Isn't It Time Investors Talked More About Diversity?

Featuring:

***Diana Tidd**, Head of Index and Chief Responsibility Officer*

***Jorge Mina**, Head of Analytics*

***Simiso Nzima**, Investment Director & Head of Corporate Governance, CalPERS*

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Adam Bass (00:03):

This is MSCI Perspectives, your source for insights for global investors and access to research and expertise from across the investment industry. I'm your host, Adam Bass. And today is March 4th, 2021. Today, we're talking about diversity and no, I do not mean diversifying portfolios. As revealed by MSCI's Investment Insight survey, which was the topic of our last episode, please check it out if you haven't. There seems to be a real effort to focus on diversity, equality and inclusion in the investment industry while inequities revealed by the pandemic and the killing of George Floyd provided additional fuel for this focus, it's a movement that's been building for years.

Adam Bass (00:51):

Now, we can't talk about diversity, equality and inclusion without talking about privilege. And this is not going to be an easy conversation. It's an uncomfortable subject for everyone and I should put it out there that I myself come from a privileged background as does my co-producer Joe Collevecchio. We're both exactly the kind of people you'd expect to find working in the financial industry. We're white, male, upper middle-class, graduates from elite universities. And while we work hard and the paths to our current positions weren't easy, the paths were there, clearly marked and paved. Contrast our experience with that of our first guests.

Michael Barrington-Hibbert (01:35):

My name is Michael Barrington-Hibbert, I'm the founder and Chief Executive Officer of Barrington Hibbert Associates. We are a global executive search leadership and development and diversity specialist with offices in London, New York and Dubai. First and foremost in the UK, we're the longest established black owned executive search business. There's not many firms that look like me doing what we do. I'm six foot two. If your listeners are American, about 300 pounds, if they're European, I'll say, 20 stones. So I'm a big guy. I was invited into meets a London based company. The HR representative had heard of Barrington Hibbert Associates and our track record within diversity and placing some significant diverse talents.

Michael Barrington-Hibbert (02:33):

So we were invited into their offices in the West End, which is where the majority of wealth managers reside. I went to this meeting with my 24 year old associate who happens to be Italian and is a female. We went to the client's reception room. The client was called by the receptionist to say, "Michael Barrington-Hibbert is here to see you." And he came down and my associate, Eleanora and I stood up, and the CEO walked into the room and remember it's a reception room. So it has about 12 lovely leather seats and it was just myself and Eleanora in that room. And he popped his head in, Donald pivots, went back out to reception and I heard him say, "Are you sure Michael Barrington-Hibbert is here to see me?" And the receptionist said, "Yes, they're just behind you." So he walked back in, and myself and Eleanora stood up, and this CEO, and remember we were invited in to talk about diversity. This CEO stood up to Eleanora and I, and put his hand out to shake at an Eleanora's hand and said, "Michael, very nice to meet you."

Adam Bass (03:51):

When I asked Michael, how something like that could happen, how the CEO of a large wealth management organization could confuse him for his colleague.

Michael Barrington-Hibbert (04:00):

Who's 16 years younger than me and maybe 200 pounds lighter than me, by the way.

Adam Bass (04:06):

Michael's answer was surprisingly matter of fact.

Michael Barrington-Hibbert (04:10):

We all have unconscious bias, Adam, we all do. But this particular leader had some deeply ingrained biases, which he couldn't necessarily associate a CEO of a leadership being a black man. So one of the things that we're trying to do at Barrington-Hibbert Associates is really create a safe space, not just for white executives, Hispanic executives, but also middle management. Because you have to remember prior to May the 25th, prior to the killing of George Floyd, race was not the top of the list when it came to US corporate America, UK FTSE 250 companies. so this is a new phenomenon,

Adam Bass (05:02):

Like I said, tough conversations to have, but clearly needed. Before we get much deeper, I think it would be beneficial to define what we're talking about when we say the word diversity.

Simiso Nzima (05:16):

Our definition of diversity is really only encompassing, it includes gender, race, ethnicity, sexual orientation, gender identity, skillsets, thoughts, nationality, background, underrepresented groups and so forth. So we are thinking about this as broadly as possible.

