Impact Cubed

GENDER DIVERSITY: ESG INTENT OR OUTCOMES?

When we talk about ESG investing, there's often a natural tendency to pay more attention to the "E" – how businesses are reducing their environmental impacts and their carbon emissions, for example.

This, of course, is only a third of the acronym. In our next few short reads we want to highlight additional ESG topics – namely gender diversity, executive pay and the tax gap.

As you may have guessed from the title of this article, we're starting with gender diversity. And we're being timely. Companies are being pressured to be more transparent about their gender make-up.

Look at Nasdaq's new Board Diversity Rule, for example. Companies wishing to list on the exchange must disclose their board-level diversity. If they don't have at least two diverse directors, they must explain why this is the case.

Studies have suggested company performance and innovation can be boosted when diversity is embraced. Glenmede's research suggests that firms with greater diversity in the Russell 1000 index experienced greater excess return with less risk over the period July 2009 through

June 2020. A study by McKinsey found that companies leading on gender diversity were 25% more likely to have above-average profitability. As another example, Board Ready's research indicates that more diverse boards experienced less downside during the COVID pandemic.

Company Intent or Outcomes?

Against this backdrop, it's common to see companies publicise their diversity policies. For some investors, the presence of a policy may be enough to tick a box, allowing the firm's inclusion in a portfolio. For some ESG score providers, it can help notch up an ESG rating.

But, for us, policies alone can't be an indication of a company's commitment to gender diversity. A policy reflects a company's intent, not its actual performance.

What's more valuable is the factual diversity data – the numbers that show the gender diversity of company's board and senior management. So, how are organisations doing?

Impact Cubed measures the percentage of women in boards and top management for all globally listed companies. We took a sample of the 500 largest firms in the United States. Like most ESG stories, the findings are mixed for these companies:

- Great progress by some: there are now 73 companies where women make up more than 41% of board and top management.
- Most have a long way to go: more than half of the companies have fewer than 25% women in board and top management slots.

From this sample, we were curious: who exactly are the top 10 companies with modern management teams (leaders) and the stale management teams (laggards)?

Modern Management		**Stale Management**	
	% women in leadership		% women in leadership
Ruth's Hospitality	71	Sorrento Therapeutic	0
Lululemon Athletica	61	Ebix	0
RealReal	59	Earthstone	0
ViacomCBS Inc.	58	Silverbow	0
Kimball International	57	Sandridge Energy	0
Allete Inc	57	Redrock Resorts	0
Williams-Sonoma Inc	56	REV Group	0
Booz Allen Hamilton	56	National Bev	0
Bright Horizons	55	Microstrategy Inc	0
Chico's FAS	53	Boston Omaha	0

What does this mean for investors?

Increasing focus on board gender diversity has a number of implications for investors. The first of these is transparency. The more investors start seeing companies report on their board diversity, the more firms that aren't providing this data will be scrutinised. It's hard to find a credible explanation for a lack of diversity when your peers are embracing and publicising it.

Investors are also increasingly holding firms to account. Whether it's in routine engagement sessions or by proxy voting, information on board diversity is now part of the way asset managers are engaging with companies where they hold shares.

Information on gender diversity is also being used to inform product development. For example, Glenmede, Pax, UBS, Robeco, Lyxor and Nordea are among asset managers that have launched funds specifically over-weighting companies with strong gender diversity metrics.

The image below from Impact Cubed's platform shows a sampling of these funds and how they outperform the benchmark (dotted line) on gender equality. In other words, these strategies are doing what they say on the tin based on factual data about companies' gender diversity on board and senior management - rather than including firms just based on their inclusion policies. The beauty of marrying tech tools with factual ESG data (rather subjective, aggregated ESG scores or ratings) is that investors can validate a strategy, compare funds, and view raw data on all underlying holdings in a few simple clicks.

For a demo on Impact Cubed's industry leading ESG and impact data, please get in touch at info@impact-cubed.

Want to know more? You can find all of our short reads here.

ABOUT IMPACT CUBED

Impact Cubed provides ESG analytics and investment solutions for building more sustainable portfolios with greater impact. It combines an award-winning approach to integrating impact into risk and return with technology-enhanced portfolio design and management. The outcome is a seamless approach to customised sustainable investing.

You can find out more about our data and portfolio models at www.impact-cubed.com and if you would like to contact us at info@impact-cubed.com we would be happy to hear from you.

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