What Diversity Fatigue? More Women Filled More Firms’ Senior Roles

Adam Bass (00:03):

This is the 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 9th, 2023.

(00:19):

One year ago, we came to you with an episode that we called, Why We're Still Talking About Women On Boards, during that episode, we discussed some moderately good news about the progress of women in corporate positions of power. Now that was coming off of a noticeable slowdown on that front in 2020. This year's version of MSCI's Annual Women on Board's Report shows that the rate of growth continued to recover in 2022. There were some notable bright spots and other spots that were, well, not so bright. As our guests this week all reminded us, there's still plenty of work to do, but let's start with some good news.

Olga Emelianova (01:06):

We've been monitoring company's inclusion of women in the leadership position since 2009, and we've been doing that research by sector, by market for quite a few years.

Adam Bass (01:17):

That's our first guest today.

Olga Emelianova (01:20):

My name is Olga Emilianova, and I lead MSCI ESG research team focused on impact and screening. What we found more recently, is that during the period of 2020, 2021, during the global pandemic crisis, of course, quite a lot of economies and companies has been affected in many ways, and one of those ways was the reduction in the rate of growth of women participation in the leadership positions. So we were quite cautious to see how the situation evolves, and one of the key findings was that looks like the markets are recovering from that stress, and we've seen an uptake in the inclusion of women in both the board directorship roles as well as in the senior executive roles.

(02:10):

But perhaps the most notable finding in 2022 was the reaching of this 30% tipping point in the developed countries among the large cap companies. Based on our previous studies, we identified 30% female representation on board as a tipping point at which we can start to see the results or the impact of the diversity. A point at which we are seeing greater shareholder return for the diverse boards for companies with the diverse representation on boards, also high return on equity, many companies have 30% threshold women representation on their own board. But looking collectively across all of the directorship seats across nearly 1500 largest global firms, 31% of all of those seats were held by women in 2022.

Adam Bass (03:06):

But ... Olga continued.

Olga Emelianova (03:07):

There is quite a drastic difference between the developed markets and emerging markets. If we look into the contrary representation by the number of women on board, European companies are certainly leading. So in fact, 15 of the top 20 countries by percentage of women on board are European countries. US is number 21 of the list of the countries and many emerging markets companies are still struggling to have at list one woman on board. And we've seen for some of those countries regulators stepping in and setting that as a mandatory quota as a mandate to have at least one female representation.

(03:51):

We found that 58% of the US based companies within our coverage and it's nearly 600 US firms had at least 30% women on their board. But when compared to other countries, I would say that it falls somewhere in the middle.

Adam Bass (04:10):

Did you catch that? The US came in at number 21. Now, I should note that 58% of US based companies in MSCI's coverage had reached that 30% tipping point, which as Olga explained...

Olga Emelianova (04:27):

Which is really great number, I would say.

Adam Bass (04:31):

Relatively speaking though, not such a great number. Our next guest highlighted that point as well.

Shweta Narasimhadevara (04:37):

My name is Shweta Narasimhadevara, and I joined State Street Global Advisors as their global head of product covering the institutional and ETF franchises. Global companies exhibited a recovery in the growth rate of female representations on boards after a slowdown in 2020. However, this growth rate is primarily attributable to steady increases across on US companies and developed markets, whereas US companies have continued for three consecutive years to show a slowdown in the rate of women on boards.

(05:09):

In 2022, 38% of the constituents of the MSCI ACWI Index, many of which were subject, in fact, to mandatory gender quotas surpassed a critical mass of at least 30% women representation at the board level up from 33% in 2021. We also found it fascinating, the contrast between female representation at the CEO level versus the CFO level in the findings. And particularly in the information technology sector, 4% of companies had a female CEO while 21% had a female CFO. I think this is a really encouraging sign in some ways and it shows that women are clearly capable of managing and the financing of these companies. Then my hope would be that this is a breeding ground for future women CEOs in years to come.

Adam Bass (06:04):

That reminded me of something that had stuck with me since the first time I spoke with Shweta, so I asked her about it. When we spoke last week in preparation for this interview, you pointed out how the percentage of women coming out of MBA programs is actually much higher than the percentage of women on boards in this latest report. Can you talk a bit more about that?

Shweta Narasimhadevara (06:30):

Sure. This was data sourced from Times Magazine piece in November of 2021. The percentage of women in leading MBA programs has inched upwards in the last decade, from 31% or so in 2011 to 41% and more in 2021, so that's a 10 percentage point increase. The optic matters because graduating from such programs can propel women's careers and lead to more leadership opportunities in the workforce.