Adam Bass (05:38):

That's?

Simiso Nzima (05:39):

My name is, Simiso Nzima. I work at CalPERS, I'm an Investment Director and Head of Corporate Governance. So my role really is overseeing all the proxy voting and corporate engagement activities involving 10,000 plus companies which CalPERS is invested. Our current focus really is on three priorities, corporate board diversity, executive composition, and climate change.

Adam Bass (06:09):

And what about inclusion? What do we mean by that?

Simiso Nzima (06:11):

I normally quote Verna Myers who sums it up well, when says that's, "Diversity is being invited to the party, inclusion is being asked to dance."

Adam Bass (06:23):

That quote came up a lot as we put this episode together. So well put, though truth be told, I had never heard of Verna Myers. If you're in a similar boat, I would really recommend that you look her up, maybe check out her TED talk. But let's get back to our conversation. Why are diversity and inclusion so important? Well, aside from being the right thing to do, of course.

Simiso Nzima (06:49):

I'm a numbers person, I'm a data person. I mean, I'd really like to see the empirical evidence. And I think that as investors we are thinking about sustainable business models, we're thinking about the long term, we're thinking about ending that return that we need to pay benefits. CalPERS cares a lot about sustainable investment returns, more than half of every dollar we pay out in benefits comes from investment returns. Therefore, we do have a fiduciary duty to preserve and increase capital over the long term.

Simiso Nzima (07:26):

We spent some time and looked at empirical evidence regarding the value of diversity, both at the corporate board level and just in general. And we found that this growing body of evidence, which shows that diverse teams perform better than non diverse teams, diverse teams make better decisions, they lead to more robust risk management, show higher innovation and their superior operational and financial performance. And when you think about it, even without the empirical evidence, when you think about it, it actually makes intuitive sense that diversity will result in better outcomes, because the collective wisdom, which comes from different lived experiences can only be additive.

Jorge Mina (08:20):

Talent is everywhere.

Adam Bass (08:23):

That's Jorge Mina. MSCI's Head of Analytics and chair of the company's executive diversity council.

Jorge Mina (08:30):

And we got to attract the best of the best if we're going to run an elite company. So providing the opportunities to people with all kinds of backgrounds that deserve those opportunities and letting them drive us, is going to make us much stronger in the long run. And so, it's definitely a no brainer for a business, and it's also the right thing to do.

Adam Bass (08:53):

And this is?

Diana Tidd (08:54):

I'm Diana Tidd. I'm Global Head of Indexes at MSCI, and I'm our Chief Responsibility Officer. Diversity is linked through MSCI's own research, our women on boards reports has linked the performance of companies, more diverse companies with more diverse boards as one example, but we think it extends beyond that to better financial performance.

Simiso Nzima (09:16):

So starting in July 2017, we have cumulatively engaged over 800 companies in the Russell 3000 requesting that they improve diversity on their boards.

Adam Bass (09:29):

The Russell 3000 index seeks to track the 3000 largest stocks in the United States. Why start there?

Simiso Nzima (09:37):

We believe that charity begins at home, right? We said, before we go outside of the US, because we're global investors with all this 10,000 securities wanted to focus in our home market and improve diversity in our home market. And since then, about 65% of the companies that we engage added elements of diversity that they didn't have at the start of our engagement. So that's about over 500 companies of the 800 that we've engaged since July 2017. So there's 35% of the other companies, which means they have not improved their diversity. And on those companies, we've actually voted against over a thousand directors who sit on nominating and governance committees where our engagements have not led to constructive outcomes. So really we are holding boards accountable for not making progress on improving diversity, because we think that the business proposition, the business value for diversity is there. And we believe that all companies that we invest in should have diversity.

Adam Bass (10:53):

35% is a minority of companies, of course, but a sizable minority. I asked Simiso if part of the resistance he's encountered has to do with the idea that, "Inclusion for you, well, that means less for me." His answer was enlightening.

