S&P Global

Diversity, Equity, and Inclusion: Robust action is needed to overcome slow progress

May 2022 — Conversations around diversity, equity, and inclusion have gathered significant attention ever since the MeToo movement and the Black Lives Matter protests. These events highlighted our society's racial and gender inequities with new vigor, prompting governments and businesses to make commitments towards rectifying various forms of biases. Social upheavals have certainly brought the discourse on diversity to the forefront, along with a renewed focus on how these issues are mirrored in workplaces.

This paper seeks to understand the efforts to prioritize diversity, equity, and inclusion in the workplace by observing the business case and the regulatory landscape, and assessing how companies are addressing these topics from different regions and industry groups.

Across the globe, companies are increasingly evaluating their culture and practices regarding diversity and many of them have launched initiatives to address gender inequalities and combat discrimination and cultural bias. Nevertheless, these initiatives and commitments must translate into meaningful structural changes and deliver a positive outcome. Studies indicate that despite the progress made over the years in gender diversity, there is much farther to go. The United Nations' "The World's Women 2020: Trends and Statistic" shows that women held only 28% of managerial positions globally in 2019, almost the same proportion as in 1995. Furthermore, among Fortune 500 companies, only 7.4% of Chief Executive Officers (37) were women in 2020.[1]

Current trends indicate the need for concerted action from governments, industry bodies, investors, and companies to keep gender equality topics on top of their agendas. Reflecting the slow rate of progress, the World Economic Forum's Global Gender Gap Report 2021 reveals that it will take another 136 years to achieve gender equality.[2] As more women are left out of the workforce because of the pandemic, there is now an added layer of complexity in the efforts to achieve gender parity. With only 43.2% of the world's working-age women employed in 2021, compared to 68.6% of men, the gaps in gender qualities are expected to continue at least in the short term.[3]

Beyond gender diversity, conversations about race, ethnicity, and gender identities are gathering significant attention. According to the U.S. Bureau of Labor Statistics, the majority of the country's workforce consisted of people identifying as White (77%) in 2020. People identifying as Black or Asian was only 13% and 6%, respectively.[4] These numbers could illustrate the structural inequality and the considerable efforts needed to rectify it. Furthermore, a considerable number of LGBTQ+ employees believe their sexual orientation could negatively impact their career progression. All this indicates that bolder actions are required to embed diversity, equity, and inclusion in workplace culture.

[1] "The World's Women 2020: Trends and Statistics," United Nations, October 2020, https://www.un.org/en/desa/world%E2%80%99s-women-2020

[2] "Global Gender Gap Report 2021," World Economic Forum, March 2021, https://www3.weforum.org/docs/WEF_GGGR_2021.pdf

[3] "Building Forward Fairer: Women's rights to work and at work at the core of the COVID-19 recovery," ILO, July 2021, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---gender/documents/publication/wcms_814499.pdf

[4] "Labor force characteristics by race and ethnicity, 2020," U.S. Bureau of Labor Statistics, November 2021, https://www.bls.gov/opub/reports/race-and-ethnicity/2020/home.htm

A strong business case

Research has shown that diversity brings many advantages to an organization, including profitability and market performance. Companies with a diverse workforce can gain from diverseness in perspectives, ideas, and experiences that help build an effective and resilient business. A diverse workforce is better positioned to understand the evolving needs of a diverse client base and they can contribute to process innovation and propose valuable products and services. Such companies tend to outperform organizations that do not invest in diversity.

Companies that invest in diversity not only improve the financial metrics but offer an appealing work environment to employees. A diverse workforce can make employees happier and help companies improve their ability to attract and retain talent. When companies prioritize this agenda, employees are less likely to consider leaving their jobs. Companies that are willing to look outside their usual networks can also tap into sources of talent that others are neglecting.[5]

Limiting diversity agenda or adopting commitments as a token gesture can be disadvantageous to the companies as they are likely to fall behind their peers when it comes to meaningful action. As a result, companies may be sacrificing their resilience, limiting access to talent, diverse skills, and perspectives. Companies with poor gender diversity records may be exposed to reputational risks because of discrimination lawsuits, supply chain risks related to exploitation of women and girls, and operational risks associated with poor talent management and productivity.

The role of regulatory bodies

Regulators across geographic locations have been enacting legislation that can prompt companies to implement adequate measures to increase gender diversity. California's law requiring publicly traded companies headquartered in the state to include women on their boards indicates that governments are becoming watchful of the companies' board diversity.[6] Other US states, including New Jersey, Illinois, and Massachusetts have introduced similar legislation related to the gender diversity of corporate boards.[7]

The European Union has been the most proactive in this domain, issuing a proposal for a directive on improving the gender balance on corporate boards as early as 2012.[8] Currently, as of January 2022, eight EU member-states have adopted binding quotas for board gender diversity: Belgium, Italy, Portugal, Germany, Austria, France, the Netherlands, and Greece. Another ten states have resorted to soft and non-binding quotas: Denmark, Estonia, Ireland, Spain, Luxembourg, Poland, Romania, Finland, Slovenia, and Sweden.[9] The UK has also put in place soft quotas. Beyond Europe, India issued the Companies Bill in 2013 which requires public companies to have at least one woman director. Malaysia adopted a policy in 2011 for companies with more than 250 employees to have boards that are at least 30% women by 2016. Brazil is still looking into a quota for state and mixed-cap companies, which would require them to have boards that are at least 30% women by 2022.[10] These efforts are certainly going to improve the diversity of corporate boards while bringing the companies under regulatory scrutiny.

How do investors consider this topic?

Investors recognize the correlation between gender diversity in companies and long-term value creation, stability, and financial returns. To this end, responsible investors are actively embracing investing with a gender lens, thereby aligning their strategies with the UN Sustainable Development Goals, and pushing companies to have greater gender diversity. In 2019, total publicly available equity and fixed income offerings in gender lens investing reached over USD 2.4 billion in assets under management. The push to integrate gender diversity in investment criteria has increased over the years: at least 15 new publicly traded gender lens equity funds have been launched since 2015. In 2017, Morgan Stanley encouraged analysts to include gender scores in their investments, while in 2018 the State Street Global Advisors announced that it would vote against all-male boards in the US, UK, and Australia as of 2020. In 2018, BlackRock announced that it expected the companies it invested in to have at least two women on the board and urged the Russell 1000 companies under that minimum to act on their lack of diversity.

