

Beyond the board table

Extending the **diversity debate** | UBS Asset Management



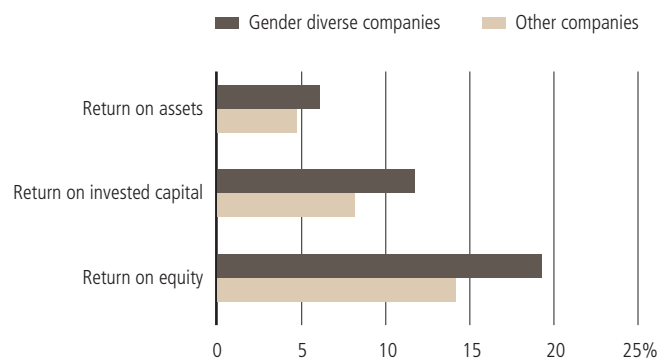
As we mark International Women’s Day, we ask whether it is enough for investors to focus on the ratio of women on corporate boards as a marker of better company performance? Or, as we believe, would they be better served looking beyond the board table to assess the diversity practices throughout the value chain?

In December 2017, Rachel Whittaker from the CIO office of UBS Global Wealth Management, published a paper, “Sustainable investing update: Gender diversity matters”, in which she explored the link between gender equality and sustainability. Rachel argued that there are “... compelling reasons for an approach to gender lens investing in listed equities that takes into account a wider range of diversity (equal representation) and equality (equal opportunity and reward) indicators than are typically considered by investors”.

She went on to discuss the various ways in which differing asset classes approach the topic of “investing in women”, noting that listed equity approaches typically focus on corporate gender equality—evaluating women’s representation on non-executive boards and, in some cases in executive leadership positions. Supporters typically point to studies which demonstrate a correlation between greater diversity at the C-suite and company outperformance, such as the 2016 study

from the Peterson Institute for International Economics which found that a profitable company with at least 30 percent of women leaders could expect to add more than 1 percentage point to its net margin compared with an otherwise similar company with no female leaders¹—a finding which UBS’ own research supports.

Figure 1: Five-year average, in %



Source: UBS WM CIO Sustainable Investing Gender Diversity Matters, July 20, 2017.

Note: Based on Russell 1000 companies. Gender-diverse companies defined as at least 20% women on the board and in senior management.

¹ Marcus Noland, Tyler Moran and Barbara Kotschwar, “Is Gender Diversity Profitable?” Evidence from a Global Survey, Peterson Institute for International Economics, 2016.

But, as Rachel Whittaker observed, such a view is a narrow one. Women in senior executive positions are “the least underserved of the global population of women in the workforce”. Of greater consequence is the extent to which diversity around the board table extends further down the value chain? What measures can, and should, companies take to implement diversity throughout their organizations, what is the impact of those measures on women in the workplace, and by extension, on corporate performance?

Work carried out by McKinsey offers some interesting insights in this regard. They have produced a number of reports analyzing the state of diversity and inclusion in the workplace. Their latest study, published in January 2018, “Delivering through Diversity”,² drew the same conclusions as the Peterson report, notably that a correlation exists between better diversity practices and company performance. But the findings went further still, revealing an interesting shift in the attitude of those companies most advanced in the adoption of inclusion and diversity practices. Increasingly those companies are coming to regard inclusion and diversity as a “source of competitive advantage and specifically as a key enabler of growth”.

Both McKinsey and UBS are clear that a correlation between a more diverse corporation and company performance does not prove causality, but both highlight the fact that there appear to be a number of common factors driving that correlation, including the greater ability of more diverse companies to attract top talent, greater employee satisfaction, better decision making, improved customer orientation, and a secure license to operate.

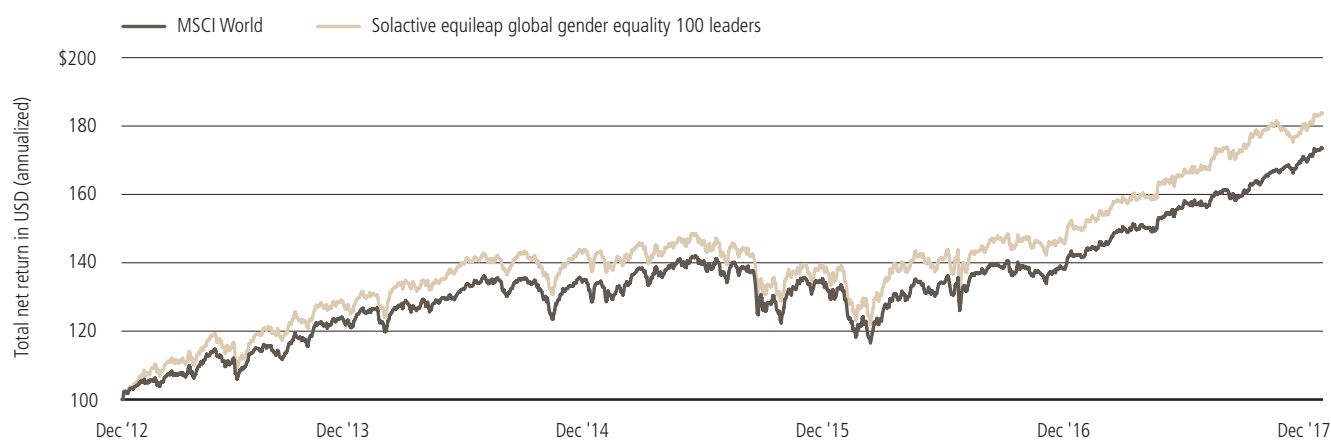
And for those companies who have made material improvements in their approach to diversity, a similar commonality was seen in the ways they implemented a diversity agenda across their organizations, most notably that their inclusion and diversity practices tended to reflect their business ethos and priorities. In particular, those companies recognized the need to commit from the top and cascade that commitment throughout the company, particularly to middle management, with commensurate accountability and resource. Defining and aligning diversity priorities based on the business growth strategy of the company was also seen as key, as was the need to develop a range of diversity initiatives capable of effecting organizational transformation, based on a clear narrative which could resonate with employees and stakeholders alike.

The power of diversity

The association between greater diversity and greater profitability has prompted the development of several indices focusing on gender or diversity issues in order to meet growing investor demand.

The most recent index launch was the Solactive Equileap Gender Equality 100 Leaders Index, which has been designed to track the leading companies in sustainability and gender diversity and it is this index which UBS Asset Management has chosen to track with the recently launched UBS Gender Equality ETF.

Figure 2: 5Y performance of the gender-diverse index vs market (total net return in USD, annualized)



Source: MSCI, UBS Asset Management, as end of December 2017. Please note that past performance is not indicative of future performance.

² Vivian Hunt, Sara Prince, Sundiatu Dixon-Fyle, Lareina Yee; “Delivering through Diversity”, McKinsey & Company 2018.

Equileap Research—What makes a company gender-diverse?

So how does Equileap assess and evaluate diversity? By carrying out an annual program of research and scoring, it ranks over 3'000 public companies from 23 countries using 19 metrics to measure their progress towards gender equality.

The criteria are centered on four themes outlined below. What Equileap’s approach, and the performance of the Solactive Equileap Global Gender Equality 100 Leaders vs the MSCI World benchmark, reflects is our central thesis: if investors are looking for gender diversity as a means of delivering better returns then it is imperative that they look at levels of gender equality at all levels of a company. Outperformance cannot be generated in the boardroom alone.



Source: Guideline Solactive Equileap Global Gender Equality 100 Leaders Index, September 2017.

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