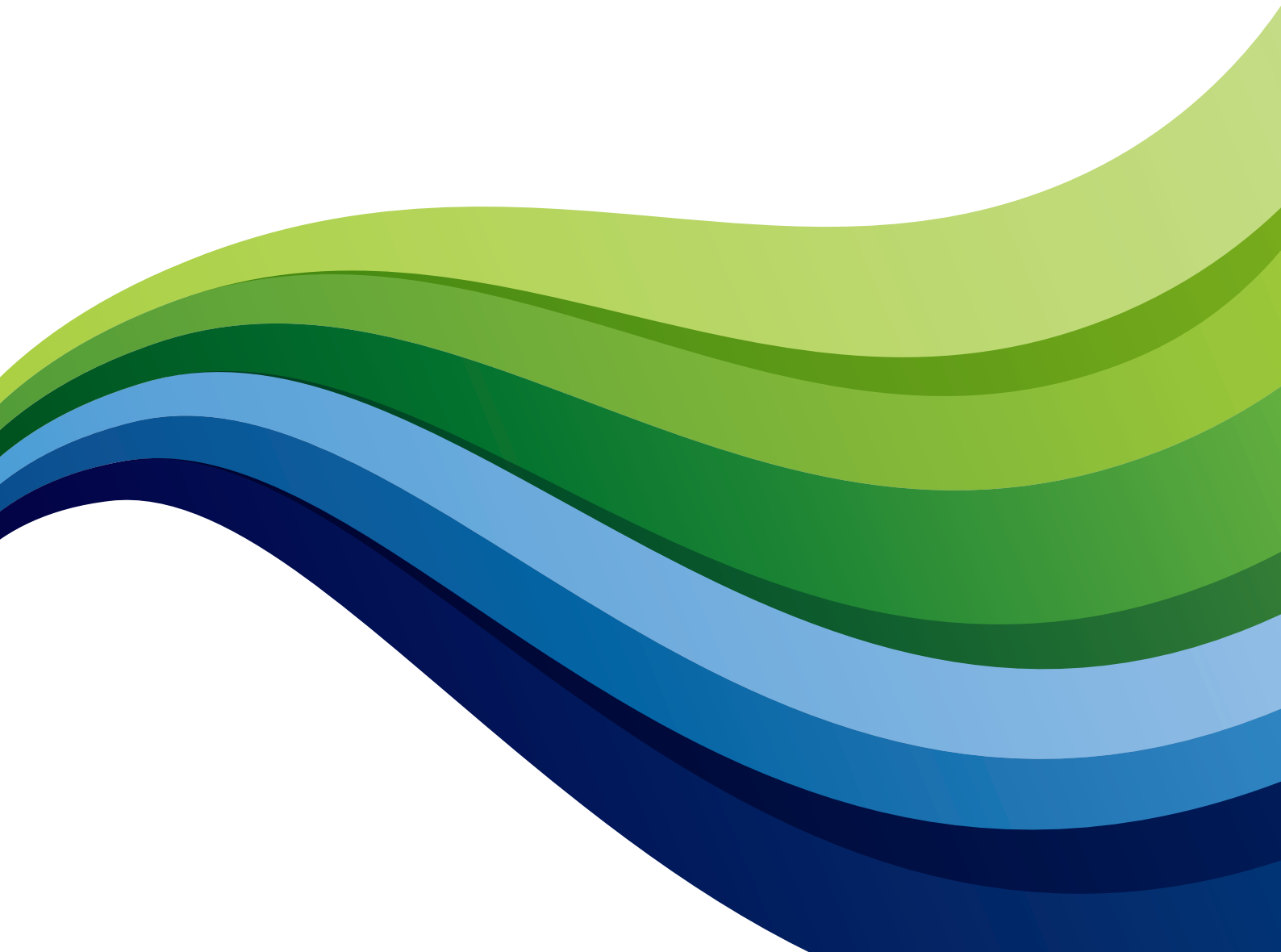




Improving gender balance in SSE Leadership

A response to The Hampton-Alexander Review



SSE and Hampton-Alexander

In its Annual Report 2017, SSE acknowledged the skills gaps that are looming in the energy sector in the early 2020s and stated that because of the skills gaps, it has an opportunity to become a more inclusive employer. The Report also stated that SSE's efforts to improve its inclusiveness have up until now prioritised gender representation in the short-term (but see 'Adopting a broad approach to difference in SSE' below).