[5] Marie Froehlicher and Katie Darden, "Progress toward corporate diversity requires more than ticked boxes and token hire," S&P Global, February 2022, https://www.spglobal.com/esg/csa/yearbook/articles/progress-toward-corporate-diversity-requires-more-than-ticked-boxes-and-token-hires

[6] "Senate Bill No. 826," California Legislative Information, October 2018, https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB826

[7] "States are Leading the Charge to Corporate Boards: Diversify!," Harvard Law School Forum on Corporate Governance, May 2020, https://corpgov.law.harvard.edu/2020/05/12/states-are-leading-the-charge-to-corporate-boards-diversify/

[8] Marie Froehlicher, Lotte Knuckles Griek, Azadeh Nematzadeh, Lindsey Hall and Nathan Stovall, "Gender equality in the workplace: going beyond women on the board," S&P Global, February 2021, https://www.spglobal.com/esg/csa/yearbook/articles/gender-equality-workplace-going-beyond-women-on-the-board

[9] Sabine Siebold, "Factbox: Women's quotas on company boards: The EU's frontrunners and laggards," Reuters, January 2022, https://www.reuters.com/business/sustainable-business/womens-quotas-company-boards-eus-frontrunners-laggards-2022-01-14/

[10] Marie Froehlicher, Lotte Knuckles Griek, Azadeh Nematzadeh, Lindsey Hall and Nathan Stovall, "Gender equality in the workplace: going beyond women on the board," S&P Global, February 2021, https://www.spglobal.com/esg/csa/yearbook/articles/gender-equality-workplace-going-beyond-women-on-the-board

This had a direct effect, as the number of companies with fewer than two women on the board dropped by 14% within five months. In November 2019, Fox Gestion d'Actifs, a subsidiary of Groupe Premium, launched its Valeurs Feminines Global Fund, which invests only in publicly-listed companies whose CEOs are women.[11]

As gender diversity is being diligently considered as an investment criterion, it is essential to understand the performance of companies committed to adopting progressive measures in this area. Various indices also bring transparency to gender-related policies and practices of publicly listed companies and allow investors to compare how companies worldwide invest in diversity. The S&P Developed 100 Gender Equality & Inclusion Equal Weight Index offers investors a comprehensive dataset analyzing companies' performance against five diversity questions.

S&P Developed 100 Gender Equality & Inclusion Equal Weight Index

The S&P Developed 100 Gender Equality & Inclusion Equal Weight Index measures the performance of 100 of the highest-ranking eligible gender scoring stocks, separated into two groups of 50 stocks defined as U.S. and non-U.S., within the S&P Developed Large Midcap Index (the "underlying index"). The index measures the equal-weighted performance of the highest scoring stocks based on the S&P Global Gender Diversity Score.[12] Companies with business activities in controversial weapons, thermal coal, and tobacco products, and those with poor performance in relation to UN Global Compact Principles are excluded from the index. In addition, companies that do not have S&P Global Gender Diversity Score, S&P DJI ESG Score, and are involved in significant controversies related to environmental, social, and governance practices are also excluded from the index.

The Gender Diversity Scores used in the index methodology are built from the S&P Global Corporate Sustainability Assessment (CSA)[13]. A company's Gender Diversity Score is calculated using a scoring approach based on CSA question-level scores, recognizing that gender equality is an important issue across industries and globally.

About the S&P Global Gender Diversity Score

The S&P Global Gender Diversity Scores are calculated based on five S&P Global Corporate Sustainability Assessment (CSA) question-level scores.

Only companies with three or more of the five question-level scores are deemed to have sufficient information regarding practices and performance in terms of gender equality to be assigned a Gender Diversity Score. The weight of the questions which are not applicable is equally redistributed across the remaining questions. Non-answered questions are assigned a score of zero. The following table includes the five questions and corresponding weights in the overall Gender Diversity Score:

Question-Level Score	Weight in Gender Diversity Score
Board Diversity Policy	15%
Board Gender Diversity	25%
Workforce Gender Breakdown	30%
Gender Play Indicators	15%
Health and Well-being	15%

S&P Global 2021 Corporate Sustainability Assessment

Measuring performance on gender diversity, equity, and inclusion is paramount for corporates and investors to benchmark against good practices and peers. This part of the paper explores the performance of companies in the area of gender diversity, equity, and inclusion. The basis of the analysis is the S&P Global 2021 Corporate Sustainability Assessment (CSA)[14] which evaluated more than 7,000 companies on various E, S, and G parameters, including 10 questions about their holistic diversity performance. These questions cover topics such as board diversity; gender pay; workforce breakdown by gender, race, nationality, and minorities; health and well-being; and discrimination and harassment. For this analysis, we focus on 1,863 companies that have actively participated in the CSA 2021. This dataset offers a granular analysis of the topic as these companies have directly provided the data that is not always publicly available. The analysis offers insights into the current diversity performance of 1,863 companies across 11 industry groups and in five regions.

It should also be noted that our universe for Africa consists of only 28 companies, most of which are headquartered in South Africa. The results for this region are therefore not statistically representative enough to draw meaningful conclusions. Nevertheless, to provide a complete global representation, figures for performance of African companies are covered in the charts.

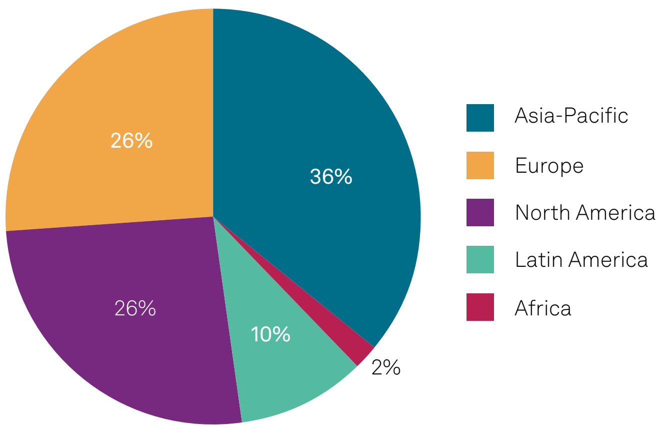
[11] Marie Froehlicher, Lotte Knuckles Griek, Azadeh Nematzadeh, Lindsey Hall and Nathan Stovall, "Gender equality in the workplace: going beyond women on the board," S&P Global, February 2021, https://www.spglobal.com/esg/csa/yearbook/articles/gender-equality-workplace-going-beyond-women-on-the-board

[12] "S&P Gender Equality & Inclusion Equal Weight Indices Methodology," S&P Dow Jones Indices, April 2022, https://www.spglobal.com/spdji/en/documents/methodologies/methodology-sp-gender-equality-inclusion-equal-weight-indices.pdf

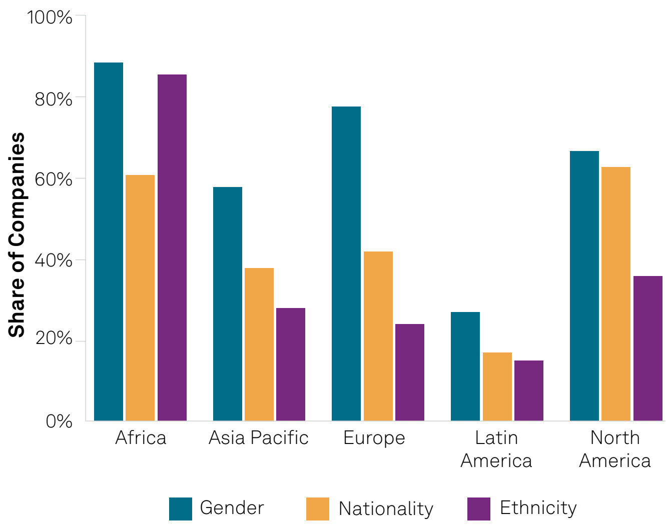
[13] "S&P Global ESG Scores," S&P Global, https://www.spglobal.com/esg/solutions/data-intelligence-esg-scores

[14] "Corporate Sustainability Assessment 2021," S&P Global, https://www.spglobal.com/esg/csa/

Share of companies which participated in the CSA 2021, by region



Coverage of gender, nationality and ethnicity in the board diversity policy, by region



A policy addressing board diversity

Corporate boards are tasked with monitoring companies' management teams on behalf of shareholders and other stakeholders. It is therefore important that the board members selected have the right experience and skills, are sufficiently independent, and act in the best interests of all stakeholders.

