**0.3**	0.41	-0.11	18	16	10	21	0	0
19	Greece	25	**0.24**	N/A	N/A	24	24	23	29	N/A	N/A

Source: EWOB 2021 (quota information updated - the Netherlands did not introduce quotas until late 2021)

EWOB's findings show how essential it is that companies introduce talent pipelines to ensure women are encouraged and supported to climb up the corporate ladder, ideally overseen by the CEO or an executive director.

The UK is a leading nation in showing how to support growth in female representation in businesses, benefitting society and the economy as a whole. A business-led approach with visible targets pushed up higher at regular intervals has put British businesses on the right track. We simply need to accelerate by building on the corporate governance code, building out the FTSE Women Leaders Review, building in a

57 'France Pushes Forward on Gender Diversity Within French Corporate Management Bodies Via the Rixain Act', ISS Insights, 2022

58 'Women on board: the Norwegian Experience', Friedrich Ebert Stiftung, 2010

59 'New Zealand Stock Exchange', Sustainable Stock Exchange Initiative, 2023

disclosure code or framework, and critically, communicating the message from the top of Government.

3.2.3. From gender equality to wider diversity

Policymakers and businesses should be mindful that having a gender-balanced board does not make it diverse, nor is the former likely to spill over into the latter. The Financial Reporting Council's report, authored by the London Business School (LBS), on FTSE 350 board diversity notes: "If, in trying to achieve diversity, boards are composed of women and ethnic minority board members with a similar age profile, socioeconomic status, and elite educated background, this is not truly representative of a diverse board."[60] The report points out that boards are becoming more gender-balanced, but in other respects, they are more homogeneous. A quarter of board members were found to have graduated from Oxbridge and Ivy League universities. Just under half (49%) of FTSE board members now have a background in finance, 20 years ago it was less than 38%.

The material benefits of diverse boards and diverse teams, particularly with regard to innovation, are well-known. However, there is evidence that assembling a diverse team counts for little if the surrounding culture is not inclusive.[61] Inclusivity is identified in the FRC/LBS report as a necessary driver of greater diversity.

Participants at the APPG's gender roundtable expressed hopes that progress in gender would translate to higher representation for other groups, notably ethnic minorities. Just as we should not expect the upward trajectory towards gender equality to be smooth, we should not assume an automatic spillover effect leading to greater diversity.

Johannes Lenhard warned the APPG of the danger of getting "stuck in a gender conversation" as female equality is often viewed as the "simpler" social objective, representing the largest constituency cutting across all other demographics. The policy dialogue does not automatically move from there to increasing the representation of ethnic, racial, and socioeconomic groups. Lenhard's comments are a reminder that the obstacles we face are stubborn, which calls for an active response in keeping with the overarching recommendation of this report.

Recommendations for new initiatives

- For the Government to create a new unit as part of the Gender Pay Gap Service. The new unit will coordinate initiatives towards achieving corporate gender equality, and publish guidance on how to avoid gender washing.
- The new workstream must engage with the Bloomberg Gender Reporting Framework as part of the development of an equivalent corporate code to the IIWC and be plugged into Government.
- The UK Government should create a corporate-focused taskforce based on the women-led high-growth enterprise taskforce. The new group would be attached to the FTSE Women Leaders Review.

60 'Board diversity and effectiveness in FTSE 350 Companies', Financial Reporting Council, 2021

61 'Research: when gender diversity makes firms more productive', Harvard Business Review, 2019

3.3. Sustainable investing and finance

The APPG approached asset manager, the CCLA for the purposes of this report, which is committed to addressing "systemic risks that threaten communities, the environment and ultimately investment markets".

CCLA has devoted significant resources to 'S' themes, such as modern slavery, and takes a robust policy with regard to the gender balance of company boards, applying pressure on the board whenever a nomination fails or is seen to be failing to meet gender equality targets (see Figure 14). Like the Government and regulators such as the FCA, the asset manager is committed to the 40% board target, but its approach is uncompromising by comparison.

Figure 14. CCLA voting guidelines concerning gender

We vote AGAINST the chair of the nomination committee where the composition of the board of directors does not include:

- At least 40% gender diversity for FTSE-AllShare, SP500, TSX60, FTSE Developed Europe SP ASX 200 or an SP NZX 50 constituent
  - Outside these indexes where there are not at least two female directors on the board (minimum board size six)
  - Where there are fewer than two female directors on the board (board size less than six)
- FTSE350 and SP500 where at least one of the following positions is not occupied by a woman: an Executive Position; and/or chair of at least one of the audit, remuneration, or nomination committee.
- One director from an ethnic minority background for the FTSE 100 and SP500

We vote AGAINST the chair of the nomination committee where the composition of senior management does not include:

- At least 40% gender diversity for UK FTSE 350 companies
- At least two female directors for overseas companies

Where adequate progress is not made, we escalate our concerns by voting, in in addition, AGAINST every nomination committee member.

