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Globalising our diversity engagement

An overview of our findings in emerging markets and an introduction to our campaign.

The LGIM Investment Stewardship team has long promoted diversity across investee companies as we believe, and studies demonstrate,[1] that a suitably diverse mix of skills, experience and perspectives, as well as inclusivity, is essential for the cognitive diversity of teams and for companies to function and perform optimally. Our conversations and policies on this topic have so far primarily focused on developed markets such as the UK, US, Europe and Japan. In 2022, we decided to expand our diversity strategy into select emerging markets for the following reasons:

1. We recognise that this topic has not yet been widely explored or advocated by the asset management industry in emerging markets
2. The standard data providers that we use have less coverage in emerging markets. There are, therefore, data gaps in diversity data; we seek to improve overall diversity-related data quality and coverage in these countries as the current level of disclosure does not provide sufficient detail to enable investors to assess diversity in all its forms
3. We would argue that diversity challenges and priorities differ in emerging markets from developed markets, and we seek to better understand market specific nuances to enable us to be better stewards of our clients' capital
4. We believe diverse corporate governance and executive leadership should create a strategic foundation for emerging-market companies to succeed globally

We wrote this paper to provide a more global perspective on the conversation around diversity, one that has not yet been given much attention in the asset management industry. We encourage companies, other investors and clients to engage with this thought piece as we continue to explore ways to make an impact through investor influence.

The investor perspective

As global investors and stewards of capital, we aim to raise global environmental, social and governance ('ESG') standards across the markets in which we invest on behalf of our clients through engaging with companies, regulators and policymakers around the world, and communicating our expectations and policies on key issues.

Companies are intrinsically linked to the economies and societies in which they operate, and as one of the world's largest investment companies, we believe we have a duty to both our clients and wider society to strive for the long-term resilience of the companies in which we invest.

We believe companies should view improving diversity as an opportunity, with lack of diversity as a potential risk. A recent study[2] on workplace demographic data in the US has shown the opportunity cost of an organisation not prioritising diversity can be significant. From the perspective of financial returns, positive financial performance is generally linked with smaller gaps in overall diversity at the management level and broader workforce. This is one of the many studies[3] that show higher levels of diversity throughout an organisation can drive higher performance in terms of both profitability and long-term value creation.

Looking more broadly at the macro level, the opportunity costs are even greater – lost economic opportunities, social unrest and poor health outcomes, to name a few. Corporate diversity within emerging markets is financially material for companies, and therefore our clients, in our view.

Given the potential financial materiality of corporate diversity across global markets, we decided to expand and deepen our engagement on diversity in strategic and representative emerging market countries: Brazil, India, China[4] and South Africa. In this paper, we explain how we have expanded our diversity campaign and share some of our key research findings, both in general and within each market. We also summarise key points relating to the regulatory backdrop for diversity in these countries, and we look at which influential collaborations are active in these markets. We finish by setting out our next steps for LGIM's engagement campaign.

LGIM

Corporate engagement: what LGIM did

We sent letters to the 10 largest companies in each of these four markets seeking to engage on the topic of diversity, and successfully engaged with more than half. Our aim with these conversations was to identify how companies approach diversity strategy, and if any improvements in diversity have been driven by external forces – such as regulation, investor pressure, societal norms; or by internal forces – such as employee engagement, corporate culture, leadership of the board or executive team. Along with observing what leads to improvements in diversity, we also wanted to identify what is hindering progress in each market.

Through our engagements, we confirmed our hypothesis that diversity expectations cannot be applied in the same way across all markets, and that the maturity of conversations and practices varies significantly across emerging markets. Each country has different diversity, equity and inclusion ('DEI') practices and priorities and, as shown in Figure 1, the proportion of women at the board level varies significantly by market. As a global investor, we should be conscious of such differences when we conduct stewardship activities. We aim to be cognisant of cultural and historical dynamics in each of these markets as we began to expand our policies and review our minimum expectations in H222.

Key takeaways:

1. While the diversity topics and concerns vary market by market, in our view the challenges many companies face in improving diversity are systemic in nature. While individual companies must do their part to progress diversity within their own organisation, there are certainly system-wide factors that present challenges. For example, discriminatory practices and exclusionary belief systems can have a huge impact on society and on the companies that operate within it.