(07:00):

Yet, if you look at the reported stats in MSCI's Women on Boards Report, the percentage of directors seats held by women is at 24.5% in 2022, amongst the constituents of the MSCI ACWI Index up from only about 22.6% in '21. Women make up just 8.2% of Fortune 500 CEOs, and the pandemic, I believe forced many women out of the workforce further hindering their ability to reach those leadership positions. So clearly, there is that dichotomy, if you will, right between the highly educated and potential future leaders versus what we're seeing in the numbers across these organizations.

Adam Bass (07:44):

We'll get into how companies can and have worked to bridge that dichotomy a bit later. For now, let's spend some time on the why.

Shweta Narasimhadevara (07:55):

First off, I think the unequal performance of companies in the same industry and country suggests that gender, racial, and ethnic diversity are actually competitive differentiators. The moral case for workforce diversity was always there, but a recent study by McKinsey found that it actually makes business sense to do this too. Top quartile companies for racial and ethnic diversity, they found, was 35% more likely to have financial returns above their national industry medians. Companies on the top quartile for gender diversity, 15%, bottom quartile companies were less likely than average to achieve high financial returns. So I think there's the point around data.

Adam Bass (08:40):

Let's dig into the why a bit more with our third guest for today.

Tia Counts (08:45):

I'm Tia Counts, I am the Chief Responsibility and Diversity Officer at MSCI. MSCI's recent research report on the topic shows us that in the last decade, a growing number of global jurisdictions have adopted quotas for the inclusion of women on corporate boards, and they've established disclosure requirements. It's obvious that including women on corporate boards has a compliance element. That said, I think the research also poses that, companies may seek to increase women on boards for strategic reasons and gender inclusion and corporate governance might be correlated with positive financial performance.

(09:26):

I should say that although there's no clear causal link that's been established, several studies found that significant correlations between the presence of women on boards and strong financial performance using various financial metrics, and this was clearly stated in the Women on Boards Report. Also, the report finds that companies with a high percentage of women on boards also perform better on all three of the ES&G pillars on environmental, social and governance pillars.

(10:00):

On the other hand, there's also a common sense reason, intuition tells us that greater diversity will lead to a wider, more nuanced discourse and potentially better decision making. This is a result of rich dialogue that follows from having a diversity of thought and perspective, which are often gained from a diversity of lived experiences. This, of course, extends to other diverse identities including race, ethnic diversity, neuro diversity, gender diversity, including members of the LGBTQ plus community, also including gender-fluid, gender non-binary and trans people, not to mention the intersections between them. Regulators are starting to focus on this wider group, and I think the overall message is, diversity matters, diversity is probably on the whole a good thing.

Adam Bass (10:54):

Let's stick with this for a moment. The main point today, of course, is around the inclusion of women in the upper ranks of companies and in boardrooms, but diversity of all kinds matters. Not to mention that the ideas and definitions around gender, well, they've changed since 2009 when MSCI published its first Women on Boards Report, as Olga pointed out.

Olga Emelianova (11:21):

It's not necessarily binary representation, male or female. I think we as a are society becoming much more open in the concept of non-binary identification and potentially other definitions of gender. So the conversation about the gender split is becoming a little bit more complex as well as the targets that we're aiming to reach and the research process itself becoming much more challenging.

(11:48):

I don't think we can rely on analysts just opening a webpage and looking into the composition of the board, looking at the pictures and maybe descriptions and names of the directors and assume their gender, we need to rely on the corporate disclosure much more and to see how these individuals identify themselves to establish the gender.

Adam Bass (12:11):

This complexity, it's starting to make its way into that regulation that Tia and Olga talked about.

Olga Emelianova (12:18):

The other important findings that we're seeing in the last years, is the sign of the regulators playing much more active role in setting the targets for the gender diversity on boards. In particular, we noted in the current report, European Union commitment and targets to increase the threshold to 40% of directorship seats to be held by the underrepresented minorities by 2026. Again, they're not talking explicitly about women and they're talking about the underrepresented gender more broadly.

Adam Bass (12:53):

Are regulations the way to get it done?

