CAPITAL MARKETS AND INVESTOR RELATIONS INSIGHTS

IR Best Practices Insights

Disclosure on Gender Diversity

The issue of gender diversity has become a prominent topic in corporate social responsibility diversity discussions in recent years. Companies around the world have launched extensive programs and initiatives to tackle the gender gap in their workforces.[1] At times, even when companies have implemented programs successfully, these efforts have gone unnoticed beyond the firm. This has been due, in part, to insufficient disclosure of gender diversity initiatives.

Investors have formed networks and coalitions that focus on and advocate for gender diversity. One of the largest is the 30% Club, launched in the UK in 2010 by the BNY Mellon Investment Management firm Newton. The 30% Club was formed to advocate for companies' boards to include at least 30% women members. Club members exercise their power as shareholders through engaging with companies, exercising their voting rights and raising awareness of the varied benefits of diversity in the business community.[2] Another investor coalition, the Workforce Disclosure Initiative, was launched in 2016 by ShareAction, a UK NGO that promotes responsible corporate behavior through active use of members' shareholder rights. The Workforce Disclosure Initiative now includes more than 125 investors with $14 trillion AUM and focuses on workplace transparency and disclosure of workforce data, policies and practices, including gender diversity.[3]

Good sources to review in order to identify investors' focus areas on diversity are their voting guidelines, stewardship reports and policies. Contacting investors to engage them in direct dialogue can provide deeper insights into their expectations and pain points. Some investors may use a company's large gender gap or poor disclosure of gender statistics on directors and senior management as a reason to vote against the re-election of directors or nominating/governance committee members.

As investors press companies to disclose more information on diversity, including a possible gender gap in their workforces, issuers should recognize that disclosing information on gender diversity is an opportunity to stand out or differentiate themselves from their peers.

MSCI ESG Research, ISS, Sustainalytics and other ESG rating agencies have developed workforce gender diversity scoring methodologies to identify companies demonstrating best practices. For example, MSCI ESG Research's ESG company scoring process penalizes companies that provide little data on gender diversity. MSCI ESG Research considers qualitative information (diversity policies and programs) and quantitative performance metrics in their assessment as a sign of strategic direction or future intent.

MSCI ESG Research, and the other rating agencies applying qualitative metrics, analyze the evidence of workforce diversity policies and programs and evaluating management oversight responsibility for diversity. Disclosure best practices include:

- Workforce diversity policy and management oversight
- Managerial or board-level responsibility for diversity initiatives
- Programs to increase workforce diversity, including targeted recruitment and gender-balanced candidate slates
- Training and mentorship programs
- Initiatives supporting a diverse workforce, diversity monitoring or audits

According to MSCI ESG Research's methodology, quantitative performance metrics are based on the attraction of women to the company, their retention and promotion:

- Attraction: percentage of women employees among new hires, percentage of women in total company workforce
- Retention: Percentage difference in average employment years for female and male employees
- Promotion: Percentage of women in senior management roles, percentage of women members of the board of directors.

"Newton Investment Management, as a founding member of the 30% Club, believes that a more equal gender balance on boards promotes a stronger corporate culture and governance practices, and ultimately increased corporate performance. The company's disclosures on diversity can be an indication of the board's attitude to such a crucial topic."

— Rob Stewart
Head of Responsible and Charity Investment
Newton Investment Management

"Our requirement on disclosure is that companies include at least three of these nine strategic elements: measurement of composition of the workforce, including gender diversity, evidence of strategy to improve areas of weakness, diversity training and awareness initiatives, recruitment process, specific targets to improve diversity, membership in external industry groups (such as the 30% Club), leadership & development programs, flexible working and parental leave, policy regarding workplace sexual harassment."

— Lottie Meggitt, CFA
Responsible Investment Analyst
Newton Investment Management

Best practices on gender diversity and information disclosure[4]

Best practice	Information disclosure
Addressing behavioral bias	The CEO and senior leaders should demonstrate unbiased thinking and focus on talent and values. Specifically, the director search and nomination process should be transparent and evaluated to address behavioral bias at the board level. Providing evidence that a senior executive has been made responsible for implementing the diversity strategy is a best practice.
Sponsorship of leaders, mentorship and development programs	Internal programs to improve gender diversity can include formal networks and mentoring programs to help women navigate organizational hierarchies and to coach them for leadership roles. Disclosures of these programs should include specific examples of the training and development of women.
Clear diversity goals and targets	The disclosure of organizational metrics, such as targets and quotas in the sustainability report can support the business focus on diversity. The target of 30% of board members being women is a best practice supported by research and advocated by the 30% Club. Investors are also looking at gender diversity and initiatives as a metric that may be linked to executive compensation.
Measures to improve work-life balance	Disclosure of specific Human Resource initiatives, such as flexible working hours or establishing a progressive parental leave program, may be a signal of improved work-life balance for the organization.

1 BCG: Getting the Most from Your Diversity Dollars. https://www.bcg.com/en-us/publications/2017/people-organization-behavior-culture-getting-the-most-from-diversity-dollars.aspx, (accessed on July 22, 2019).
2 The 30% Club: https://30percentclub.org/about/chapters/united-kingdom (accessed on July 22, 2019).
3 ShareAction: https://shareaction.org/wdi/ (accessed on July 22, 2019).
4 ISS: Women in the C-Suite: The Next Frontier in Gender Diversity, August 17, 2018, https://www.issgovernance.com/library/women-in-the-c-suite-the-next-frontier-in-gender-diversity, (accessed on July 22, 2019).