

ESG Now Podcast

“Women on Boards and Beyond ”

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Gabriela de la Serna: Hello and welcome to the weekly edition of ESG. Now, the show that explores how the environment, our society and corporate governance affects and are affected by our economy. I'm Gabriela de Serna and I'll be your host for today's episode on today's show and just in time for International Women's Day, we'll be discussing our newly published paper, women on Boards and Beyond. We want to tell you where companies are in their journey towards gender parity, what's surprising, what's not so surprising, and why investors should care about this. So let's jump right in.

Gabriela de la Serna: Every year since 2009, we publish the Women on Boards report. It looks at how much progress women have made in breaking into the boys club that often exist at the executive level of large institutions or really how much progress companies are making at diversifying their leadership to tap the best talent. And yes, diversity can and should be talked about across all levels, colleagues, line managers and so on. But in this episode, we're mainly talking about that space way up at the top of companies, the board, and a c-suite. Now, this report always gave me a painful thrill when it was published, seeing how well or poorly a sector was at including people or than men in their governing process, both because I am not a man and because of the academic research out there that says that more diversity means more cognitive flexibility at the executive level and better progress for company growth.

Gabriela de la Serna: All of that remains true. But in 2024, this report feels all the more potent de and I or diversity, equity and inclusion might have suddenly popped into everyone's newsfeed after the US Supreme Court decided to strike down affirmative action as part of college admission policies. But a topic of diversity has a much longer trajectory. So today, before we get into the raw data, before we get into how companies are actually progressing in their diversity aims, I want to talk to Linda Ingle, the head of MSCI Sustainability Institute. I asked her to tell me more about the importance of this adult publication and why it matters more broadly here she is.

Linda-Eling Lee: Well, the genesis of MSC i's Women on board report actually was to publish a statistic to capture the diversity on boards is very focused on board quality. It's really actually about the governance oversight and how well the directors on the board can actually provide that oversight. This was the initial genesis and I would say that we continue to have very much that focus, which is it's really about the quality of board oversight of management as well as the investment quality or investment oversight. At the same time, I would say we were at the time beginning to see some regulations pick up around diversity and gender diversity in particular, there were some quotas that were put in some markets and we've seen much more disclosures put in overtime in different markets, including in Japan, in the uk, and of course throughout the EU markets. And so that would be a second reason was that we were just seeing kind of that regulatory push and it was important to see whether companies were going to be able to get ahead of or meet some of these regulatory mandates that were coming in. And then finally, we've certainly always worked with investors who have non-financial goals. They do see gender and ethnic diversity as an issue of social equity. They would like to see that

the leadership in the companies that they invest in actually reflect the demographic makeup of the communities that they serve.

Gabriela de la Serna: So the impetus behind the woman and boards report can be broken down into three different reasons. The primary is the business case, the investment case to have more diversity on boards, which if done right, can enhance management oversight and give the company a better outlook into the future. The second is dealing with regulations and whether companies can get ahead of regulations that ask for greater diversity at the executive level. And finally to cater to the non-financial goals that some investors do have. But before we get to the findings of the report itself, there's one last and important thing to know that Linda brings up, and that is how the report has been able to evolve over time to capture what a true point of diversity is at the board

Linda-Eling Lee: Level. Now, I think over time this report has evolved. Our Women on Boards report, it was in the early years, very much focused on women on boards because that is actually the easiest way I suppose of measuring and also very specific. But I know that in terms of the investment case, we've always been also focused on the fact that it's really about the diversity of thought and about cognitive diversity, if you will, and diversity of experience that you're really trying to measure. And so that I think has always been an area that has alluded all researchers including ourselves. I would also say that in terms of diversity, it's really not just at the board or the management level that matters. We think of course that it matters throughout the workforce and where innovation actually happens and creativity happens, and where problem solving does require a variety of perspectives. So I think over time as we've tried to evolve the research and other researchers, I've tried to evolve the research, there's been much more concerted effort to capture diversity, whether it's only gender diversity or ethnic diversity or other forms of diversity throughout the organization.