Tia Counts (12:56):

I do think that regulation can be a impetus for companies that don't otherwise have the senior leader perspective that diversity is a good thing. So a few do not accept that the positives coming out of a more diverse board or a more diverse senior leadership team outweigh the difficulty in potentially having to change your strategies, having to do something intentional around developing your pipeline, having to be intentional around creating opportunities for all in the company to succeed and thrive on a more equal footing. Then you might need regulation to spur on what we would consider to be the activity that you need to get a certain result, but I don't agree that regulation is the only tool or even a necessary tool in all cases.

Adam Bass (13:54):

I know I took us a bit off track there, we were talking about why having more women in senior positions is so important and the value that can bring to an organization.

Shweta Narasimhadevara (14:05):

I've worked in a number of countries across the globe, so perhaps there's a perspective there to share in terms of the evolution with respect to gender diversity. I started my career more than a couple of decades ago back in Mumbai, India, and I was one of the seventh employees to join ICSA Prudential, which is one of the largest banks in India in the life insurance business. I actually had a woman CEO as my manager who ran the group that I was a part of, write strategic initiatives and reporting to the CEO, who by the way, was actually also a woman.

(14:38):

The organization was effectively a startup, so it was a very challenging environment to work in, but my CEO was known for her incredible prowess leading startups to success, and I think she also had a very high EQ. But while I had incredible female leadership who set the right tone from the top and tried to organize the right culture, the rest of the firm didn't always embrace women in the way that you would've hoped, and so there was a good amount of mediocrity across the board. And so all in all I'd say, there was clearly gender inequality simply in everyday interactions and work. And if that was my experience at a top-notch bank with an incredible focus on empowering and rewarding female talent, then I imagine it was actually much worse for other women in less fortunate positions than I was.

(15:32):

Now, of course, this was over two decades ago, but there was also some gender disparity in London and in New York Wall Street where I've spent several years of my career. I do think a lot has changed though in the last seven to 10 years, I actually see several more women in C-suite positions where I think it's a very encouraging fact. And applying that to State Street, we are leaders in this space, and I think we really walk the talk. It was not always like this, it was heavily dominated by males, but in recent years, we have made great strides and now we have more and more women in leadership roles across the firm. Top roles across the firm are well distributed in my mind between men and women, and, of course, we have most recently hired a woman CEO to run SSGA globally, State Street Global Advisors.

(16:21):

Again, to bring data in here, McKinsey Women in Workplace 2021 study found that employees with women managers are more likely to say that their managers in fact supported them and helped them. 31% provided emotional support versus 19%, with respect to the male statistic there.

Tia Counts (16:41):

I think when you look at an organization that has women in senior management positions, you should see an overall positive result from a talent attraction and retention perspective. As this clearly demonstrates that there's a path for women to progress their careers at an organization, it also supports an organization's public commitment to gender equality. An organization that has more than a token few women in senior leadership positions is sending a really strong signal to prospective and current female employees.

(17:20):

I think the message is that, not only are you wanted here, but you'll be developed here, you'll be supported through your career here, you'll be celebrated as a leader here. These are promises that many organizations make in order to attract from the widest possible talent pool. So on a really practical level, having more senior women around can have a very real implication for a company's culture. Again, because a lived experience, that could mean that a manager's style their way of giving feedback, a focus on development strategies.

Shweta Narasimhadevara (17:55):

This might sound somewhat controversial, but according to Harvard Business Review, women score higher than men in most leadership skills. Specifically, research shows that women are seen as more ethical, empathetic, and are able to work out compromises, and women tend to be more compassionate and are socialized at a young age to cooperate and collaborate. And I think the pandemic did that where women leaders demonstrated their ability to manage conflict and increase cohesion.

Adam Bass (18:26):

I recognize we have spent a fair bit of time on the reasons why having women on boards as well as in seats of corporate power matters. We've done so because every reason highlights why this is so important, not just for the women themselves and not just for society, but for investors as they evaluate companies across sectors and across geographies. Now, the other part of the equation is the how, which type of approaches signal that a company may be on the right track?

Tia Counts (19:02):

First and foremost, it's important that there's clarity and executive accountability at the top of the company that growing the next generation of leaders is a shared responsibility, it should not be the sole obligation of the person who happened to bring that talent into the organization. The second thing I would mention is that, it should never be left only to the female leaders to nurture and support new talent that is female that you're trying to grow and encourage to stay at the company and create a long-term career. Women leaders will often volunteer and lean into that charge, but there will usually be more people available than the women who were available to do that support. And we definitely need to have an approach where we're leaning on male allies to do the right thing and be really intentional about the development track for employees once you've brought them into the company.

