

# Global financial markets

## The commercial case for LGBT+ inclusion

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- This paper examines how business policies towards persons that do not identify as heterosexual (also known as lesbian, gay, bisexual, and transgender or LGBT+) can affect corporate performance.
- Firms that treat LGBT+ and heterosexual persons equally can boost financial performance and gain a competitive edge over peers.
- Greater equality for LGBT+ individuals can benefit individuals, businesses, and whole economies.
- The objective economic and commercial case for equality is clear.



Source: UBS

In an increasingly competitive world, companies need to do all they can to outperform. We believe that businesses which treat people equally (regardless of personal characteristics) can secure a competitive advantage over their peers. In this paper we explore why firms that treat LGBT+<sup>1</sup> and heterosexual persons equally can boost financial performance by appealing to a wider potential client base, broadening their available pool of workers, and securing the best management talent.

The UBS Chief Investment Office (CIO) has previously found that inclusive, “equal employers” firms can generate economic benefits such as greater labor force flexibility and broader utilization of human capital.<sup>2</sup> We also outlined an investment approach designed to help LGBT+ investors achieve their financial goals, while accounting for legal and demographic considerations.<sup>3</sup>

Building on prior research, we conclude, based on empirical evidence, that LGBT+ inclusion can be a source of competitive advantage for businesses. Inclusive firms deliver benefits to stakeholders, communities, and potentially investors looking to deploy capital.

<sup>1</sup> In this report we define LGBT+ to mean lesbian, gay, bisexual, and transgender people, plus other gender and sexual orientation groups that would not identify as heterosexual.

<sup>2</sup> For more information on the economic consequences of inclusion and exclusion of LGBT+ individuals, see *Chief economist’s comment: Pride and Prejudice, and Economists*, UBS Chief Investment Office GWM, June 2018.

<sup>3</sup> For more information on the investment strategies for LGBT+ persons, see *Investing for LGBT+ persons*, UBS Chief Investment Office GWM, August 2018.

## Why LGBT+ inclusion makes business sense

A considerable body of evidence concludes that corporate inclusion policies for LGBT+ customers, employees, and stakeholders can bring commercial benefits. We identify three areas where inclusive firms can gain a competitive edge over peers:

- 1) On end demand, widening a firm’s potential customer base;
- 2) On their employee base, increasing the likelihood they can hire and retain top talent;
- 3) On profitability, through more efficient supply chain management and more effective corporate leadership.