2. Attraction, retention and inclusion of diverse talent is, we believe, one of the biggest and most referenced challenges. This is not only present in emerging markets, but can be seen as an obstacle to DEI around the world. **Having aspirational targets and meeting those targets are important first steps** to help get more diverse talent in the door, but the conversation must shift toward inclusion and retention in order to truly progress on DEI on a consistent basis.

It is not enough to set a target and hire diverse talent as a 'tick box' activity – there needs to be a cultural shift within an organisation that creates an environment where people of all diverse characteristics and backgrounds feel included, are treated equally, their voice is valued and heard, and their career ambitions are possible.

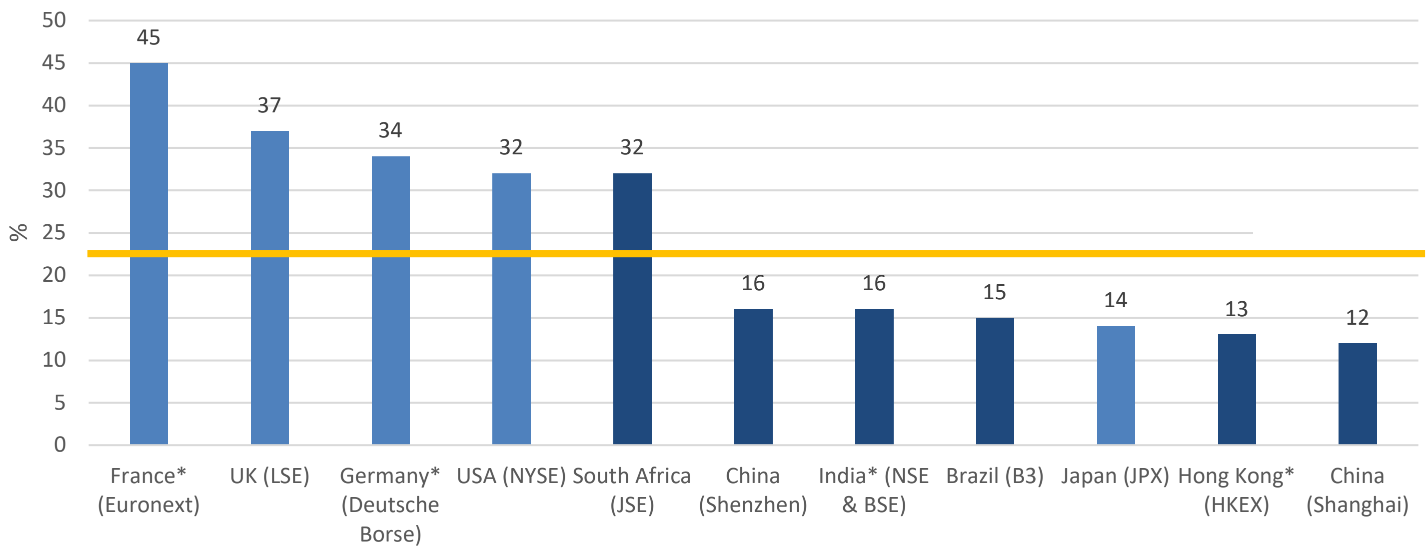
3. It is crucial for an organisation to collect, understand and review workforce diversity data, so that it can assess whether its diversity reflects the population of its customers and where the organisation operates. For example, the gap between the labour participation rates of women and board gender diversity in Brazil and China is significant, while board gender diversity in India is almost reflective of women's labour participation rate.

4. Oversight and accountability of DEI initiatives and strategy must sit at the top of an organisation in our view. Executive teams and Board directors need to understand the importance of diversity in achieving their strategic and business objectives, regardless of where the company operates. We ultimately believe that improving demographic diversity at the top of large corporations will lead to cognitive diversity and an improvement in the quality of board and senior executive discussions. Where companies have diversity linked to their core business strategy, there seems to be the greatest success in implementation.[5]

5. Public support of local regulation – there is a vast range of diversity disclosure and expectations set at regional levels. Large companies should be actively engaged in the public policy debate (e.g. through consultations and working groups) to drive adoption of diversity-related targets as well as ESG disclosure requirements, covering DEI metrics.