Simiso Nzima (11:10):

This is something which comes from evolutional biology, right? I mean, it's something which is inherent in us, it comes from back in the days when there wasn't enough resources, there wasn't enough food out there. And so if you saw someone who didn't belong to your group, you'd think, "Well, they will come and take their resources from me," and so you would fight. And so there's an evolutional biology explanation around why people want to preserve what they have and exclude others who may not look like them, right?

Simiso Nzima (11:48):

And the end of the day, remember I was saying that there's a business case for diversity. So it means we can actually grow the pie by being inclusive, by having diverse people within the organization, all levels of the organization. So if we can grow the pie, even if you are not getting 10% of the pie anymore, maybe you're getting 5% of the pie, but 5% of the pie may actually be larger than the 10% of the smaller pie, which was there when you didn't have that being inclusive.

Adam Bass (12:23):

Not a point that would be lost on many investors. I was starting to see why large investors like CalPERS have started pushing for change.

Simiso Nzima (12:35):

I think you are seeing a lot of other investors, other asset managers who have come out publicly to talk about promoting diversity, not just at companies where they invested in their own companies as well.

Diana Tidd (12:48):

This is no longer a world where it's only activist investors engaging on diversity. We've seen a huge transformation in the level, overall of the engagement of the investment community on the topic of diversity. And that can come from all different angles, that may come from investors. As we've seen some of our clients do, starting to send out to all of the companies in their portfolios surveys about diversity. And we've also seen of course, from a stewardship perspective, the meetings and discussions going on there, and even some topics related to the specific proxy voting that relate to diversity, right? So certainly more examples of really a demand for being able to see certain levels of diversity on the board, for example. We also saw a leading bank say that they wouldn't actually participate in bringing IPOs or investing in specific companies for their private equity investments that didn't have women on boards.

Michael Barrington-Hibbert (13:53):

We're speaking to a couple of organizations to place non-exec directors, ethnic minority non-exec directors into their organization. But one of the things that they said to me when they chose their banker to take them to IPO is they looked at their slate. They looked at the bankers that were covering them in terms of whether they were diverse. So organizations are becoming more sophisticated in terms of holding organizations accountable for the business.

Adam Bass (14:28):

And that makes sense. As Jorge put it, companies...

Jorge Mina (14:31):

Basically want to do business with organizations that share their values. And I think it's both a combination of those investors wanting to do the right thing in the world. And at the same time, knowing that companies that are diverse will perform better in the long run. So they also want to do it for the same reason that we do it, that to make their businesses that they invest in stronger.

Adam Bass (14:57):

So asset owners, asset managers, companies from every spectrum of the investment universe, all have an interest increasing diversity. Is this just an HR issue? Is it simply a matter of hiring more diverse candidates?

Michael Barrington-Hibbert (15:13):

Leaders understand that having a diverse workforce adds significant value add to their bottom line. But what I would say to you Adam, a lot of organizations have been very much more focused on evolution as opposed to revolution. Most organizations sometimes taken a knee-jerk reaction and think, "Oh, we've got to go out and hire more diverse talent." I think ultimately when we look it from a financial services landscape, what we have Adam in revenue generator roles, in client facing roles across both Europe and North America are diversity deserts. And what I mean by diversity deserts, Adam is going into New York into an investment banking floor covering primary markets, these debt capital markets, equity capital markets, where they're facing off with corporates have a different sector TMT coverage. But you go into those diversity deserts and you don't see African-American talent. You then might go into a trading floor in New York and you might see one or two ethnic minority talent in revenue generating roles.

Michael Barrington-Hibbert (16:36):

But then when you go across infrastructure, whether it be procurement, HR, all vitally important roles, let me be very clear on that. All vitally important roles, operations, risk, that's when you start to see the rate of minorities increase in core infrastructure roles. Now, was I born to be an infrastructure person, were those people born to be infrastructure people, or was it more by design? So that what we would want organizations to do is that they have the talent internally. So statistically speaking the likes of JP Morgan may have 10%, 12% of their workforce are black and African-American, okay, so you've got that number. So to match the US, in the UK, it might be sort of 6%, 7%. They might have that number.