SSE's strategy to improve inclusion and diversity is based on 'IN', 'ON' and 'UP'. This means for better gender representation:

- **IN:** attract more women applicants into SSE
- **ON:** retain women within SSE
- **UP:** encourage women's presence in senior in roles in SSE

The Hampton-Alexander Review on women leaders and improving gender balance in FTSE leadership, set out in Reports in 2016 and 2017, aims to build on the success of voluntary business-led approach of the Davies Review for Women on Boards, by extending the scope to include FTSE 350 Executive Committees and Direct Reports to the Executive Committee. It set a target, for FTSE 100 companies initially, of 33% women's presence on the Executive Committee and in the Direct Reports by 2020.

There are of course strong ethical arguments for ensuring equality at SSE. We also know, though, that by broadening the potential skills base by enhancing the diversity of our business, we will improve the quality of our future decision-making. **SSE agrees that improving the overall diversity, including gender balance, in leadership roles is good for company performance and productivity.**

In determining who should occupy leadership roles, SSE believes that appointments should be made on merit, so that the best person for the job and for the team is appointed. The Hampton-Alexander Review referred to the disproportionate number of men to women in senior roles, and **SSE agrees that businesses should therefore question the soundness of their meritocracies.**

The Hampton-Alexander Review acknowledged that companies will be starting in different places when it comes to improving gender balance in their leadership and that its 33% target will be stretching for many and not without challenges ahead; and SSE would urge that future targets take clear account of differences between sectors. Hampton-Alexander also said that the important thing for every company is to have a clear plan, and **SSE agrees that accountability for action and transparency in disclosure in relation to gender balance in leadership roles is now essential.**

The SSE Group

SSE's core business is provision of energy, through production, distribution and supply. Energy is not a sector that has attracted enough women in the past, and its dependence in some key roles on a background in the STEM subjects, which have also had historically low participation among women, has compounded the problem. In seeking to improve the gender balance in its leadership, therefore, SSE is seeking to overcome a legacy of industry and societal factors that have resulted in too few women working for the

company in the first place; and too few women carrying out leadership roles.

The SSE group itself is proposing to undergo important change. In addition to its corporate functions, it has four principal businesses: Retail, Networks, Enterprise and Wholesale. SSE has announced its intention to demerge its GB household energy services and supply business within Retail and combine it with another supplier to form a new independent energy supply and services business. Following the planned completion of this transaction, expected to be in 2018/19, SSE will retain Networks, Enterprise and Wholesale businesses, in addition to corporate functions – termed here the **NEW SSE**.

In assessing how it should respond to Hampton-Alexander, therefore, the focus is on the NEW SSE, but account is also taken of the current SSE group (**CURRENT SSE**), given the transaction described above remains subject to regulatory and shareholder approvals.

Leadership in SSE

SSE accepts that the Hampton Alexander definition of leadership – **Executive Committee and Direct Reports to the Executive Committee** – provides one workable basis on which to assess gender balance. Organisational structures and reporting lines can, however, be transient and therefore this definition could fail to present the whole picture when it comes to gender balance in the most senior roles. Using additional definitions of leadership roles can, therefore, provide a fuller picture.

For FTSE companies in particular, corporate governance should be the system under which companies are directed and controlled. SSE's corporate governance framework comprises the Board and its Committees and the Executive Committee and its sub Committees. These sub Committees all operate under delegated authority from the Board and Executive Committee. For SSE, therefore, leadership roles include **membership of the Executive Committee and its 11 sub Committees**.