Gabriela de la Serna: We're now able for the first time to broaden our research and cover not just gender diversity, also ethnic and racial diversity at the top for companies in our coverage. And now that we've got in the context, we can take a magnifying glass into our most recent report to get a sense of what regulators we're up to, how numbers change or didn't and where investors may be wanting to watch as we move into 2024 to pick up that magnifying glass. I've got Christina Milman out of MSC i's Toronto office, a co-author on this year's Woman on Board and Beyond Paper. The first question I had for Christina related to the progress that has been made in 2023 towards achieving gender parity at the top.

Christina Milhomem: So last year we saw progress at women representation at board level similar to what we've seen in previous years. And although there was a slow down in the pace of change, data showed that a quarter of the board seats of large and mid cap companies within the scope of the report were held by women. And the 41% of the companies had at least 30% of women directors. However, progress was geographically skewed, meaning that companies in developed markets haven't seen greater progress than companies in emerging markets.

Gabriela de la Serna: And so Christina mentions two key things here. First, that progress is definitely taking place even if it's lower than we would like it to be. But if we think that five years ago, one in five boards were all male, and last year that number had decreased to one in 10 boards, the needle is definitely moving. And the second thing that Christina told me is that the picture doesn't look the same everywhere in the paper. She calls out the healthcare and IT sectors the former for having the highest proportion of boards with at least 30% female representation and the latter for having the highest proportion of all male boards. But behind these big

differences in female representation, there are structural issues at play. See three in four healthcare entry level employees are women. They dominate the industry. So in theory, there should be more women available to be promoted to the top.

Gabriela de la Serna: But when we look at the healthcare industry, sports female representation drops dramatically to 32%. So a pretty poor conversion rate. And for it, well, it kind of falls on the other end of the spectrum. Historically, women have been underrepresented in STEM classrooms. And so these sectors tend to have a male skewed workforce. So that's an issue. And having limited female representation in your broader workforce is probably only going to exacerbate issues with gender diversity at the top. But it's important to remember representation isn't just a tick box exercise, it's about creating the right processes of women progress within a company. But many IT companies seem to be struggling with this and gaming companies are maybe the most well-known examples where you can have this combination of recurring sexual harassment controversies and all male boards a scenario that is not going to be best for creating culture that persuades women to stay or even join in the first place. So this is where we are some areas where we see more progress, but others where change is happening much more slowly, but things might start to pick up speed. And this isn't only through company's commitment to the cause, it's coming from a stake or a notch from regulators.

Christina Milhomem: There are a number of recent consultations and regulations on the top of diversity. And what I think is quite interesting about that is that they are starting to venture into different directions. So if we back up a little bit, in 2021, the US SEC approved the NASDAQ board diversity rule, which requires companies to disclose board level data by gender, and it includes a non-binary option. And by race and ethnicity, companies are also required to disclose the number of directors that have self-identified as LGBTQ plus. More recently in the UK there is a new listing rule that requires companies to disclose quantitative data for their board of directors. And as active management teams under this rule, at least one of the most senior positions at board level need to be held by a woman, meaning the chair of the board, the CEO, the CFO, or the senior independent director.

Gabriela de la Serna: There are other roles out there that are promoting diversity in their own way, but we wanted to discuss these specific UK and US rules because they show two different but similar techniques. The US one focuses more on transparency while the UK one has a transparency angle, but also a quota for representation on boards. But what both have in common is each expands their scope beyond gender. Take that US SEC approved NASDAQ listing rule, which requires companies to disclose in addition to gender the racial and ethnic makeup of the boards. And it also gives board members the option to self-identify as non-binary or LGBTQ plus. And so for some, the inclusion of non-binary options for directors represents a more comprehensive step toward the promotion of cognitive diversity or diversity of thought, which is an important piece of the question because it is that cognitive diversity piece that many claim can bring a competitive edge to the company they are invested in. This cognitive diversity piece helps even more when a company is not just diverse at the top, but in the middle and at the sites. I asked Christina to tell me more about this, the carrot. We had a company's ambition to become more diverse, but specifically at the top

Christina Milhomem: In the context of corporations. Usually the benefits of diversity of representation are rooted in the idea that by diversifying the of candidates, companies are better positioned to make the best use of the talent available to them. And that's quite key at times when there is an increase in challenges and opportunities as companies are striving to find the right mix of

expertise to help them navigate all of that, having access to a greater pool of talent can only be beneficial. So by diversify the top, you are bringing to the table different skills, different expertise, different backgrounds. You are promoting innovation. This diversity is also believed to help with decision making process and reduce group thinking at the top.