Figure 1: Average percentage of women on boards

Top 100 issuers by market cap



Source: Sustainable Stock Exchanges Initiative – Gender Equality Database (Bloomberg data as of Q1 2022). *Markets with mandatory minimum rules.

Key engagement observations

In essence, we believe both external forces (e.g. policy, regulations, investor pressure) and internal forces (e.g. company-specific diversity measures) are needed to raise market standards on diversity. We acknowledge that these factors influence one another and that raising market standards on this issue cannot be achieved in isolation. In addition to using our voice as an investor through issuer engagements and voting, we will look to establish which other avenues may be most effective in raising standards in each market.

We intentionally selected markets from different parts of the world with different cultural norms and demographic makeups to get a sense of how the stages of implementing DEI can vary. In this section, we will be going deeper into exploring specific dynamics in each of the four chosen markets: Brazil, India, China[6] and South Africa.

Compared with South Africa and Brazil, where conversations on diversity primarily covered gender, racial equality and disability, the focus in India and China was on diversity of skills with less focus on gender or ethnic diversity. Companies in these two markets seemed less willing to have conversations on this topic based on the number of companies we engaged with in each market.

Figure 2 below compares each of the four markets across the labour participation rate of women, gender diversity at the board level, and whether a board quota is in place. Gender data at the board level is the most comprehensive and consistent across all markets – whereas disclosure on other aspects of diversity, such as ethnicity, varies market to market.

South Africa

Figure 2 shows that corporate boards in South Africa are more gender diverse, relative to other emerging markets and even some developed markets. There are no quotas in place, but strong policies that address the country's legacy of inequity and exclusion have provided a solid foundation for creating diverse organisations.

For example, the corporate governance code, the King Code IV, is influential in that it sets best practice and encourages the consideration of diversity at the board level.[7] It also promotes the setting of targets for race and gender diversity on the board.[8]

Another example of strong policy is the Broad-Based Black Economic Empowerment (B-BBEE) regulation, which is a government policy to advance economic transformation and enhance the economic participation of Black people in the South African economy.[9] B-BBEE embodies government's efforts to address the systematic exclusion of the majority of South Africans, particularly Black people, women, youth, disabled and rural communities, from full participation in the economy.[10] South African companies that we spoke with often cited this policy as an absolutely essential part of their diversity strategy. As part of the B-BBEE Act, several Sector Charters were introduced, such as the Financial Sector Charter and Mining Sector Charter. These came about as industry-specific transformation policies which set out Black Economic Empowerment (BEE) targets, such as increasing the level of Black ownership of enterprises and assets, and employment equity.[11]

The concept of 'brain drain' was referenced several times, which refers to the competitive dynamic of talent leaving South Africa due to better opportunities elsewhere. This presents issues with recruiting, especially in industries that have historically been male dominated. Gender-based violence and sexual assault frequently came up in conversation as cultural and systemic issues within the country that infiltrate corporate culture, especially in historically male-dominated industries. For example, although this is not a unique issue to South Africa, women were prohibited from working in underground mines until the late 1990s in South Africa. As mentioned in several engagements with mining companies, the industry continues to see disproportionate instances of gender-based violence, despite the progress that has been made around inclusion of women in the industry.[12]

Brazil

The data shows that Brazil is a laggard among emerging markets in terms of gender diversity, but DEI issues are increasingly acknowledged as an important issue for companies in Brazil. Many companies referenced that systems of oppression and economic inequality are more relevant reasons for a lack of diversity within corporations than the regulatory environment. Progress on diversity to date seems to be made more so by a positive company culture and inclusive strategy, rather than by enforcement through law.

Figure 2: Gender metrics across our selected markets

	South Africa	Brazil	India	China
Women – Labour participation rate	46%	49%	19%	62%
Board gender diversity	31.8%	10.4%	17.1%	13.1%
Board gender quota	No	No	Yes (1)	No*

*Source: Sustainable Stock Exchange Initiative – Stock Exchange Database (accessed in 2023). *excluding Hong Kong Stock Exchange*

While Brazil still has a long way to go in terms of improving its gender diversity within its organisations, there is also heightened awareness around racial and ethnic diversity and people with disabilities. Due to differences in the racial and ethnic makeup of the population between the north and south, the conversation around racial and ethnic diversity differs depending on where the company operates within the country. Another unique learning about Brazil is that it has in place a disability quota, which requires companies with over 100 employees to hire 2-5% people with disabilities, depending on the size of the company.[13] This law was designed to guarantee rights for as many as 45 million people with disabilities in Brazil.

