

## Invitation to Tender

### Research Project:

***How have board effectiveness and dynamics been impacted by diversity of board membership?***

#### ***Part A: Quantitative design***

#### ***Part B: Qualitative design***

### **Summary**

One of the principles of good governance is that boards should be diverse in their composition. In the context of governance, diversity is a broad concept, encompassing diversity of skills, experience, social background, personal strengths and mindset as well as those protected characteristics of diversity for example, gender, ethnicity and disability.

This research project aims to gather and analyse recent evidence to answer these questions:

- 1) How have board effectiveness and dynamics been impacted by the gender and ethnic diversity of board membership?
- 2) What attributes, skills and experience do today's board members expect to be needed in boardrooms of the future?
- 3) How can nomination committees be helped to take a more objective and diversity-friendly approach to board recruitment?

The customer for the work is the FRC.

We would like to receive proposals to investigate these issues effectively using both

Part A – a *quantitative* design (question 1) and

Part B – a *qualitative* design (questions 1, 2 and 3).

Suppliers are welcome to bid for either part, or both parts, of the project; the FRC has split the project into two parts because there may be some suppliers who are specialised in one approach but not the other.

- Bids for one or both parts will be assessed equally against the evaluation criteria (there is no inherent disadvantage to bidding for one part only).
- Combined bids for Part A and Part B should be discrete (i.e. so that they can be evaluated separately even if the background information about your company or team is the same).
- By bidding, you indicate your willingness to undertake either part separately even if you had bid for both parts.

The project is expected to take place between December 2019 and May 2020.

## **Background**

The FRC sets and maintains the UK Corporate Governance Code (the Code)<sup>1</sup>, which UK listed companies are required by the UKLA Listing Rules to follow.

In 2018 the FRC updated the Corporate Governance Code. The 2018 Code places renewed emphasis on board composition, diversity, board evaluation and succession planning.

The FRC has been undertaking its own monitoring work on early adoption of the Code in 2019, reviewing governance reporting of the FTSE 100 and stated early adopters. This includes nomination committee reporting under Provision 23 which asks for diversity policy reporting, pipeline reporting and senior management plus next layer reporting.

The Code acknowledges the importance of diversity on the one hand, and the importance to boards of breadth of perspective, which will not necessarily be achieved simply by the appointment of directors whose diversity is visible or recorded. The Code states that board appointments and succession plans should be *“based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.”* – Principle J.

Progress on gender diversity in the boardroom has slowed. The most recent Hampton – Alexander report (November 2018) found that:

- there are still very few women chairs
- too many companies are ‘at one and done’ (i.e. sometimes referred to as ‘trophy appointments’)
- all male boards and executive committees persist

On ethnic diversity, the most recent Parker Review progress update found that (as at end August 2018):

- only 84 of the 1,048 director positions in the FTSE 100 are held by people from ethnic minorities
- 54 companies of the FTSE 100 do not have any people from ethnic minorities on their boards
- there are nine board chairs/CEOs from ethnic minorities in the FTSE 100

## **Research objectives**

### Part A - quantitative design:

- 1) *How has board effectiveness been impacted by the gender and ethnic diversity of board membership?*

We should emphasise this project is not about measuring the degree of board diversity *per se*. Its aim is rather to provide a measure of the **impact of diverse board membership** to the extent that such diversity has existed in recent years.

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<sup>1</sup>UK Corporate Governance Code 2018 <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>

Part B - qualitative design:

- 1) *How have board effectiveness and dynamics been impacted by the gender and ethnic diversity of board membership?*
- 2) *What attributes, skills and experience do today's board members expect to be needed in boardrooms of the future?*
- 3) *How can nomination committees be helped to take a more objective and diversity-friendly approach to board recruitment?*

**Please note**, it is essential that the project's analysis (for both parts) is carried out in such a way that the *separate effects of gender and ethnic diversity*, as well as the combined effect of both, can be understood and reported.

The final output will be a report or reports setting out the findings and detailing the analysis and data behind them.

The FRC plans to publish the research reports.

***Target participant group***

The research should focus on the boards of FTSE 100 and FTSE 250 (i.e. 'FTSE 350') companies. Proposals may also suggest the addition of board committees in the analysis if doing so provides demonstrable benefits for our understanding of the impact of gender and ethnic diversity. Please note that the budgets quoted for each part are indicative; there may be some budget flexibility if the additional work required and the expected outputs justify the extra costs.