Diversity adds value to the board, through differences in perspective and experience. Diverse boards will be able to assess problems from a broader point of view and are more likely to consider the best interests of all stakeholders. Furthermore, studies have shown a positive correlation between gender diversity on boards and companies' financial performance. It can also be important for board members to have a broad and complementary range of skills, although boards' needs can differ across individual companies and industries depending on the existing and required skills and the pool of qualified candidates available when electing new board members.

The CSA asked companies whether they have a formal board diversity policy that requires diversity factors such as gender, race, ethnicity, country of origin, nationality, or cultural background in the board nomination process. From the 1,863 companies included in this analysis, an average of 62% of the companies across industry groups reported having policies that cover at least one of these aspects.

Among the industry groups, Real Estate has the highest proportion of companies that have policies covering gender diversity. Compared to other industry groups, Consumer Discretionary has the lowest proportion of companies with relevant policies.

Analyzing companies' reporting across geographies, Europe (78%) and North America (67%) are among the regions that have a high proportion of companies disclosing board gender diversity policies. Only 27% of the companies based in Latin America and 58% in the Asia Pacific address these topics in their policies. The analysis reveals that companies based in regions with some form of legislation addressing gender diversity tend to outperform peers from other countries.

When analyzing the performance of companies across regions, we observed that Asia-Pacific (38%) outperformed North America (36%) in addressing the topic of nationality in board diversity policy. Europe is among the top performers with 42% of companies including nationality in their board diversity policy.

However, it can be observed that nationality has not been actively considered by companies across industry groups. Most of the top-performing industry groups have less than 42% of companies considering nationality in their board diversity policy. The Real Estate sector has the highest proportion of companies addressing nationality at 42%, followed by the Information Technology and Financials sectors at 41% and the Consumer Staples, Utilities, and Communication Services sectors at 40%. Materials, Industrials and Consumer Discretionary are the industry groups with the lowest number of companies addressing nationality in their board diversity policy.

Similar trends are observed across industry groups and regions when it comes to ethnicity, a topic that has legal limitations in certain regions. North America (63%) is among the regions that have the highest proportion of companies including ethnicity in their board diversity policy, followed by Asia-Pacific (28%).

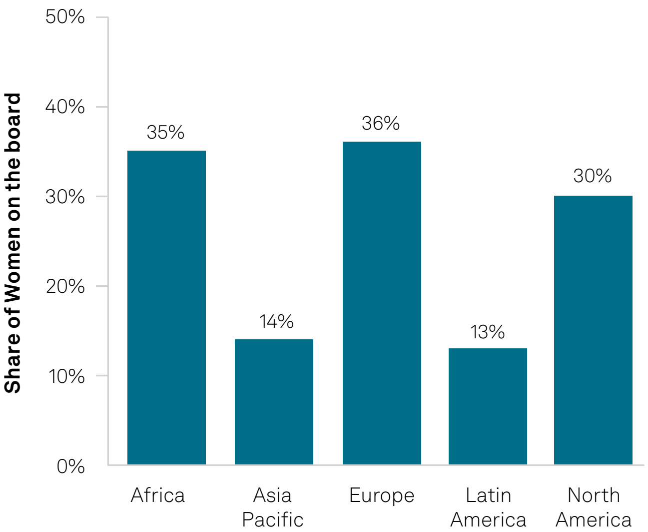
It should be noted that addressing the topic of ethnicity in board diversity policy has limitations in certain regions due to legal constraints. Therefore, analysis based on industry groups may not offer meaningful insights. For instance, the Real Estate, Health Care, and Energy sectors have the highest proportion of companies addressing this topic in their policies, but the majority of the companies in these sectors are based in North America and Asia-Pacific.

Binding legislation influences board gender diversity

Corporate boards need to reflect the diversity of the workforce and marketplace, thereby ensuring that a variety of viewpoints are heard and factored into corporate decision-making. Moreover, improving the number of women on the board is expected to improve the overall gender diversity of the total workforce. A commitment to diversity at all levels can help companies attract employees, create goodwill with consumers, and better compete in diverse markets globally, which in turn benefits long-term shareholder value. Gender diversity has been an important topic of discussion in recent years, and various academic studies have shown a correlation between gender diversity and corporate performance. With various binding legislation enacted across the world, it is evident that regulators are becoming watchful of board gender diversity.

Based on the data disclosed by companies within the CSA, it can be observed that companies that have established board gender diversity policies tend to have a better representation of women on the board. The data shows that industry groups such as Financials, Communication Services, and Utilities, which have a high proportion of companies with diversity policies, also have a higher proportion of female directors. However, some exceptions can be found among the industry groups. Some sectors fall behind in improving the number of women on board, despite having strong policy commitments. This indicates that companies based in regions with no binding legislation are less likely to implement their policies meaningfully. Our analysis shows that Real Estate has the highest proportion of companies with a board diversity policy that addresses gender, nationality, and ethnicity. But when it comes to the number of women on the board, Real Estate falls among the laggards. The median proportion of female directors in the Real Estate sector was 25%, while the companies within the Financials sector, which tops the chart, had 29% female directors. Real Estate was also among the industry groups with the highest proportion of companies that do not report board gender diversity. According to our analysis, the poor performance of the Real Estate sector could be attributed to the fact that a high proportion of the companies in this sector are based in countries that do not have binding legislation addressing board gender diversity.

Women on companies' board of directors (median), by region



The analysis of data according to geographic locations confirms that companies based in regions with binding regulatory frameworks tend to have a higher representation of women on the board of directors. Europe has the largest number of countries with binding and soft quotas and the companies based in this region have the highest proportion of women in board positions with a median of 36%. France, Austria, and Italy are some of the countries that have binding legislation, and the companies based in these countries have a high number of women directors with a median proportion of 43%, 41%, and 40%, respectively. The median proportion of women directors in companies based in North America is 30% as the regulatory requirements vary based on state legislation across the U.S. In Asia-Pacific and Latin America, where fewer countries have binding legislation compared to Europe, the proportion of women in board positions tends to be lower. These regions also have the highest proportion of companies that do not have female directors.