Gabriela de la Serna: In her research, Christina also found that there is a virtue cycle for companies as they get more diverse at the top, they get more diverse in other executive positions, which can allow them to develop better policies and programs to support underrepresented categories. So for example, when we looked at a global sample of companies, we found that amongst companies with diversity policies or programs, around half of them had at least 30% female representation at board level. But amongst companies without such programs, only 23% had 30% directors identifying as women. That 30% number is important because studies show that when a company reaches the 30% threshold of minority representation, something shifts in the dynamic of the executive group. If we have one or two women at the executive table, they might be unconsciously seen as representatives of their minority group, but as women reach the 30% representation threshold, they start being perceived as equal participants and so feel more empowered to speak their mind and challenge opinions group think can be avoided, blind spots can be covered. Really a no brainer for anyone wanting better management oversight. I want to end this episode by going back to my conversation with Linda because she gives a good summary of the importance of that diversity of thought or cognitive diversity point. And she also brings up this idea that even though the focus on diversity should continue, companies should also start paying attention to inclusion, which is the key ingredient for diversity to start reaping its benefits.

Linda-Eling Lee: If we look over this long trajectory since we started tracking women on boards in 2009, I think it's important to note that we have been making slow and steady progress of gains in terms of female representation on the board. But for a blog that I wrote on this report, I had titled Men on Boards because I think it's Bayers reminding that boards are still overwhelmingly male about every three out of four board seats is still taken by a male director. So whatever progress we've actually made in over a decade that we've been doing this, the boardroom is still very much a man's world. Now, I think it's important to note that the men who occupy those seats today, the three out of four board seats that are taken by men, they might be actually quite different in terms of their mindset and their perspectives and the ones that were occupying them back in 2009.

Linda-Eling Lee: And it's very much possible that even with three out of four seats held by men, that we do actually have greater cognitive diversity and inclusion today. The challenge is that we can't really know that, right? It's very difficult to measure. I think some academics have tried to measure it, but it's very granular and it requires a lot of proprietary data. And so it's natural that when you want to see and measure across thousands of companies that we tend to go for the more visible and tangible forms of diversity, whether that's gender, whether that's race, whether that is the movement to gather self-identification about cultural differences or sexual orientation differences. We go to those types of measures that gauge differences, and that is really a proxy for what we really want, which is diversity perspectives. I think that another area in terms of what makes this whole topic so fascinating is that we've really been talking over the last couple of years more about not just diversity, but also inclusion.

Linda-Eling Lee: It's very important to realize that even if you have diversity in terms of differences in perspective or differences in experience or background, that those backgrounds or those perspectives may not express themselves either in terms of quality of questions and oversight

and innovation and creativity if the group doesn't have a sense of inclusion or belonging. And so what's even harder to measure than diversity is probably inclusion and that sense of being able to express the diversity. So I think that this is still very much a nascent area for exploration and for research. And ultimately I think that companies will really benefit if investors and companies themselves are able to really continue to think about how to improve diversity and inclusion in the way they recruit and develop their staff and their leadership.

Gabriela de la Serna: And that is it for this week. A massive thanks to Linda and Christina for their take on the news with an ESG twist. And if you want to find out more about our woman on Boards and Beyond report, this research is actually available for free on MSCI's website. So do take a peek. Thanks for tuning in and sticking around. And if you enjoy to us every Friday, go ahead and click the subscribe button. Thanks again and we'll catch you next week.

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