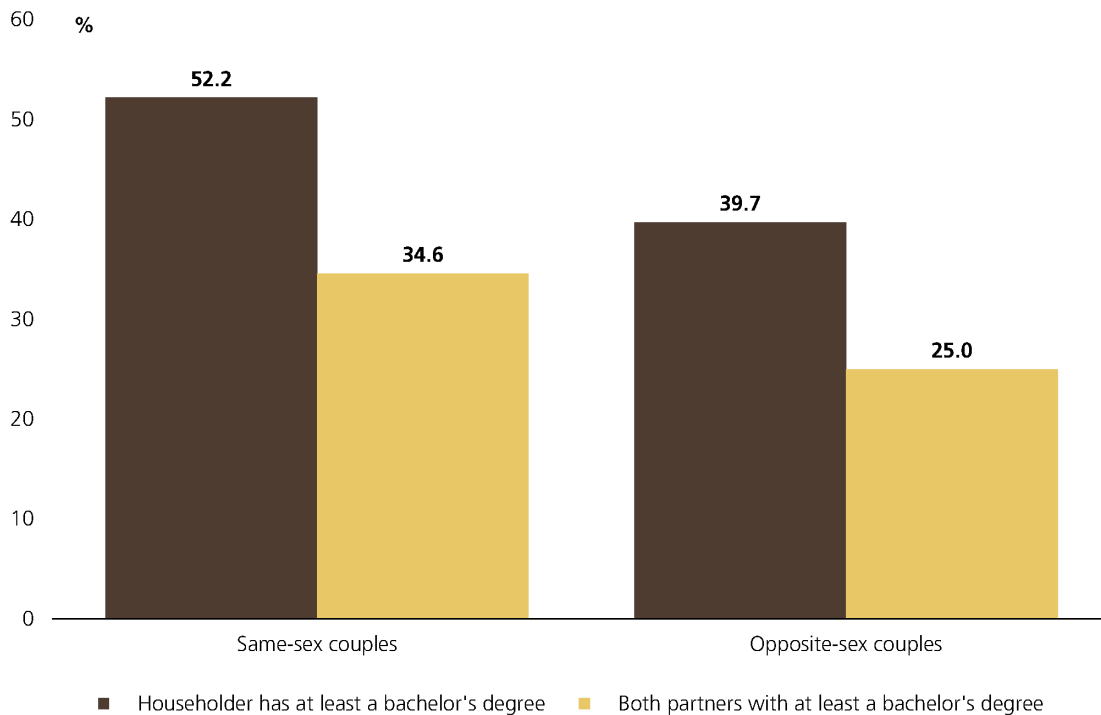
### LGBT+ inclusion and customer demand

LGBT+ consumers make up a valuable customer demographic that firms are likelier to capture if they promote inclusive internal and external business practices. Surveys as far back as the 1950s, such as the Kinsey Reports, estimated that 10% of people in the US were not heterosexual. A variety of more recent studies conducted in numerous countries suggests that this proportion has remained fairly constant.

Evidence indicates that US same-sex couples enjoy higher median household income than opposite-sex couples do (USD 94,000 versus USD 85,000 respectively). They are also better educated on average (see Figure 1 below) and half as likely to have children, which could result in them having more disposable income.<sup>4</sup>

**Figure 1: Same-sex couples are more likely to have completed college**

Percentage of US couples with a bachelors’ degree or higher



Source: 2016 American Community Survey (Census), UBS.

<sup>4</sup> *Investing for LGBT+ persons*, UBS Chief Investment Office GWM, August 2018, page 5.

A 2015 study estimated that US lesbian, gay, bisexual, and transgender (LGBT) adults commanded disposable incomes of USD 917bn.<sup>5</sup> In the same year the global spending power of LGBT consumers was estimated to total USD 3.7trn a year, a sum equivalent in size to the German economy.<sup>6</sup>

Disposable income for LGBT+ employees could increase further if firms eliminate pay and job discrimination based on sexual or gender orientation. Non-heterosexual men are paid less than heterosexual men (by around 9%, according to certain estimates).<sup>7</sup> And LGBT+ employees may currently earn less over their lifetimes than heterosexual employees if they work in countries or states without anti-discrimination laws against job dismissal based on sexual or gender orientation (as is the case in Singapore, Hong Kong, and 30 of the 50 US states).<sup>8</sup>

Exclusionary policies towards LGBT+ persons may not only reduce corporations' potential customer base, but also antagonize other demographics that look for firms whose values match their own. For example, a 2011 study found that 75% of heterosexual adults likely sought brands that provided equal workplace conditions to all employees.<sup>9</sup>

### **LGBT+ inclusion and effective employees**

Individuals' job skills and competency are independent of their ethnicity, gender, and sexual orientation.

Inclusive companies, by choosing employees on objective measures alone, maximize their chances of attracting, supporting, and retaining the labor that adds the most to business performance. This gives them a competitive edge over less diverse competitors that draw upon a smaller available pool of workers.

Since the same-sex talent pool in countries like the US is, on average, better educated (see Figure 1), there are sound economic reasons why businesses can benefit from adopting inclusive policies towards LGBT+ employees.

The academic evidence of a positive direct link between inclusion and better corporate financial performance is limited by the fact that sexual and gender orientation are not visible attributes, but ones that a person needs to disclose.

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<sup>5</sup> Data from Witeck Communications, cited in *LGBT Purchasing Power near \$1 Trillion Rivals Other Minorities*, 20 July 2016, Bloomberg. Publicly available at <https://www.bloomberg.com/news/articles/2016-07-20/lgbt-purchasing-power-near-1-trillion-rivals-other-minorities>, accessed 23 July 2018.

<sup>6</sup> LGBT Capital, *Global LGBT ("Lesbian, Gay, Bisexual, Transgender") annual spending power (LGBT-GDP) estimated to be US\$3.7 trillion in new data from LGBT Capital* (Hong Kong and London: August 3, 2015), LGBT Capital, [http://www.lgbt-capital.com/docs/LGBTGDP\\_2015\\_Press\\_Release.pdf](http://www.lgbt-capital.com/docs/LGBTGDP_2015_Press_Release.pdf). quoted in *Tackling Discrimination against Lesbian, Gay, Bi, Trans, & Intersex People – Standards of Conduct for Business*, United Nations Human Rights, Office of the High Commissioner, New York, 2017.