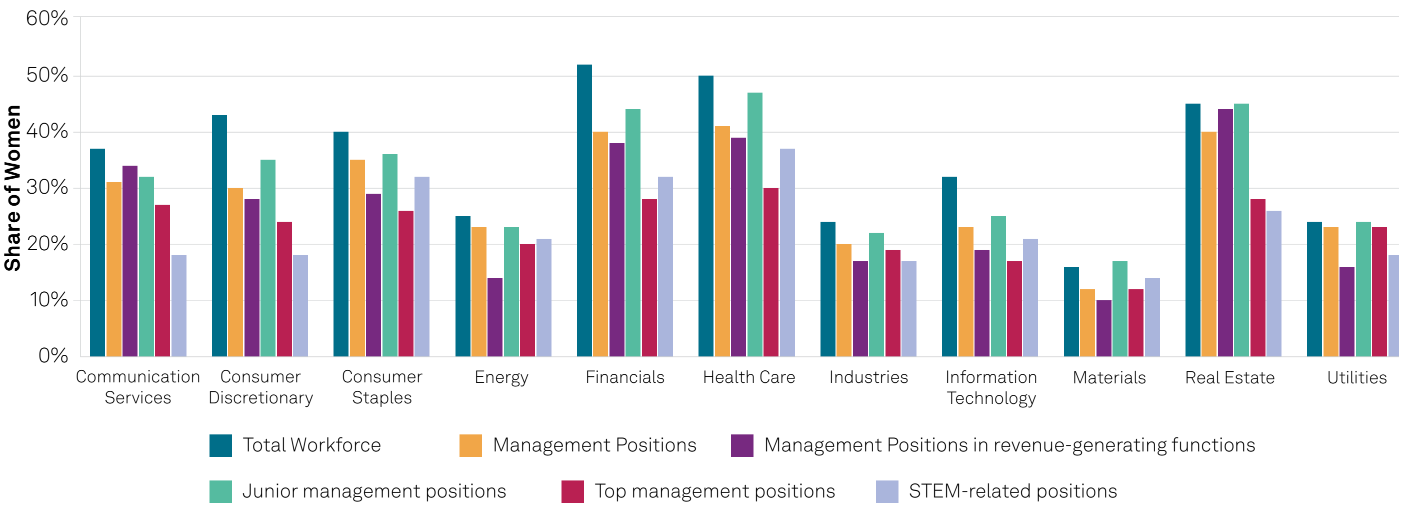
Towards improving women's representation across corporate levels

Companies can benefit from a diverse workforce as it offers innovative and better problem-solving skills, improves talent attraction and retention, increases employee engagement, and results in higher efficiency. Therefore, companies who are early adopters of inclusive hiring and retention practices will benefit from positive recognition and lower compliance costs in the future.

The CSA evaluates companies based on their proportion of women at different levels of responsibility and targets related to gender balance across levels of representation. The questions focus on companies' ability to disclose this data as well as their performance compared to industry peers and their ability to retain women talent.

The analysis reveals that companies in consumer-facing industries tend to have a high representation of women in the total workforce, revenue-generating positions, and senior management. The Financials, Health Care and Real Estate sectors are the best performers, while the laggards lie in the Energy, Utilities, Industrials, and Materials sectors. Traditionally, industries with physically challenging jobs have a low representation of women. This was also observed in the analysis as companies in the Energy, Industrials, and Materials sectors fall behind others in the median proportion of women across all levels. The analysis also indicates that certain industry groups with more women on the board tend to have slightly higher female representation across all levels. For example, companies in the Financials and Health Care sectors have more women directors and they outperform others when it comes to the share of women at different levels. This indicates that a high number of women in board positions tend to have a positive impact on women's representation across corporate levels.

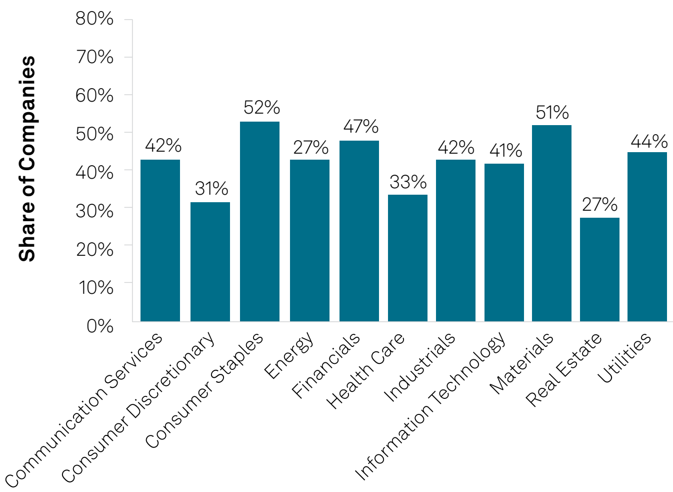
Women on different representation levels (median), by industry sector



Furthermore, it can be observed that the Financials, Health Care, Real Estate, Consumer Discretionary, Consumer Staples, and Communication Services sectors have a higher representation of women in revenue-generating positions when compared to other sectors. The share of women in senior management positions is also higher in these industries. However, the representation of women declines as we move up the different levels of organization analyzed in the study.

From a geographic point of view, companies based in Latin America and Asia-Pacific have fewer women in the total workforce, revenue-generating positions, and senior management. Companies based in Europe and North America outperform these regions in the representation of women across all levels.

Companies that have set at least one target for gender diversity on different representation levels, by industry sector



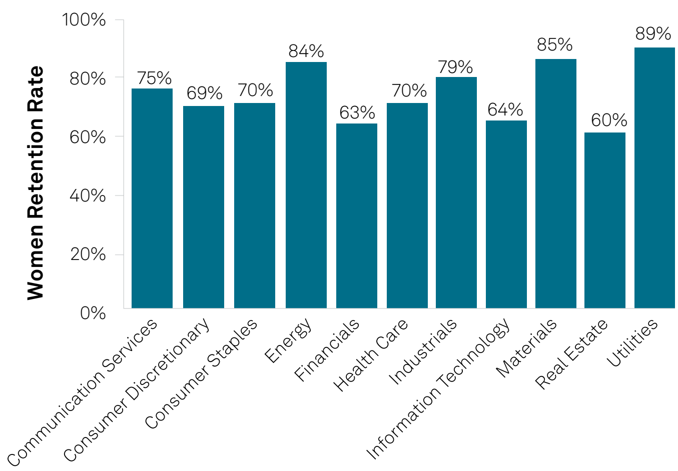
Establishing targets to improve the representation of women could indicate that companies are acting on their commitments. Moreover, targets can provide insights into corporate culture and the rate of progress towards improving gender imbalances. The analysis reveals that some of the industry groups with a low representation of women are actively reporting at least one target. Companies in the Industrials, Materials, Utilities, and Information Technology sectors are among the poor performers in the representation of women. These sectors, however, are among the top performers when it comes to targets.