Governance frameworks can also change and so SSE's believes the definition of leadership also needs to relate to the importance or value of a job in relation to other jobs within the organisation. In SSE, this relative importance is assessed by means of an independent and objective job evaluation process which results in jobs being allocated an Organisation Level. For SSE, therefore, people in leadership roles are classed as in **roles earning £70,000 (indexed from 31 December 2017) or above, which are commonly found in SSE's Organisational Level 19 roles and above**.

Gender balance in SSE leadership

SSE believes that the combination of these three definitions of leadership is needed to provide a comprehensive picture of gender balance at senior levels (for clarity, all secretarial and administrative roles, although important, have been removed). As at 31 December 2017, the gender balance of leadership in SSE was as follows:

CURRENT SSE

- Executive Committee and Direct Reports to the Executive Committee: 81% men and 19% women;
- Membership of the Executive Committee and its sub Committees: 84% men and

16% women; and

- Roles at £70,000 (indexed from 31 December 2017) or above, commonly found in Organisational Level (OL) 19: 85% men and 15% women.

NEW SSE

- Executive Committee and Direct Reports to the Executive Committee: 80% men and 20% women;
- Membership of the Executive Committee and its sub Committees: 84% men and 16% women; and
- Roles at £70,000 (indexed from 31 December 2017) or above, commonly found in Organisational Level (OL) 19: 86% men and 14% women.

SSE's ambitions for 2021

The nature of the skills gaps that the energy sector faces means SSE's future success depends on it being an attractive place to work, providing professional fulfilment for women and men. **SSE believes that it will be a more attractive place to work for women and men if the gender balance in leadership roles is improved.**

As Hampton-Alexander acknowledged, companies are starting in different places when it comes to improving gender balance in their leadership; and achieving targets will be both stretching and involve challenges. This is particularly true of the energy sector, which is an example of why the circumstances of each sector needs to be considered in setting targets. Nevertheless, SSE believes that the business and ethical case for improving its diversity overall, including its gender balance, is incontrovertible. **SSE believes that transparency in reporting and visibility of its ambitions in respect of targets are important in providing the right impetus for action to enhance gender balance and necessary to send a clear signal that SSE is committed to its IN, ON and UP strategy to improve inclusion and diversity.**

In light of this, and mindful of the need to ensure its ambitions are realistic and credible, SSE has set the following **initial gender balance targets for the NEW SSE**, with the aim of achieving them within three financial years, which means 31 March 2021:

- Executive Committee and Direct Reports to the Executive Committee: from 20% women at present to 30% women by March 2021;
- Membership of the Executive Committee and its sub Committees: from 16% women at present to 25% women by March 2021; and
- Roles at £70,000 (indexed from 31 December 2017) or above, commonly found in Organisational Level (OL) 19: from 14% women at present to 20% women by March 2021.

Hampton-Alexander acknowledged that there are challenges for many companies in seeking to enhance the gender diversity of their leadership. These challenges are especially significant in the energy sector. If it does not reach its initial ambitions by 2021, therefore, SSE does not believe it would necessarily have failed; at the same time, minor progress from the existing position would not mean it had succeeded.

In working to achieve greater diversity, SSE will maintain its belief that appointments should be made on merit, so that the best person for the job *and* for the team is appointed; and will be very mindful of the Hampton-Alexander challenge that companies should question the soundness of their meritocracies.

A clear plan for SSE

As the Hampton-Alexander Review stated, the important thing is for every company to have a clear plan. SSE believes it does have a clear plan to achieve greater diversity including gender balance across its leadership, which is in line with its overall strategy to improve inclusion and diversity based on 'IN', 'ON' and 'UP'. This means:

- **IN:** attract more women applicants into SSE
- **ON:** retain women within SSE
- **UP:** encourage women's presence in senior roles in SSE

In relation to leadership roles in SSE, this means:

IN: attracting more women applicants for leadership roles in SSE

To attract more women applicants for leadership roles, SSE will review and update the selection process, including encouraging agile working for the benefit of women and men, as they become vacant so they do not unnecessarily exclude potential candidates and attract the maximum number of candidates. This should help ensure that meritocracy within SSE is objective and free of any bias.