<sup>7</sup> *Chief economist's comment: Pride and Prejudice, and Economists*, UBS Chief Investment Office GWM, June 2018, page 1.

<sup>8</sup> *Investing for LGBT+ persons*, UBS Chief Investment Office GWM, August 2018, page 2.

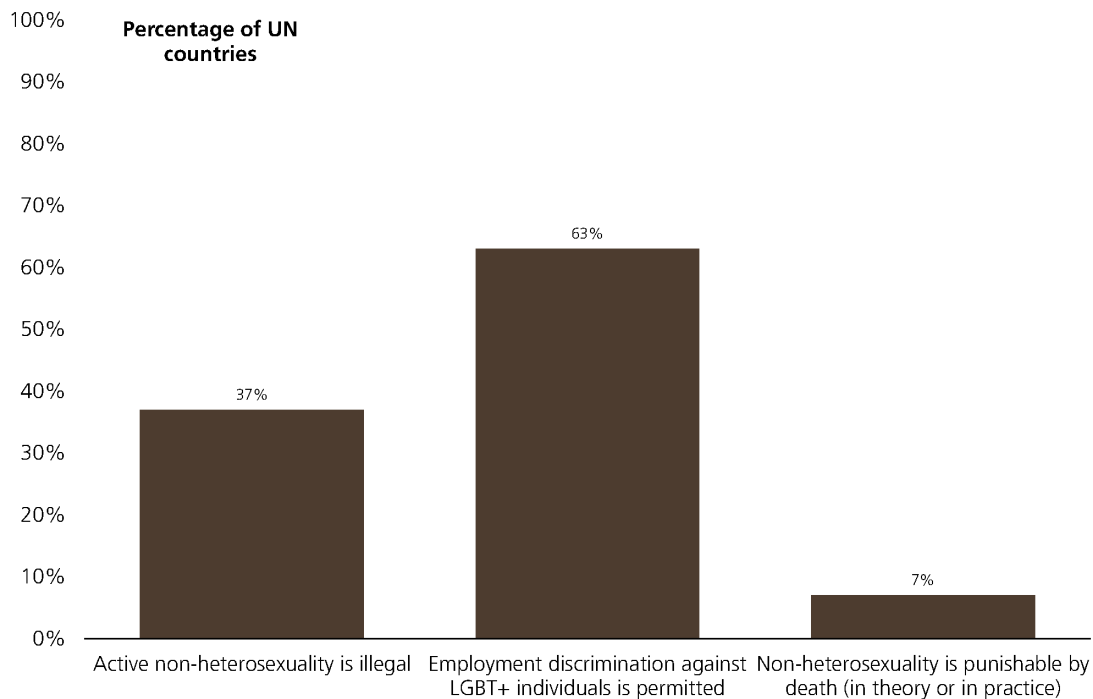
<sup>9</sup> Harris Poll and Witeck Communications, *LGBT Adults Strongly Prefer Brands That Support Causes Important to Them and that also Offer Equal Workplace Benefits*, (New York and Washington D.C: formerly Harris Interactive and Witeck-Combs Communications, July, 2011). <http://communitymarketinginc.com/lgbtresearch-practice/lgbt-research-downloads>, quoted in *Tackling Discrimination against Lesbian, Gay, Bi, Trans, & Intersex People – Standards of Conduct for Business*, United Nations Human Rights, Office of the High Commissioner, New York, 2017.

Disclosure of sexual or gender orientation is unlikely if a LGBT+ person lives or works in a hostile environment (see Figure 2 below) where active non-heterosexuality is illegal (37% of UN countries), employment discrimination against LGBT+ individuals is permitted (63% of UN countries and 30 out of 50 US states<sup>10</sup>), and non-heterosexuality carries a theoretical or practical risk of the death penalty (7% of UN countries).<sup>11</sup>

Nevertheless, available academic evidence does support the conclusion that an inclusive work environment for LGBT+ employees can deliver commercial benefits. In 2013 the Williams Institute conducted a meta-analysis of 36 research studies on the impact of LGBT-supportive workplace policies and environments, and business outcomes.<sup>12</sup> The analysis found that inclusive working conditions for LGBT+ employees were linked to those workers who displayed greater job commitment, increased job satisfaction, improved health outcomes, better workplace relationships, and greater transparency.