Retaining female talent

Gender-focused metrics can help companies identify organizational risks and opportunities and make better-informed decisions to improve talent management and employee experience and measure positive impacts on business performance. The evaluation of metrics such as employee retention rate based on gender can help companies measure the impact of corporate development and diversity programs.

The CSA evaluates companies based on their retention rate of women from junior to senior management positions. The question offers insights into the retention of female talent within the company while moving up the corporate ladder. When analyzing this data, it can be observed that the Energy, Industrials, Materials, and Utilities sectors are among the top performers with a high retention rate for women. Except for the Energy sector, these sectors also have a high proportion of companies that have at least one target to improve the representation of women. This could imply that companies in these sectors are implementing initiatives to improve the share of women in their workforce.

Retention of women from junior management to top management level (median), by industry

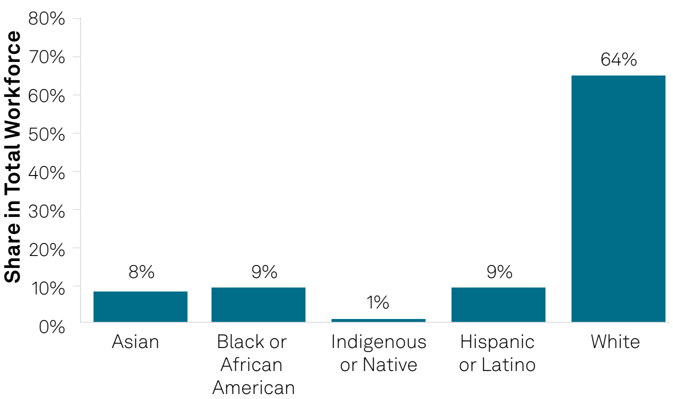


The analysis also found that companies based in North America and Europe outperform other regions. Although it is a mere observation, companies from these regions, which have a better retention rate of female talent, also have a high proportion of women on the board.

Race/ethnicity or nationality data offers transparency into an inclusive work culture

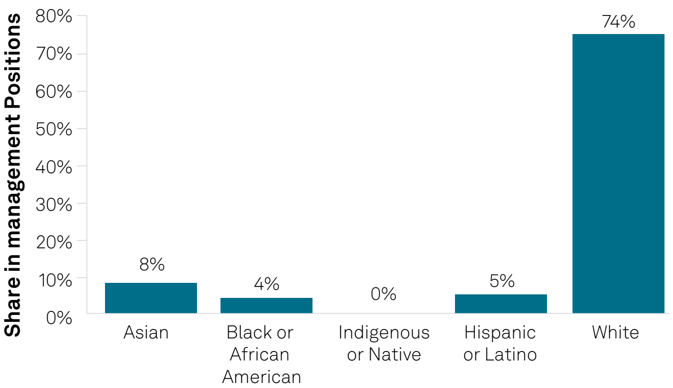
To achieve the optimum mix of skills, backgrounds, and experience, workforce diversity needs to go beyond discussing the percentage of women by including other diversity indicators. Collecting and analyzing data on racial and ethnic diversity is difficult but not impossible. Disclosing this data is key to identifying any discrimination or unequal opportunities practices and provides an important indicator to shareholders that diversity and inclusion are considered high on the corporate agenda. Indeed, the attention of shareholders and regulatory agencies is now expanding to include diversity factors such as ethnic and racial diversity.

Total workforce according to ethnic and racial indicators in North American companies (median)



The CSA asked companies to provide a breakdown of their workforce according to racial/ethnic identities, or nationality. Companies that have at least 20% of their employees based in the U.S. were asked to provide a breakdown by ethnic and racial criteria. The analysis found that almost all the companies in this category disclose data about their employees' race or ethnicity. Although the representation of Black or African American people remains low across the industry groups, the data reveals companies in the Consumer Staples, Consumer Discretionary, and Industrials sectors have a relatively higher representation of this group. The median value of the proportion of this group in the total workforce ranges from 11 to 15% across the three leading sectors. The Information Technology and Energy sectors fall behind other sectors in the representation of Black or African American people with a median value of 4%.

All management positions according to ethnic and racial indicators in North American companies (median)



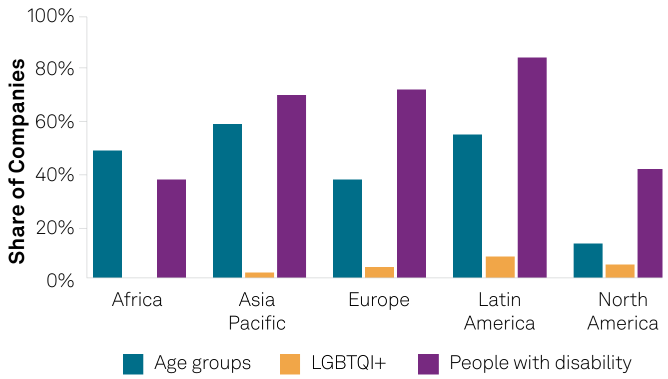
The data shows that the representation of this group further declines at the management level. The median value of Black or African American people at the management level is only 6% across the industry groups that lead in this category. The Energy and Information Technology sectors have the lowest representation of this group at 3% and 2%, respectively.

Reporting the composition of the workforce based on race or ethnicity may not be possible in some regions due to legal constraints or because companies consider it less relevant. Considering these complexities, companies with less than 20% of their workforce in the U.S. were provided the option to report either on race/ethnicity or nationality. Our analysis focused only on the percentage of companies reporting on either one of these aspects as race/ethnicity criteria may vary across regions. On average, only 16% of the companies across the industry groups reported on race/ethnicity, while 23% disclosed their workforce breakdown by nationality. The Financials, Utilities, and Communication Services sectors have the highest proportion of companies reporting on these aspects. Companies in the Health Care sector are poor performers in this area, falling behind other industry groups.

Other minorities: the overlooked talent pool

The CSA also asked companies whether they collect data about employees who self-identify as part of underrepresented groups, such as having a disability or being LGBTQI+. Companies can also choose to report on age breakdowns, a relevant metric to track as research has shown that certain age groups have been facing discrimination in the workplace[15]. Assessing these factors can help companies to understand how different experiences shape corporate culture and to better utilize the full pool of talents available.