Many companies in Brazil seem to be in the midst of identifying inclusion 'blind spots', such as the ways that women and people of colour are disadvantaged and overlooked by certain company policies and practices. For instance, one company we spoke with gave an example of an important change they recently made, which meant that mothers on maternity leave receive their full annual bonus – whereas prior to the change, women on maternity leave would only receive their annual bonus based on the six months that they were fully working.

India

India was one of the first instances of an emerging market adopting gender quotas to promote diversity, but the use of quotas is often seen as controversial, as some fear that new female board members would not be selected on merit, but simply to fulfil the mandatory quota. A common challenge we have seen in developed markets. Although it is difficult to quantify the level of contribution of female board directors in India, the data shows that the level of female representation on boards in India remained below 20% after the introduction of the gender quota.

Despite the rapid economic growth in India and urbanisation in the past decade, which is projected to continue, this trend has not yet encouraged more women to join the labour force. Some companies and stakeholders we spoke to pointed out that the labour participation rate of women in India is low and the pool of diverse talent could be an issue in the corporate setting. This demonstrates that setting diversity targets or quotas alone will not solve the market-wide gender inequality and societal perceptions of gender diversity in organisations. Promoting women within the labour force could gradually contribute to economic empowerment of women and shift perceptions of gender roles, which could have a positive impact on the economy in terms of female independence and spending power.

China

Based on our engagements with Chinese companies and local stakeholders, the diversity conversations in China seem more focused on hard skills and educational attainment, with the aim of alleviating poverty and

reducing inequality. Although promotion of diversity, equity and inclusion may be seen as a 'Western idea', a concept of gender equality historically existed under the Communist party rule, and women's labour participation was always encouraged. Nonetheless, this did little to alleviate women's domestic burdens or normalise the thinking around the financial or strategic benefits of promoting diversity in corporate setting.

Chinese companies often highlighted the fact that labour laws are robust in principle in relation to protecting employees' rights, but it is only recently that a law protecting women's rights and interests was revised to clarify and define what constitutes sexual harassment.[14] This law, which took effect in January 2023, expands the previous law that aimed to promote gender equality, and the amendments provide more details in terms of sexual harassment, gender-based discrimination and protecting maternity rights.

Although the positive impacts of these amendments are yet to be seen, high-profile corporate scandals in recent years[15] demonstrates that regulations and codes of conduct at companies are not sufficient to prevent sexual harassment and discrimination in the workplace. Unlike India, rapid economic growth was met with more economic opportunities for women, which has led to a higher labour participation rate, but this has not alleviated discrimination against women or shattered glass ceilings that also exist in other markets.[16] In terms of regulation, China also introduced Guidance for Enterprise ESG Disclosure, which came into effect in June 2022, but it only encourages companies to disclose the percentage of women on boards and in senior management. Although this is a step in the right direction, it may not fundamentally shift how corporates think about diversity and may only have a limited impact given the voluntary nature of the guidance and the limited scope of disclosure requirements. In contrast to other markets, the benefits of diversity may not be widely understood by those in leadership positions and companies may not feel incentivised to prioritise diversity unless required to do so by law.

The regulatory landscape

Beyond our regional observations, we also observed several regulatory-driven approaches that address corporate diversity which span across markets and countries.

Quotas

As shown in *Figure 2*, India is the only market out of the four where there is a quota on appointing women to corporate boards. This has been in place since 2014, but the progress has been slow as most companies have not reached 'critical mass' of 30%, and the average percentage remains below 20%. Nonetheless, board gender diversity in India is almost reflective of the labour participation rate of women, whilst the gap between the labour participation rates of women and board gender diversity in Brazil and China is greater, as shown above. This issue was raised during our engagements with Indian companies, and the feedback was that it is not practical for investors to ask for 30% female representation or gender parity at the executive and/or board level at this stage, given the low labour participation rate of women.