Michael Barrington-Hibbert (17:38):

But when you actually look at risk-taking roles, revenue generating roles or positions above middle management, that's where that number dips Adam, when you go above that middle management, that's when you don't see those role models, that's when you don't see the senior heads of department. If you look at the amount of African-American FTSE 100, I'm sorry, S&P 500 CEOs is handful within, within the FTSE, there's none.

Simiso Nzima (18:12):

It would seem that to me, that there are some structure of barriers within these organizations, which will result in only a non-diverse comparing upward mobility. And when you think about it, a lot of organizations, if you look at entry level positions, they're pretty diverse, but that there's no translation of that diversity as you go up the organizational hierarchy. So that tells me that there must be some bottleneck somewhere which companies should be looking at and trying to address. I mean, I believe in empirical evidence, I'm yet to see any empirical evidence that shows one group to be inherently more talented than other groups. So to me, it will seem like a statistical anomaly that going for best candidates results in just one homogeneous group always occupying the top.

Michael Barrington-Hibbert (19:12):

If you think of it as a hose-pipe. So we've got the flow coming in from the faucet, we've got increased flow, we're still losing talent at the middle management level. So when they're four to five years in statistically, more ethnic minority talent fall out the system, why is that? There's a lack of mentoring, there's a lack of understanding, there's a lack of support. So what we need to do Adam, is actually unkink that hose-pipe to ensure that we can actually get more talent coming through those middle management roles. So once we get more about talent coming through the middle management, that's where more diverse talent is going to be able to break the glass ceiling from that stand point.

Simiso Nzima (19:57):

I think you need to have things like blind resumes, you need to have diverse panels, because companies come up with policies and things that need to be done. But my view is that policies, I'm not convinced that the policies are really sufficient. I think that really, this is about behaviors and practices. That's why you talk about unconscious biases. We really need to slow down, we really need to be intentional. We really need to be thoughtful because if you just go by rule of thumb, every individual, every person I know, including myself, we all have unconscious biases.

Simiso Nzima (20:39):

So unless we actually slow down and be intentional, we will always do things based on unconscious biases. So what I think is that while policies are necessary, I think they are not sufficient for diversity and inclusion to thrive. To have lasting diversity [inaudible 00:21:02] instead of your sort of flitting moments of what feels like compliance, one, you really need to have an inclusive culture. This idea of culture is just so important, this idea of inclusiveness is so important, we have to understand that diversity is not an event, it's not a one and done. Diversity and inclusion is an ongoing thing. It's not about one of diversity training, right? You really have to have this culture, culture trumps compliance. This is not a compliance exercise and it should never be.

Adam Bass (21:46):

There's a saying in financial circles, "What gets measured, gets managed." But how can companies address these diversity deserts as Michael put it, if they don't know where the deserts are, and how can investors hold companies to account if they don't have any data with which to do so? Adding to all of this, is the fact that different countries have different requirements or even restrictions around personal data disclosures. But as Diana Tidd told us.

Diana Tidd (22:16):

It's important that there are disclosures, right? So as a firm, our history goes back 50 plus years. We have extensive history in ESG and in indexes and our analytic models as well, right? Fundamental to indexes is this underlying belief that transparency is important, right? And so the more information that can be brought to investors to understand and therefore make better decisions, it's better, right? So we believe in it's in our DNA to feel that disclosures and transparencies are incredibly important. They enable us to create metrics and goals and drive results.

Simiso Nzima (23:05):

There's no reason why companies shouldn't be disclosing that data publicly. We know the data might not look good right now, but we also know that transparency creates accountability, right? If it's out there, if it's being measured, it gets managed. And so it makes sense to me, and I think I would encourage companies to actually disclose that data. I think the other thing that companies can do in this space really is to click internal progress of hires from entry level, to identify where the bottlenecks are, if diversity, equity, and inclusion metrics be part of the performance evaluation, right? And at each level of the organization.