**Figure 2: LGBT+ individuals can face hostile environments...even in UN countries.**

Percentage of UN countries with adverse LGBT+ legislation



Source: ILGA "State sponsored homophobia," UBS.

<sup>10</sup> *Investing for LGBT+ persons*, UBS Chief Investment Office GWM, August 2018, page 2.

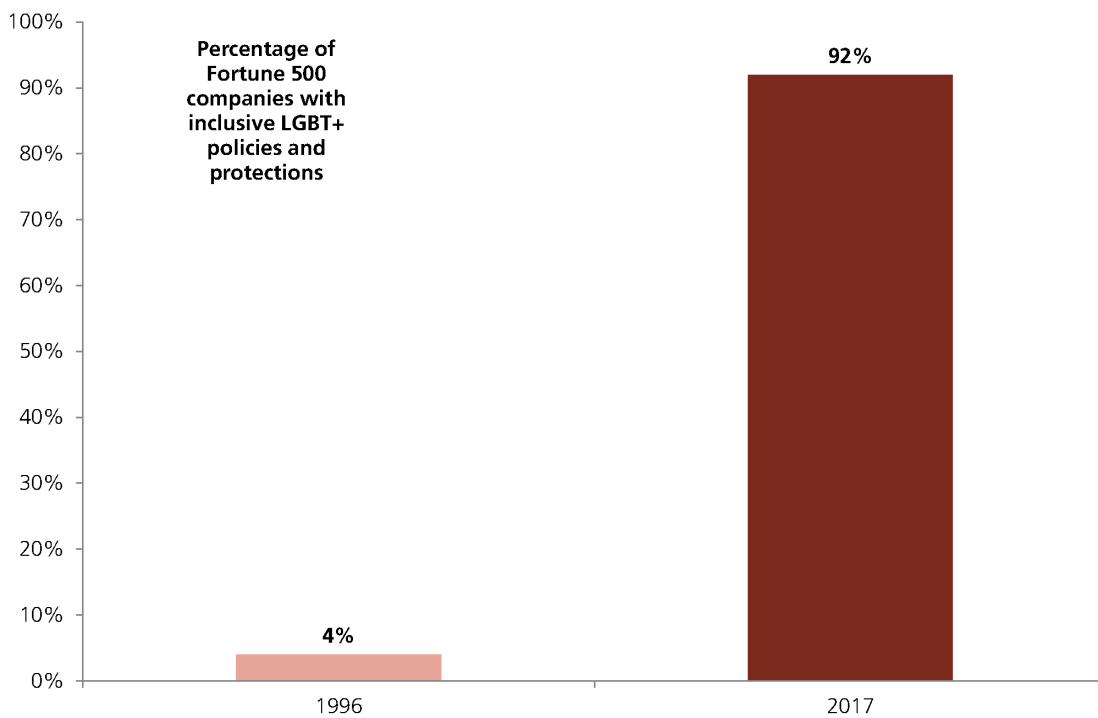
<sup>11</sup> All data drawn from *State sponsored homophobia*, 2017, ILGA, cited in *Chief economist's comment: Pride and Prejudice, and Economists*, UBS Chief Investment Office GWM, June 2018, page 1.

<sup>12</sup> Badgett, Durso, Kastanis, and Mallory, *The Business Impact of LGBT-Supportive Workplace Policies*, May 2013, The Williams Institute.

Furthermore a 2018 study using US corporate data between 1996 and 2009 found a positive correlation between the presence of LGBT-supportive policies and higher productivity – businesses that were more inclusive of non-heterosexual workers recorded 3% higher productivity than less inclusive ones.<sup>13</sup>

Some of the world’s most successful companies are increasingly aware of this link too. A recent study by Out and Equal showed that 92% of Fortune 500 companies had inclusive LGBT+ polices and protections.<sup>14</sup> In 1996 just 4% of Fortune 500 companies incorporated sexual orientation in their nondiscrimination policies (see Figure 3 below).

**Figure 3: US businesses are doing more to support LGBT+ equality**  
 Percentage of Fortune 500 companies with inclusive LGBT+ policies and protections



Source: Out&Equal 2017 Workplace Equality Fact Sheet, UBS. Link: <http://outandequal.org/2017-workplace-equality-fact-sheet/>, accessed 27 July 2018.