We will vote AGAINST the re-election of a director if the company does not have adequate gender diversity at board and senior management levels.

Source: 'Voting guidelines 2023', CCLA

An option towards making boards, leadership, and company culture pivot towards gender equality would be to scale up the infrastructure around socially driven sustainable investing and finance. Notably, the notion of introducing regulatory assets like investment labels and a social taxonomy did not feature in the APPG's roundtable, at least in part because the UK's existing green finance strategy has been slow to develop. The notion of a social taxonomy being introduced to help tackle gender washing by defining what qualifies as socially sustainable seems fanciful when such an instrument has never been mentioned publicly by a single Government department.

Nevertheless, there is a clear imperative for the Department for Work and Pensions' social factors taskforce, which led a roundtable of the APPG in May of this year, to continue its excellent work and explore possible social finance tools and instruments in the 'S', including gender. Meanwhile, it must be said that as investors become more ethically driven they will reward those businesses that take gender equality seriously.

Recommendation

The Department for Work and Pensions' social factors pensions taskforce should coordinate with the new corporate gender equality taskforce proposed by the APPG in laying the groundwork for social finance tools, including frameworks, metrics and thresholds. This undertaking should include guidance and basic standards to tackle gender washing. This undertaking must be coordinated with the other measures suggested in this report in recognition that investment markets will continue to shape corporate behaviour.

Conclusion

In its research, the APPG was invited to consider BlackRock CEO Larry Fink's infamous climate change epiphany, provoked by collapsing fish stocks at his favourite fishing spot in Idaho. Fink would have been confronted with countless sustainability reports showing the material risk of climate change and other ESG-related issues, but it took a personal moment to shift the dial.

This report has made a series of recommendations, many of them revolving around copying the approach taken in entrepreneurship to a corporate setting, and supercharging progress in both areas through better coordination, more varied disclosures – provided they are not overly burdensome – and guidance through corporate governance reform. Lying at the heart of this undertaking is getting the message across to boardrooms that gender is material, it is in their strategic interest to deliver progress.

In the absence of manufacturing Fink-style epiphany, it is incumbent upon the Government to open up lines of communication in the form of disclosures, but also dialogue through the existing and proposed taskforces and work streams dedicated to gender equality that feature in this report. This requires leadership from the top of Government. Quite simply, we need signals of intent to meaningfully increase female representation on the corporate side and in female entrepreneurship, reshaping framework conditions so that women, compared to their male counterparts, do not face prejudice when seeking investment.

Finally, this report urges vigilance. Momentum gained can easily subside or regress. The Chartered Governance Institute's 2022 'Boardroom Bellwether' survey recorded, for the first time, zero responses to the question: is your board "not diverse" or "definitely not diverse". In 2023, "not diverse" responses climbed back up to 5%.[62] A shift in values and priorities can be reversible, the same goes for the pathway to gender equality.

62 'FTSE 250 Boardroom Bellwether', Chartered Governance Institute, 2023

Appendix 1. FTSE Women Leaders' performance comparison

2022 Performance compared

Country		Number of Companies in Index	Quota or Voluntary	Total Directorships	Total Women on Board	% Women 2021	% Women 2022
France	CAC	40	Quota	588	259	43.80%	44%
United Kingdom	FTSE 350	350	Voluntary	2990	1203	37.60%	40.20%
Norway	OBX	25	Quota	215	84	38.20%	39.10%
Australia	S&P ASX	100	Voluntary	825	314	35.10%	38.10%
Belgium	BEL Institutional	20	Quota	234	89	34.30%	38%
Spain	IBEX	35	Quota	438	162	34%	37%
Canada	S&P TSX	60	Voluntary	715	262	33.70%	36.60%
Netherlands	AEX	25	Quota	292	107	35.30%	36.60%
Sweden	OMX Stockholm	28	Quota	299	108	36.90%	36.10%
Finland	OMX Helsinki	25	Voluntary	221	79	35.10%	35.70%
California	S&P	100	Quota	1210	406	32.30%	33.60%
Germany	DAX	39	Quota	799	259	30.50%	32.40%

Source: FTSE Women Leaders Review, 2023

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Glossary

AODC – Asset Owner Diversity Charter
APPG – All-Party Parliamentary Group
DEI – diversity, equity, and inclusion
ESG – Environmental, Social, and Governance
EWOB – European Women on Boards
FCA – Financial Conduct Authority
FRC – Financial Reporting Council
FTSE – Financial Times Stock Exchange
GI – The Gender Index
HGEs – high-growth enterprises
IFS – Institute for Fiscal Studies
ILO – International Labour Organization
IoD – Institute of Directors
IIWC – Investing in Women Code

KPI – Key Performance Indicator
LBS – London Business School
NEDs – non-executive directors
OECD – Organisation for Economic Co-operation and Development
OMFIF – Official Monetary and Financial Institutions Forum
SME – Small and Medium-sized Enterprises
SID – Senior Independent Director
TUC – Trades Union Congress
UKBAA – UK Business Angels Association

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