Adam Bass (23:48):

Okay. My head is starting to hurt now. Diversity is starting to sound a bit like the Gordian knot. There's a lot here to consider, a lot to untangle, and we haven't even gotten into history, root causes, implicit bias, structural inequity. The list seems endless. T he good news is there is a bit of a blueprint for how we may begin to effectively increase opportunities for groups that have not traditionally had them.

Michael Barrington-Hibbert (24:19):

When it comes to gender, and more specifically, white women in financial services, organizations still have a lot of work to do, but when they've set their mind to it, they've been able to make these opportunities happen. They've been able to make these stretch assignments happen and given female talent the support that they needed to succeed. Now don't get me wrong, we are nowhere near where we need to be from a gender point of view, okay? But I think that that same vigor, that same approach needs to happen to more black African-American and diverse talent, ethically diverse talent being given those stretch assignments, being given that support in order to succeed.

Diana Tidd (25:06):

I think these organizations and groups at companies can really make a difference and again can help each other. The Women's Leadership Forum started actually about the same time Women in ETFs and industry groups started. And I was lucky enough, as well as Christine Berg and Michelle Shanley, and some other folks at MSCI to get involved early with Women in ETFs. And that organization has grown. I think we're over 6,000 women globally today. So actually it was the Women in ETFs organization that needed to organize into chapters pretty quickly and then create an organizational structure. And so we learned from that at MSCI with the Women's Leadership Forum. And so today we're loosely 24 chapters around the world, 48 chapter heads. So one unintentional benefit of the Women's Leadership Forum for the folks at MSCI is that it essentially created a leadership opportunity for women around the firm globally to have these visible roles as chapter heads of the Women's Leadership Forum.

Diana Tidd (26:11):

What we've learned from the Women's Leadership Forum and has been particularly exciting is that ability for the forum itself to create visibility and leadership opportunities, which we didn't realize would happen when we set it up. We hope that the Women's Leadership Forum can be helpful to the other ERG's employee resource groups at the firm. And so I remember in one of the meetings with actually the Pride Group, we talked about how can they get more attendance at events, how can there be more visibility on Pride? And so we talked about piggybacking some of the events with Pride and the Women's Leadership Forum, as one example. We've got some prototypes of types of events we've seen that have been useful, but also we can learn from each other and get feedback as well on what might work. So I do think there's a lot of opportunities to learn from others in these areas.

Adam Bass (27:09):

And once that collaboration, once that momentum is there, it's so important to keep it up. As Jorge said.

Jorge Mina (27:16):

You have to be deliberate about it. You have to be very explicit about your goals and constantly remind everyone that every single day we need to behave in a way that continues to promote diversity in the workplace. It also has to be a top down and bottom up approach where it comes from the leadership of the organization, but every single employ in the organization is vested in the success because we require everyone to take action. In some cases, how we recruit, how we develop employees, what opportunities we give them, how we talk in the workplace, et cetera. So it will be basically a very deliberate and continuous amount of work for a sustained period of time.

Jorge Mina (28:14):

I am very hopeful because all of these issues are completely out in the open now, there's nowhere to hide. There is support globally, also support at all levels in most organizations, this cuts across industries and the people who are putting, as you said, money to work are demanding change. And so unless some of those things change and we regress, which I don't see happening. I think we're going to see a lot of progress in the next couple of years.

Adam Bass (28:52):

I told you at the outset that this episode was going to be a difficult one. I have more questions now about diversity, change, about how to responsibly address something that affects all of us than I did when we started. Now, thanks to our guests, I do have some answers, but folks, we have a long, long way to go. Jorge's bullish take notwithstanding, if you're thinking, "This doesn't feel like a conclusion to me." Well, you're not alone. In fact, I'm right there with you. This does not feel like the end, but maybe that's actually a good thing. That's all for this week. Our thanks to Michael, Simiso, Diana and Jorge and to all of you for listening. We'd also like to send a special shout out to our colleague, Alexandra Swain for all his help along the way. Next up on perspectives, we shed some light on private investing. It's not a new area, but it remains a mystery for many until then, I'm your host, Adam Bass, and this is MSCI Perspectives. Stay safe everyone.

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