Publicly reporting on breakdown of the workforce according to other diversity factors, by region



[15]Richard Eisenberg, "Why Ageism In The Workplace Still Seems To Be Okay," Forbes, July 2021, https://www.forbes.com/sites/nextavenue/2021/07/30/why-ageism-in-the-workplace-still-seems-to-be-okay/?sh=33c234eb668d

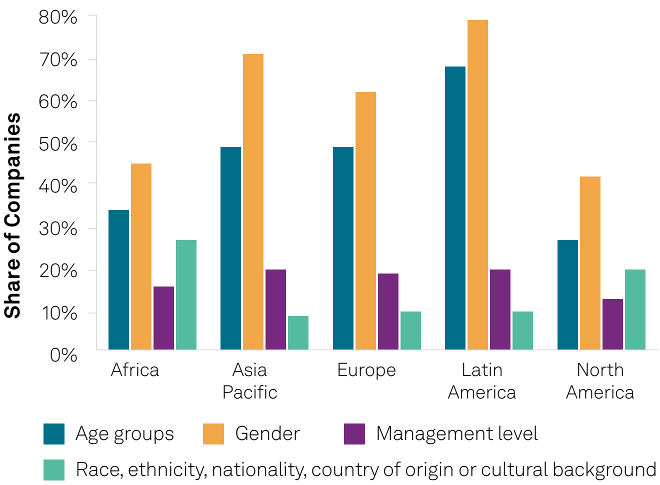
A vast majority of the companies across the industry groups do not collect data on the above indicators for their workforce. Among the companies that disclose this information, our analysis found that companies in the Communication Services, Consumer Discretionary, Consumer Staples, and Real Estate sectors have the highest proportion of employees who are LGBTQI+. The proportion of companies that disclose this factor is lower in industry groups such as Information Technology, Materials, Utilities, and Health Care. When it comes to people with disability, companies in the Industrials, Health Care, and Consumer Discretionary sectors perform better than the others. Additionally, companies based in Europe and North America tend to include a higher proportion of employees with disabilities in their workforce. These regions also have ahigh proportion of companies that collect data on their employees' identification as LGBTQI+.

Monitoring inclusive culture in hiring practices

The ability to attract qualified and talented employees and retain and nurture talents is pivotal for corporate success. Companies need to track these metrics in a way that enables them to track the fair treatment of all employees. The CSA asked companies to disclose the number of new employee hires, and whether the data breakdown by age, gender, race/ethnicity, and management level was available.

The analysis showed that an average of 61% of the companies across the industry groups disclosed the breakdown of employee hires by gender, with the Utilities, Materials, and Communication Services sectors having the highest proportion of companies that disclose this aspect. These industry groups also have the highest proportion of companies that provide employee hires data based on age. It should be noted that these industry groups have a higher representation of companies based in Asia-Pacific, which outperforms other regions in reporting hiring data based on gender and age.

Breakdown of employee hires by age, gender, management level, and race, by region



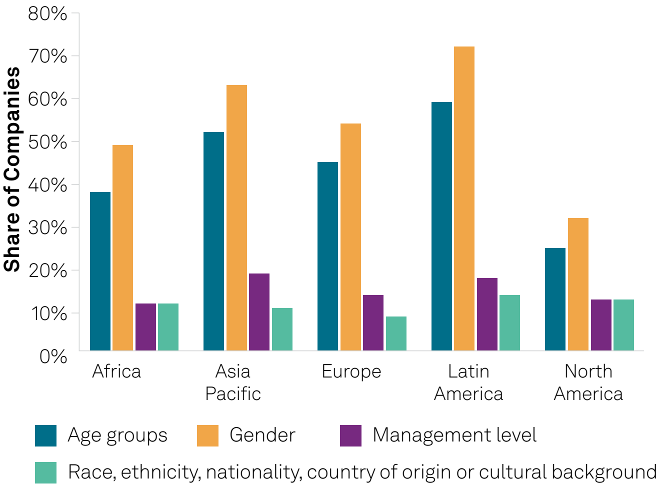
Only a fewer proportion of companies disclosed new hires based on management level and race/ethnicity or nationality across the industry groups. On average, 17% and 12% of the companies reported management level and race/ethnicity/nationality data, respectively. The Health Care sector has the highest proportion of companies disclosing data based on management level and race/ethnicity or nationality.

However, it should be noted that the Health Care sector is overrepresented by companies based in North America, a region that is among the top performers in disclosing race/ethnicity or nationality data. Furthermore, Asia-Pacific and Latin America have the largest proportion of companies reporting new hires based on management level.

Employee turnover: low reporting on diversity factors

Evaluating employee turnover patterns by age, gender or other employee groups is also important as this can be an indication of incompatibility or potential inequity in the workplace. Our analysis showed that the Materials, Utilities, and Financials sectors have the highest proportion of companies that report employee turnover data based on age and gender. Observing the trend across the industry groups it can be found that the average proportion of companies reporting on age and gender is 43% and 52% respectively.

Breakdown of total employee turnover rate by age, gender, management level, and race, by region



"The average proportion of companies reporting employee turnover based on management level and race/ethnicity or nationality is low across the industry groups. On average, only 10% of the companies provide information based on management level and 15% on race/ethnicity or nationality. Across geographic regions, Latin America and Asia-Pacific have the highest proportion of companies that report on employee turnover based on age, gender, and management level.

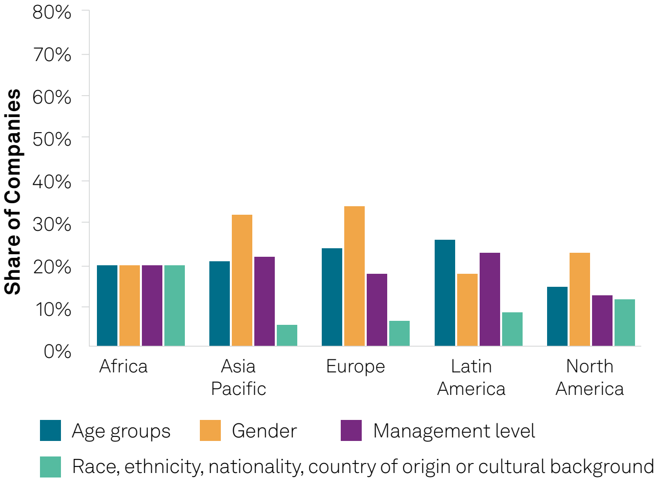
The trend of employee engagement

Internal employee engagement surveys are a crucial tool for evaluating employee experience and developing policies to attract, retain and develop the best employees and identify areas for improvement. These surveys help companies to understand differences of opinion and address potential issues. Like the hiring and employee turnover questions, the CSA asked companies to disclose the results of their internal engagement surveys by age group, gender, ethnicity/race or nationality, and management level.

The analysis revealed that the proportion of companies that disclose these aspects is low across the industry groups. While an average of 30% of the companies provide a breakdown by gender, only 7% report survey results based on ethnicity/race or nationality.

Data breakdown by age and management level is disclosed by 20% and 18%, respectively. Furthermore, the Consumer Staples sector has the highest proportion of companies that report on all criteria.

Breakdown of employee engagement survey results by age, gender, management level, and race, by region



Considering the geographic location of the companies assessed, it can be found that Latin America has the highest proportion of companies that report employee engagement surveys by age group, gender, ethnicity/race or nationality, and management level. Although North America is among the regions that have the highest proportion of companies disclosing ethnicity/race, it falls behind in reporting based on age, gender, and management level.