ON: retaining potential women leaders within SSE

To retain potential women leaders, SSE will extend its future leadership development programmes to a wider range of candidates at additional levels of the organisation, with an application-based approach; and introduce a Managing Director-led mentoring programme for potential women leaders.

UP: encouraging women's presence in senior roles in SSE

To encourage women's presence in senior roles, SSE will introduce an application-based process for appointments to sub-Committees of the Executive Committee, with appointments being made by panels made up of both women and men.

SSE believes that these direct actions together with the ongoing delivery of an Inclusion Strategy (see 'Adopting a broad approach to difference in SSE' below) should, over time, help to improve the gender balance across SSE's leadership in a way that is fair to women and men, makes SSE a better, more dynamic place to work for women and men, and maximises the contribution of women and men to the success of SSE.

Adopting a broad approach to difference in SSE

Measuring the fiscal, societal and financial return on its people initiatives is not new to SSE, which has developed a very open approach to reporting that has been recognised externally. SSE was keen to follow on from the human capital measurement it carried out in 2015; social inclusion reporting; and gender pay gap reporting, by investing time in a new Return on Inclusion tool. It did this as a natural build on what had already been done, with the added incentive that the research would offer insight into how effective SSE's

approach to inclusion and diversity was proving to be.

To assess the Return on Inclusion, SSE worked in partnership with Inclusion Experts Equal Approach to input 81 different data points to calculate SSE's return on gender diversity spend and activity. This research provided direction on how to target SSE's investment to bring the greatest return per £1 spent.

SSE's future strategy, including in relation to gender balance in leadership roles, is built on this insight and in short sees SSE focus on ensuring its foundations (policies, processes, learning and development and recruitment practices) are wholly inclusive for all. SSE views this as a means to widen its inclusion pipeline. In practice, this means that any intervention related to specific features of diversity such as gender, age or ethnicity must contribute to a wholly inclusive workplace.

This approach requires trust that by investing in getting the basics right to create an inclusive workplace, the diversity of candidates will come to and want to stay with SSE. This new strategy goes wider than considering legally protected characteristics only, critical though they are; it includes consideration of thinking styles, background and level of education – all of which are called out in the UK corporate governance code as being important differentiators to ensure effective teams.

SSE believes that a healthy business culture is one which is inclusive and diverse, and in which there is respect for every employee. This means that improving gender balance in SSE's leadership is important in itself; but also important in its comprehensive effort to ensure that SSE is an inclusive, attractive employer for the widest possible range of people. Success in the medium term for SSE includes creating an increased diverse pipeline of employees, and finding effective ways to accelerate this diversity through the organisation. It is not a quick journey and will require a consistent focus on this important area.

Board and Executive Committee commitment in SSE

The Board and Executive Committee in SSE are committed to making real progress in improving the breadth of difference, including the gender balance across the leadership of SSE. Progress will be actively reviewed by the Executive Committee at least in each quarter of the financial year and by the Board at least twice a year. In addition to working together on this issue, members of the Board, Executive Committee and other senior business leaders are also committed to working individually to achieve progress.

SSE must be a company for which talented women and men want to work and in which talented women and men are enabled to achieve their full potential, thereby contributing to sustainable business success. The approach and actions set out in this response to Hampton-Alexander are designed to ensure that SSE is that kind of company in the years ahead.

Signed for SSE plc in March 2018:

Richard Gillingwater, Chairman

Sally Fairbairn, Company Secretary

Alistair Phillips-Davies, Chief Executive

Gregor Alexander, Finance Director

Martin Pibworth, Wholesale Director

Colin Nicol, Networks Director

Neil Kirkby, Managing Director, Enterprise