(20:06):

Mentorship is something that a lot of companies use that can be a very effective tool. It can actually be something that is done from a lack of formality, so you don't need to have a specific formal mentorship program to have good mentoring results. But mentorship comes to me in that category of inclusive leadership behaviors where you want executives to behave in a way that means that the environment is overall benefiting from a more inclusive style, and that brings in women and people of other diverse identities as well as people that don't necessarily identify as diverse.

(20:52):

I also think being really clear and specific around sponsorship and what that looks like is a tactic and a strategy that we use and that I think is quite effective. And by sponsorship, what I mean is, you have identified high performers in your organization whom you would like to ensure are giving the opportunity to take on new assignments, to take on stretch assignments, to work across teams, and who are really giving this support to have time that they spend doing that that's outside of their normal obligations and responsibilities or is supported in addition to what they're already involved in.

(21:36):

There can be a very strategic way to ensure that you are consistently developing your talent and your pipeline and really aggressively pushing people from one stage of development to the other in a way that you would not have if you were not paying attention and not acting with intentionality, at MSCI, that's the way we view it. Development, equity, ensuring that people have opportunities to meet with and have learnings from their peers and senior leaders at the company, that's also another strategy that we've used that we think is very effective and also allows for senior leaders to have more of a window and perspective on what it is that they're female talent is looking for? What is it that needs to be addressed or reviewed in the culture that might increase their ability to bring their full selves and actually ensure that they are really maximizing their potential?

Adam Bass (22:44):

It takes a lot of energy to maintain momentum around this issue, which is actually something Tia spoke about to us last year. So when I had the chance, I asked her how the battle against diversity fatigue was going.

Tia Counts (22:59):

Diversity fatigue is still a real concept that many organizations struggle with and lots of CDOs, chief diversity officers, talk about when we get together in round tables and share some of the challenges of going with the struggle. When I speak to the board about every quarter about our strategies and how we're advancing, I get the questions often around, as our executive team showing the support, they're deeply interested in understanding whether the executive team continues to be as available and as dedicated as they had been when I was hired. And I think it's actually quite telling to have a board that, first of all, is that engaged on this topic, but also to have a senior leadership team for whom the concept of diversity fatigue is really not part of their vocabulary.

(23:59):

The focus that I have seen, the way we continue to tie executive compensation to diversity progress, the way we continue to see our efforts to ensure pay equity when looking at very deep structural issues around diversity, this is the way MSCI attacks this issue and the way we mean to ensure that the progress that we make is progress that we will keep. Progress that really means we've changed the culture, we've moved the organization to a place where it not only diverse people, but all members of the organization will stay and thrive.

Adam Bass (24:40):

And what about investors, are they showing signs of fatigue?

Shweta Narasimhadevara (24:44):

Gender lens investing is an impact investment strategy, which deliberately integrates gender analysis into investment analysis and decision making. And over the years, it's garnered increased global attention in recent years as investors really seek out new ways to bring new dimensions right to the nature of their investments.

(25:03):

Morgan Stanley Wealth Management recently ran this survey, and according to them, large percentages of high net worth investors said it is important that companies they invest in have policies in place to promote diversity, equity, and inclusion, and that's stood at 67%, and also hired and promote employees of diverse backgrounds at 66%, and have people of diverse backgrounds in leadership positions right at 63. So clearly, there is some data at least out there that suggests that this is actually a particularly important topic.

Adam Bass (25:39):

We've heard today about how an ever-growing percentage of companies have reached what Olga called the tipping point of 30% women on boards. We also heard how EU regulators are setting the bar at 40%, could we be headed for 50%?

Olga Emelianova (25:59):

50% women representation on board is certainly not unrealistic, and we've seen quite a lot of companies meet that threshold already and surpassed that as well. In our analysis, we do include it in our projections, just for the sake of reference, and the date, at which point we can see the 50% Women Representation Board is actually not that far ahead. We can talk about somewhere around 2035, 2040, depending on the rate and the progress of the inclusion, but it is certainly on the horizon.

Adam Bass (26:39):

That's all for this week. A big thank you from Joe, Phil, and me, to Olga, Shweta, and Tia, and to all of you for listening. You can read the full Women on Boards Report on msci.com, just follow the link at the bottom of this episode's page. Until next time, I'm your host, Adam Bass, and this is MSCI Perspectives, stay safe everyone.

TRANSCRIPT

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