<sup>13</sup> Pichler S, Blazovich JL, Cook KA, Huston JM, Strawser WR. *Do LGBT-supportive corporate policies enhance firm performance?* Hum Resour Manage.2018;57:263–278. <https://doi.org/10.1002/hrm.21831>

<sup>14</sup> Out&Equal 2017 Workplace Equality Fact Sheet, <http://outandequal.org/2017-workplace-equality-fact-sheet/>, accessed 27 July 2018.

**LGBT+ inclusion and profitability**

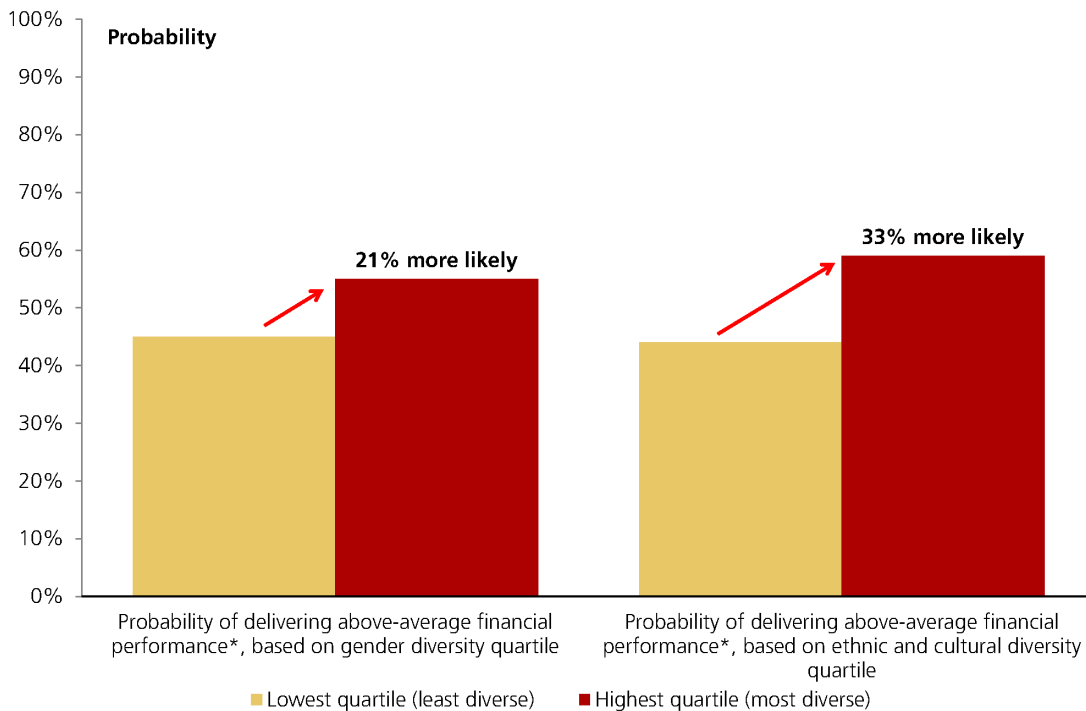
Firms are more likely to maximize their profits if they transact with the largest possible consumer base, enjoy the greatest sourcing flexibility, and maintain a high brand value. If firm A does not treat LGBT+ individuals equally to heterosexual individuals (all else equal), firm A risks cutting off its potential customers and disrupting supply chains if other firms B and C are reluctant to trade with any firm that does not support equal treatment of people, regardless of sexual or gender orientation.

Diversity and inclusion (including of LGBT+ individuals) can improve the effectiveness of corporate senior management too and eventually lead to higher profitability. According to analysis of over 1,000 companies in 12 countries, businesses rated top-quartile for the gender diversity of their senior management are 21% likelier to deliver better-than-average profitability than lowest-quartile competitors. (see Figure 4 below).<sup>15</sup> The same analysis shows that firms with the most ethnically diverse leadership teams are also 33% likelier to have above-average profitability.

A previously cited 2018 study<sup>16</sup> found that LGBT-supportive policies in particular were positively correlated with firm value and profitability for those firms that engage in research and development (R&D) activities. Mean profitability was 12.5% higher in R&D-engaged firms with a supportive policy than in those that did not, while firm value was 21% higher. This observation suggested that LGBT-supportive policies (and LGBT+ inclusion more generally) particularly benefit firms with a greater need for human than physical capital (especially high-value human capital).