Work-life balance initiatives remain inadequate

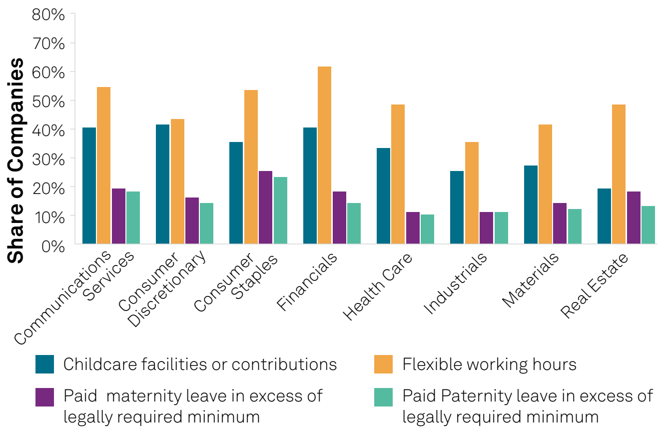
Poor health and well-being have a direct negative impact on labor costs through lower productivity. Lower performance not only poses a threat to a company's reputation and staff morale but also results in increased operating costs in the form of fines and other contingent liabilities.

As the pandemic is reshaping work worldwide, it threatens to reverse decades of progress made towards gender equality. With daycare facilities and schools not fully open, women (who are often the primary caregivers) are facing added stress in managing professional and personal responsibilities. Many of those women are mothers who cite childcare responsibilities as a primary reason for considering downshifting or leaving the workforce. This also speaks to ongoing inequalities in terms of sharing childcare and overall care responsibilities.

The CSA asked companies about their work-life balance initiatives to ensure gender equality in the workplace. The questions focused on companies' disclosure of flexible working policies, childcare support, and parental leaves that go beyond the legal minimum. These measures offer insights into companies' gender equality initiatives.

Based on our analysis, the Financials sector has the highest proportion of companies that offer flexible working hours (which is not surprising, considering the nature of the work) and childcare facilities or contributions. While 61% of the companies within the Financials sector offer flexible working, only an average of 48% of the companies across the industry groups provide this arrangement. Furthermore, the average proportion of companies that have childcare facilities or contributions is only 33%. Companies based in Asia-Pacific display better performance in offering flexible working and childcare support compared to other regions. Companies based in North America and Europe are behind Asia-Pacific in offering these facilities, indicating that these companies could be conservative about flexible working models. This also points to the corporate areas where robust actions are needed to prevent the exclusion of women from the workplace.

Health and well-being initiatives, by industry sector



Our analysis also found that less than 25% of the companies across industry groups publicly disclose maternity leave policies over the legally required minimum. Meanwhile, an average of 16% of the companies do not disclose these policies publicly but confirm the existence of internal requirements. The Real Estate, Communication Services, Financials, and Industrials sectors have the highest proportion of companies that do not disclose maternity leave policies. When analyzing the performance across geographic regions, it can be found that Asia-Pacific has the highest proportion of companies that publicly disclose maternity leave policies beyond the legal minimum. Companies based in Europe fall behind Asia-Pacific in this aspect. This could be because legal requirements are higher in Europe and therefore companies feel less compelled to go beyond the leave already provided by regulations. Moreover, Latin America has a higher proportion of companies that disclose excess maternity leaves publicly compared to North America.

Similarly, a vast majority of companies across the industry groups do not disclose excess paternity leave policies. The Real Estate, Communication Services, Materials, Financials, and Industrials sectors have the highest proportion of companies that do not publicly or internally disclose excess paternity leaves. Geographically, companies based in Latin America and Asia-Pacific are ahead of Europe and North America in publicly disclosing excess paternity leaves. Again, this might be due to the existence of stricter legal requirements in Europe, meaning that companies do not feel compelled to go beyond the leave already provided in regulations.

[16]Marie Froehlicher, Lotte Knuckles Griek, Azadeh Nematzadeh, Lindsey Hall and Nathan Stovall, "Gender equality in the workplace: going beyond women on the board," S&P Global, February 2021, https://www.spglobal.com/esg/csa/yearbook/articles/gender-equality-workplace-going-beyond-women-on-the-board

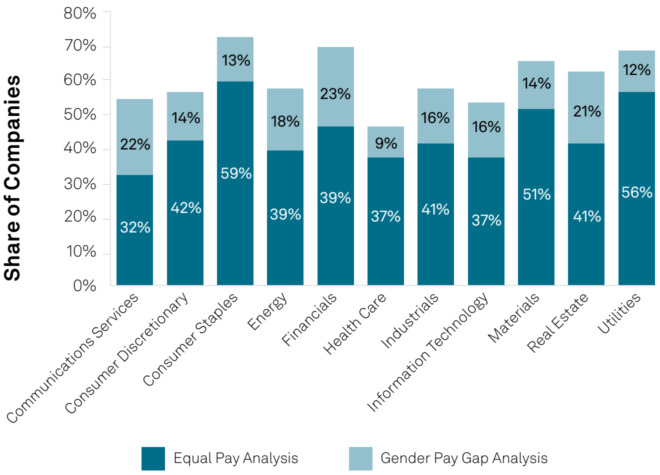
Gender pay parity: A key to attracting and retaining female talent

The gender pay gap needs to be considered in the context of gender inequality as fewer women in leadership positions tend to bring down the average salary of female managers compared to that of male managers. Additionally, the impact of the pandemic on women has further undermined the progress in narrowing the gender pay gap. With more women left out of the workforce, gender inequalities are only bound to increase. Research indicated that American women earned 84% of what men earned in 2020.[17] In Europe, women's gross hourly earnings were on average 13% below those of men in 2020.[18]

Eliminating the gender pay gap can advance gender equality and create a virtuous cycle. The International Labor Organization (ILO) estimates that reducing the gap in participation rates between men and women by 25% by the year 2025 could raise global GDP by 3.9%, or US$5.8 trillion.[19]

An increasing number of countries are adopting regulations that require companies to conduct pay assessments and to disclose the results, making this a topic of high strategic importance. Furthermore, unequal remuneration and gender pay gaps pose a threat to the company's ability to attract and retain female talent, lowers employee engagement, and can lead to reputationally damaging controversies.

Conduct of equal pay or gender pay gap assessment, by industry sector



The CSA analyzed companies' pay practices by evaluating the results of their gender pay assessments. We found that more than 50% of the companies across the industry groups, except Health Care, disclose information about equal pay ratios or report the results of gender pay gap analysis.