One unique learning about Brazil that we reference in the Engagement Observations section is that there is a disability quota in place, requiring companies with over 100 employees to hire 2-5% people with disabilities, depending on the size of the company.[17]

Stock exchanges – listing rules

It is important to look at the corporate diversity listing rules of a stock exchange in a given market, as these have a direct impact on the companies within that index. When a stock exchange implements a listing rule around diversity, this signals to the market the importance of corporate diversity and that DEI makes good business sense.[18]

Exchanges are well-placed to raise minimum standards on diversity with an influence and a voice across the capital markets ecosystem. Based on our engagements and research, good examples of stock exchanges taking initiative to promote diversity were found in South Africa (JSE) and Hong Kong. Drawing on these examples, engagements with stock exchanges could be a potential avenue of our stewardship activity, especially in Brazil and mainland China.

In *Figure 3*, we can see that none of the main stock exchanges in these markets have a mandatory minimum rule[19] regarding appointment of women on boards (or de facto quota), but there are positive initiatives which other stock exchanges could study; Johannesburg Stock Exchange (JSE), which has the best gender balance on boards of any emerging markets in the G20, has listing requirements which require all listed entities to have a policy on the promotion of broader diversity at board level and to report against this annually.[20] Companies then need to report to shareholders on the application of the policy and any progress on voluntary targets.[21]

Many of mainland Chinese companies are also listed on Hong Kong Stock Exchange (HKEX), and in December 2021, following a public consultation, HKEX announced changes to its Listing Rules and Corporate Governance Code to further promote diversity. With effect from 1 January 2022, single gender board listed issuers are required to appoint a director of a different gender by 31 December 2024. In addition, all listed issuers will be required to set numerical targets and timelines for achieving gender diversity at board level, review the board diversity policy annually, and to disclose gender ratios for the workforce (including senior management).[22]

The Brazilian stock exchange (B3) invited stakeholders between August and September 2022 to comment on a potential new rule to increase gender diversity and representation of minority groups in senior leadership positions of Brazilian listed companies.[23] The final text is expected to be published in 2023 – while this does indicate a step in the right direction, more ambitious proposals are likely needed to improve corporate diversity.[24]

Figure 3: Quotas across our selected markets

	South Africa	Brazil	India	China
Stock exchange	JSE	B3	NSF; BSE	Shanghai/ Shenzhen SEs
Gender quota as part of listing requirements?	No	No	No	No*
Diversity targets as part of listing requirements?	Yes	Yes (draft)	No	No*

*Source: Sustainable Stock Exchange Initiative – Stock Exchange Database (accessed in 2023). *excluding Hong Kong Stock Exchange*

Disclosure requirements

In India, the Business Responsibility and Sustainability Report (BRSR) is the evolution of ESG reporting, replacing the Business Responsibility Report (BRR) that was first introduced in 2012. With the implementation of BRSR, the reporting is now much more quantitative and has a far deeper focus on diversity and ethics.[25] For example, companies are required to disclose the turnover rate of men and women, the percentage of workers covered by maternity/paternity benefits and day care facilities, the return to work and retention rates of permanent male and female employees, and the workers that took parental leave.[26]

China has introduced Guidance for Enterprise ESG Disclosure, which came into effect in June 2022, but it only encourages companies to disclose the percentage of women on boards and in senior management and is not as robust as BRSR.[27]

In South Africa, companies with more than 50 employees are required on an annual basis to report their demographic data to the Department of Labor, similar to the expectation on disclosure of demographic workforce data, known as EEO-1 data, in the US. The data is then disclosed on an aggregate level across all corporations, but individual company level data is not required to be publicly disclosed.[28]

In Brazil, from January 2023, the Brazilian Securities Commission (*CVM*) will require listed companies to report on the demographic data for members of their decision-making bodies, including gender and race identity.[29, 30] Although it does not create obligations regarding ESG aspects for publicly-held companies in Brazil, nor establish penalties if they fail to comply with them, it indeed reflects a new market direction.[31]

Collaborative efforts

Brazil has several important collaborative initiatives that are influential to the market. MOVER – Movement for Racial Equity – is a cross-sector public commitment to work to reduce racial inequality in Brazil. This group aims to increase the participation of Black professionals, with the goal of reaching 10,000 leadership positions for Black professionals by 2030 and investing R$15 million per year in processes, structures, cultural change, and investments in qualification and training. This group is currently made up of 45 large companies in Brazil, and many companies highlighted this as a key initiative for their diversity progress.[32]