**Figure 4: The more diverse a firm's management, the likelier it is to deliver peer-beating performance**

There is a correlation between management diversity and financial performance\*



Source: Hunt, Prince, Dixon-Fyle, and Yee, *Delivering through Diversity*, January 2018, McKinsey & Co, UBS. \* average EBIT margin, 2011 - 2015.

<sup>15</sup> Hunt, Prince, Dixon-Fyle, and Yee, *Delivering through Diversity*, January 2018, McKinsey & Co

<sup>16</sup> Pichler et al, op.cit.

## Conclusion

In the first CIO report on LGBT+ equality and economics<sup>17</sup>, we concluded that excluding LGBT+ individuals has negative economic consequences. For example, LGBT+ persons may be discouraged from discussing their gender or sexual orientation at work. Hiding or lying about an aspect of one's life on the job can create stress and lower productivity. In 2017 it was estimated that discrimination against LGBT+ people cost the global economy around USD 100bn in lost potential output.<sup>18</sup> Unequal treatment of minorities affects not only the minorities themselves but hinders the potential effectiveness of corporations as a whole.

On the other hand, various studies suggest that country-level inclusion of LGBT+ individuals can deliver positive economic benefits. In the first year of nationwide same-sex marriage equality in the US, one study estimated that the law boosted state and local economies by around USD 1.6bn, generated an additional USD 103m of tax revenue, and supported almost 19,000 jobs for a year.<sup>19</sup> And a 2014 analysis of 39 developing countries between 1990 and 2011 found a positive correlation between broader rights for LGBT+ individuals and per capita GDP – one additional right as defined by the Global Index on Legal Recognition of Homosexual Orientation was associated with USD 1,400 more of national output per head, and greater citizen well-being (as measured by the Human Development Index).<sup>20</sup>

## Acknowledgements:

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*This report draws on a body of prior CIO research into the economic and investment implications of LGBT+ equality. It also draws on their opinions around the most relevant laws for LGBT+ investors across the globe.*

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<sup>17</sup> *Chief economist's comment: Pride and Prejudice, and Economists*, UBS Chief Investment Office GWM, June 2018.

<sup>18</sup> Charlie Ensor, "Homophobia Costs Countries \$100 billion a Year, Economist Argues," *Humanosphere*, February 2017, <http://www.humanosphere.org/human-rights/2017/02/homophobia-has-an-economic-cost-for-countries-economist-argues/>, quoted in *Tackling Discrimination against Lesbian, Gay, Bi, Trans, & Intersex People – Standards of Conduct for Business*, United Nations Human Rights, Office of the High Commissioner, New York, 2017.

<sup>19</sup> Mallory and Sears, *Estimating the Economic Impact of Marriage for Same-Sex Couples One Year after Obergefell*, The Williams Institute, June 2016. <https://williamsinstitute.law.ucla.edu/wp-content/uploads/Estimating-the-Economic-Impact-of-Marriage-for-Same-Sex-Couples-One-Year-after-Obergefell-5.pdf>

<sup>20</sup> Badgett, Nezhad, Waaldijk, and van der Meulen Rodgers, *The Relationship between LGBT Inclusion and Economic Development: An Analysis of Emerging Economies*, November 2014, The Williams Institute. <https://williamsinstitute.law.ucla.edu/research/international/lgbt-incl-econ-devel-nov-2014/>

In the second CIO report on investing for LGBT+ individuals<sup>21</sup>, we explored how LGBT+ investors may need different wealth management strategies than heterosexual investors to navigate different legal and demographic considerations. We presented a flexible investment approach – the 3Ls framework – as a tool to help LGBT+ investors achieve their financial goals.

In this final report of the series, we present evidence that inclusion of LGBT+ individuals can benefit businesses commercially. Corporate policies that include LGBT+ individuals can widen a company's customer base, help it hire and retain the best workers, and secure the best management talent. There is also evidence of correlations between LGBT+ inclusive policies and financial performance, particularly for firms that require highly skilled workers.

In sum, greater equality for LGBT+ individuals can benefit individuals, businesses, and whole economies.

The objective economic and commercial case for equality is clear.

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<sup>21</sup> *Investing for LGBT+ persons*, UBS Chief Investment Office GWM, August 2018.



## Appendix

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