The Consumer Staples sector has the highest proportion of companies that monitor gender pay either by reporting equal pay ratio, which compares the salary of men and women who have the same or equivalent positions, or gender pay gap, which is the difference in average gross hourly earnings between women and men. Companies in the Financials, Utilities, Materials, and Real Estate sectors are among the top performers that disclose relevant information. The Health Care and Information Technology sectors fall behind with few companies disclosing gender pay. The Financials sector companies, which are among the top performers in monitoring gender pay, also have a high representation of women on the board and in senior management. The correlation, however, could not be observed across the industry groups. For example, the Health Care sector is among the top performers in the representation of women on the board and in senior management, but the companies in this sector fall behind all the others in monitoring gender pay.

Discrimination and harassment: Need strong implementation measures

The United Nations Guiding Principles on Business and Human Rights requires businesses to respect the human rights of individuals belonging to specific groups or populations, including indigenous peoples, women, national or ethnic, religious, and linguistic minorities. It also encourages businesses to avoid causing or contributing to adverse human rights impacts through their own activities and to address such impacts when they occur.[20] According to the ILO, discrimination based on the mentioned identity markers is a violation of human and labor rights. Furthermore, diverse companies with strong non-discriminatory practices have been proven to perform better in terms of innovation, efficiency, productivity, employee engagement, and talent attraction and retention, thus making anti-discrimination practices a key strategic topic for companies.

The CSA evaluated companies' non-discrimination and anti-harassment policies and measures in place to effectively deal with discrimination and harassment in the workplace. The resulting data shows a general trend of strong policy commitments, but these are often not supported by relevant initiatives.

Our analysis found that an average of 87% of the companies across the industry groups have a formal statement prohibiting harassment. Utilities, Health Care, Information Technology, Communication Services, and Materials sectors are among the top performers with more than 90% of the companies explicitly prohibiting harassment in the workplace. Further analysis of these policies reveals that an average of 73% of the companies across the industry groups prohibit sexual harassment. More than 80% of the companies in the Consumer Discretionary and Communication Services sectors have policies addressing this issue.

[17]Amanda Barroso and Anna Brown, "Gender pay gap in U.S. held steady in 2020," Pew Research Center, May 2021, https://www.pewresearch.org/fact-tank/2021/05/25/gender-pay-gap-facts/

[18]"Gender pay gap statistics," Eurostat, March 2022, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Gender_pay_gap_statistics

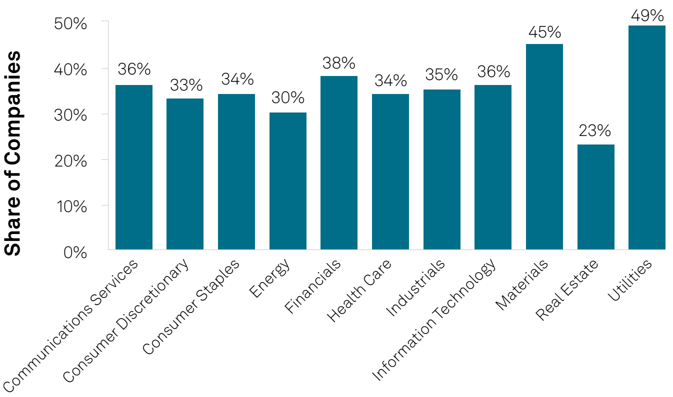
[19]"Understanding the gender pay gap," ILO, June 2020, https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---act_emp/documents/publication/wcms_735949.pdf

[20]"Guiding Principles on Business and Human rights," OHCHR, https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf

Most of the Industry groups that fall behind these top performers also have a high proportion of companies prohibiting sexual harassment. For instance, more than 75% of the companies across the Consumer Staples, Utilities, Information Technology, and Materials sectors address sexual harassment in their policies. Except for the Financials and Real Estate sectors, all the other industry groups have more than 80% of the companies addressing non-sexual harassment. Similarly, more than 80% of the companies across the industry groups, except the Real Estate sector, have a zero-tolerance policy for discrimination. Companies generally adopt policies to address issues that pose a higher risk for their operations. However, having relevant policies may not guarantee strong performance.

According to our analysis, the performance of the companies across the industry groups tends to decline when it comes to the management measures in place reported in the public domain to address these issues. Only an average of 37% of the companies across the industry groups provide training to employees on discrimination and harassment. The Health Care, Energy, and Materials sectors have the highest proportion of companies that do not provide training. The Health Care sector falls behind with 78% of companies lacking this training. When analyzing the escalation processes in place for reporting discrimination and harassment incidents, it can be found that the companies in the Utilities, Information Technology, Financials, Consumer Discretionary, and Health Care sectors lead the charts. However, our analysis indicates that establishing an escalation process may not always lead to disclosing the number of incidents reported and ensuring corrective actions to mitigate these issues. For example, the Information Technology, Consumer Discretionary, and Health Care sectors have a high proportion of companies with escalation processes, but companies in these groups are among the laggards when it comes to corrective actions and reporting incidents.

Publicly reporting on corrective or disciplinary actions taken in case of discriminatory behavior or harassment, by industry sector



Although an average of 54% of the companies across the industry group have an escalation process, only 35% had corrective actions and a lower proportion of 33% reported the number of incidents. Of course, the number of incidents disclosed might be an under-estimate considering that many employees do not feel comfortable speaking up or are discouraged from doing so. Nonetheless, the act of disclosure can translate a company's commitment to transparency and awareness on the topic.

Conclusion

A good number of companies have adopted diversity and inclusion commitments in their corporate strategy, demonstrating the importance they attribute to this topic. However, significant efforts are needed to improve company performance when it comes to implementing and disclosing relevant measures. An average of 62% of the companies included in this study have adopted public policy commitments addressing board diversity, and more than 90% of the companies publicly address discrimination and harassment in the workplace. Although these numbers are encouraging, our analysis shows that there is room to improve management measures. For instance, only an average of 39% of the companies across the industry groups disclose targets to improve the number of women in the workforce. Furthermore, only 37% of the companies publicly report on the provision of training and 33% publicly report the number of incidents of discrimination and harassment. This can be an indication of the areas where significant efforts are needed. Implementing relevant management measures and disclosing related data is essential to measuring the progress towards diversity and inclusion commitments.

Regulators can also play an important role in improving companies' performance. It is evident that companies tend to have a higher proportion of female directors if they are based in regions where binding requirements exist. Regulatory requirements can therefore encourage companies to go beyond policy commitments. These requirements can also increase the transparency of company performance, leading to better measurement of diversity and inclusion efforts. Investors are already considering gender diversity as a criterion for investment—more effort and data are needed to also include requirements on other diversity factors such as race, ethnicity, and disability. The topic continues to attract investor attention as companies that actively address these topics tend to have better profitability and market performance.

As a result of regulatory requirements and investor actions over the years, companies have made some progress in addressing gender inequalities. Now the pandemic is threatening to set back decades of progress as a large number of women are left out of the workforce and other disadvantaged groups are disproportionately affected by the impacts of the pandemic. More than ever, we need coordinated efforts from all stakeholders—governments, investors, industry bodies, companies—if we do not want another decade marked by slow progress.

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