Another important initiative referenced is Movimento Mulher 360, an association of over 100 companies with the aim to encourage the economic development of women in Brazil through promotion, systematisation and dissemination of advances in business policies and practices, as well as through broader society.[33]

Throughout our conversations with Brazilian companies, several other collaborative initiatives were mentioned as being influential. This tells us that Brazil has a prominent grassroots movement around DEI. In speaking with senior leaders, they were very open about employee pressure being influential in the integration of DEI in corporate strategy. In other markets, companies we spoke with, such as in South Africa, did mention some corporate collaboration, but mostly mentioned industry charters as influential in moving the market.

Figure 4: Disclosure requirements

	South Africa	Brazil	India	China
Disclosure requirements: authority	JSE	Brazilian Securities Commission ('CVM')	SEBI	China Enterprise Reform and Development Society
Disclosure standard	No mandatory requirement	CVM Resolution No.59	Business Responsibility and Sustainability Reporting	Guidance for Enterprise ESG (voluntary)

Source: LGIM research; websites of JSE, CVM, and SEBI; Reuters

Global initiatives

UN Women was cited numerous times as being a key partner on gender related diversity initiatives. UN Women works closely with corporations to set standards, such as the Women's Empowerment Principles (WEPs), and by encouraging partnership in global campaigns such as the "HeForShe" campaign, among other initiatives.[34]

Proxy advisers

As shareholders, our votes remain a key tool to drive change in our investee companies, and proxy advisers and their vote recommendations have market-wide impact. While LGIM and other institutional investors implement their own voting policies, many investors wholly adopt proxy advisers' benchmark policies. In order for our votes to have the intended impact, it is important that we involve other key players in the market, such as Institutional Shareholder Services (ISS) and Glass Lewis. When it comes to gender diversity, ISS has a minimum vote policy of one female director within South Africa, Brazil and India, but not China, as shown in *Figure 5*. Glass Lewis has a minimum vote policy of one female director within South Africa, India and China, but not Brazil. Proxy advisers play a part in setting a minimum standard for a market and influence corporate outcomes, in the sense that many shareholders vote in alignment with the benchmark policy. As we look to update our own voting policies, we may seek to engage with proxy advisors to raise minimum standards on diversity across various markets.

Conclusions

Based on the various regulatory landscapes in each market as well as company-specific strategies and efforts to approach corporate diversity, it is clear that there is no one-size-fits-all approach. All of the levers highlighted in this paper – from regulatory actions like disclosure requirements and quotas, to collaborative market initiatives – play a part in driving change within organisations.

Continuing our campaign: LGIM's next steps

Building on our conclusions, we will continue our research and campaign work on diversity in emerging markets through a combination of:

- Targeting direct and collaborative engagements with stock exchanges – we want to engage with stock exchanges to further drive regulatory efforts, and plan to assess partnering with existing stock exchange initiatives. In the US and UK, we have seen stock exchanges adopt minimum requirements on board diversity and it is in line with our stewardship activity in other markets (e.g. Japan)
- Assessing partnerships with organisations that have presence and influence in these markets in order to raise awareness and drive change. We aim to establish partnerships with on the ground leaders providing collaborative learning and advocacy (for example UN Women, Women Corporate Directors, 30% Club)
- Updating our voting policies to raise minimum standards on diversity if appropriate in the local context. We can also work with proxy advisory firms to voice our opinions on improving minimum voting standards across all markets.

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Figure 5: Collaborative efforts active in our selected markets

	South Africa	Brazil	India	China
30% Club Investor Groups	Yes	Yes	No	No
Industry diversity-related initiatives	Industry charters (i.e. mining, finance)	MOVER (Movimento Mulher 360)	No	Shenzhen Hong Kong Women Directors Alliance
ISS – diversity threshold	Yes	Yes	Yes	No
Glass Lewis – diversity threshold	Yes	No	Yes	Yes

Source: 30% Club website; LGIM's engagement with companies; ISS benchmark policies 2023; Glass Lewis policy guidelines 2023

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Views current as at March 2023.

Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative

Key risks

Past performance is not a guide to the future. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.