***Suggested approach and analysis***

All proposals should include a *brief* summarising review of the state of the art in studies of this kind, including studies of board committees where relevant. This should be accompanied by an explanation of how the proposed work relates to, and builds upon, the existing literature.

Part A - quantitative design

Part A should employ a quantitative approach to answer the research question. By this we mean the project should identify quantitative measures (or proxy measures), and corresponding data, for the following:

- (i) The effectiveness of boards (and committee(s) if included) of FTSE 350 companies
- (ii) Gender diversity among the membership of (i)
- (iii) Minority ethnic diversity among the membership of (i)

The project should then apply suitable techniques and methodology to these data to test the extent of evidence for a causal relationship between the (gender and minority ethnic) diversity of board membership and board effectiveness. We would like this time series analysis to go back as far as possible (within reason). In your proposal please state what you believe is achievable.

Proposals should also explain how your intended measure(s) of board effectiveness would be constructed and, if appropriate, outline any measurement choices to be made (with their pros and cons). Please also explain what techniques you would use to achieve maximum

rigour and reliability of results, for example by suitable use of control variables and/or identification of confounding variables.

There may be good reasons for breaking down the full sample of companies further beyond FTSE100 and FTSE250. For example, breaking them down by sector, size, riskiness, or ownership structure may reveal different patterns within each group. If you believe this could be the case, please explain in your proposal.

We realise this project could face challenges regarding the availability of data on minority ethnic board members, and likewise regarding the potential for limited case numbers to impair the statistical significance of results. Proposals should suggest possible solutions if possible.

The supplier will be expected to work with the policy team to develop the approach and the bid should include recommended methods to effectively investigate these issues and/or alternative approaches as options, with associated benefits, costs and estimated, associated timings.

Part B – qualitative design

Part B should employ a qualitative approach to answer the research questions. By this we mean the project should gather and analyse evidence from directors on the actual and observed impact of female and minority ethnic participation on boardroom dynamics and board effectiveness. Documenting these examples, the research should investigate whether boards with multiple women and/or ethnic minorities on them have behaved differently from those with comparatively little (or no) diversity. In particular, we seek analysis of *whether* – and, if so, *how* – UK boards have become more effective decision-making bodies as a result of the degree of diversity attained in recent years.

It will explore directors’ observations on the qualities needed in boardrooms of the future and how nomination committees can take a more multi-dimensional approach to diversity in board recruitment which extends beyond ‘visible differences’.

The research should gather real-life examples from subjects and draw conclusions regarding the evidential findings for companies and boards. The objective is to produce practical output and recommendations that will assist boards.

It should build on, for example, the Female FTSE Board Report 2017 by Cranfield University included the findings from interviews with 11 board evaluators, which examined various aspects of female participation in the boardroom.

**Budget**

Part A: the budget for this part of the project is circa £25,000 (excluding VAT; including expenses). A detailed breakdown of costs is required.

Part B: the budget for this part of the project is circa £40,000 (excluding VAT; including expenses). A detailed breakdown of costs is required.

These figures are indicative. There may be some budget flexibility if proposed methods are particularly strong and support the project objectives.

***Form of proposal***

The proposal for Part A or Part B should be no more than 8 pages (or 16 pages in total) and include:

- A succinct summary of the proposal, including an estimated timeline indicating project milestones.
- Details of the techniques, methodology, and external data sources to be used, including your rationale for choosing them.
- A demonstrable understanding of board effectiveness, board evaluation and board composition.
- Your organisation's experience of similar projects and relevant research capability
- Details of the personnel to be involved including their role for this project and their relevant experience.
- Arrangements for managing this work and quality assuring outputs, including how you would like to work with the FRC during the project, and what input would be required from us.
- A detailed budget, including a breakdown of time and costs per activity and per team member. If your proposal includes options (for example, inclusion of sub-committee data, length of time series) these should be costed separately where it makes sense to do so.

Project team CVs can be included as an appendix, along with any additional information about your organization that you think is relevant.

***Evaluation criteria***

Bids should identify any real or perceived conflicts of interest. They will be assessed against the following criteria:

- evidence of understanding the brief;
- suitability of techniques and methodology;
- experience in the area;
- cost.

***Closing date for tenders***

11:59pm Tuesday 3 December 2019. Please submit to [research@frc.org.uk](mailto:research@frc.org.uk)