



Aviva Stewardship Funds – Integrating the diversity debate

Sora Utzinger, Socially Responsible Investment Analyst on the Stewardship Funds explores diversity and how this can boost company performance. She also discusses how the Stewardship team engages with companies on this topic.

It has long been acknowledged that women do not participate in the global economy to the same extent and in the same way as men do.ⁱ Yet, the economic imperative for greater gender parity across all organisational levels and particularly in company boardrooms has gathered pace. Proponents of gender diversity can refer to a wealth of research and impactful studies which demonstrate a strong correlation between greater gender parity at the C-suite level and company outperformance. One such study was conducted by the Peterson Institute, which finds that “a profitable firm at which 30 % of leaders are women could expect to add more than 1 percentage point to its net margin” compared to a similar company with no female leaders.ⁱⁱ

“Inclusion is not a matter of political correctness. It is the key to growth.”
Jesse Jackson,
Politician and Civil Rights Activist

Research conducted by McKinsey provides similar insights and draws the same conclusions as the Peterson report, predominantly that there exists a strong correlation between gender diversity and better company performance.ⁱⁱⁱ Companies with the most gender-diverse executive teams are 21% more likely to outperform on profitability and are 27% more likely to have superior value creation.ⁱⁱⁱ Similarly, a Catalyst study found that companies featuring higher numbers of female board directors outperformed those with the least by 16%, 26% and 46% on return on sales, return on invested capital and return on equity, respectively.^{iv}

A growing body of research attests to the power of diversity as a source of competitive advantage and a key enabler of growth. Nevertheless, while the economic rationale for greater gender diversity is stronger than ever, barriers persist in achieving gender parity within organisations. 91% of the women surveyed by the World Economic Forum (WEF) reported that their employers had a diversity programme in place, yet only 27% reported any impact.^v This raises the question of how far diversity around the board table extends further down the value chain and what measures companies should take to foster diversity across all levels of their organisations.^{vi} Diversity and inclusion are often siloed topics and predominantly addressed by HR functions; unless gender diversity assumes the same importance as other business priorities and is supported at the highest levels, progress will be slowed.^v

In the UK, much of the work has been focused on improving female representation at senior levels, culminating in the UK government-backed Davies Review in 2011, which provided stakeholders with a framework and language to challenge companies on weak gender diversity at board level.^{vii} The UK government’s Hampton-Alexander review, launched in 2016, continues to support shareholders and investors to engage investee companies on gender diversity in the executive pipeline. The review puts forth strong recommendations aimed at increasing the number of women in leadership positions and a call for action to include a target of 33% women on FTSE350 boards and 33% women in FTSE100 leadership teams by 2020.^{viii} Aviva Investors has integrated these recommendations into its Stewardship engagement policies.

Increasingly companies are coming to regard inclusion and diversity as a source of competitive advantage and specifically as a key enabler of growth. Importantly, this understanding of 'diversity' has come to appreciate the ethnic profile of company boards in response to the cultural and demographic shifts underway in the UK and globally. In the UK alone, approximately 14% of the total population is from a non-white ethnic group.^{ix} Building on a growing body of evidence linking gender diversity and company outperformance, recent studies have come to suggest that ethnically diverse boards tend to make better decisions. A study by McKinsey shows that companies with the most culturally and ethnically diverse boards globally are 43% more likely to reap higher profits.ⁱⁱⁱ

Yet, in the same study of more than 1,000 publicly listed companies, McKinsey found that ethnic diversity is still widely lacking; while black Americans account for 10% of US graduates, only 4% hold senior executive positions.ⁱⁱⁱ These numbers stand in stark contrast to 85% of C-suite positions, held by white executives.ⁱⁱⁱ The gap in terms of ethnic diversity is even wider in the UK where 22% of university graduates identify as Black and Minority Ethnic (BAME) and only 8% of executive positions are held by individuals sharing this identity.ⁱⁱⁱ

In response to this, the UK government's Parker Review Committee has set out objectives and timelines to help foster greater diversity, which are underpinned by three key areas; (i) encourage FTSE100 board to nominate at least one director from an ethnic minority background by 2021 and for each FTSE250 Board to do the same by 2024; (ii) develop a pipeline of candidates and plan for succession through mentoring and sponsoring; (iii) improve transparency and disclosure to monitor and track progress against objectives.^{ix}

How does Stewardship engage on Board Diversity?

Introduced in 1984, the Aviva Stewardship Funds have a proud heritage as the UK's first ethical fund range. The Stewardship philosophy recognises that the contribution companies make to a sustainable society depends both on the products and services they provide and the way they provide them.

To this end, the Stewardship Funds aim to use their influence as a shareholder to support the positive contribution companies make to a sustainable society and to encourage positive environmental, social and governance (ESG) practices. The Aviva Stewardship Funds have begun engaging with companies on board diversity (including both gender and ethnic diversity). To this end, we challenge companies on their hiring practices, institutional bias, strategies and targets for increasing board representation of women and individuals from an ethnic minority background.

Aviva Investors firmly aligns with the objectives set out in the Parker Review and communicates these to investee companies, where weak policies regarding ethnic diversity have been identified. Aviva Investors continues to work with governments, other investors and companies to increase gender and ethnic diversity in boardrooms. As part of the Stewardship engagement process, we challenge companies on their hiring practices, institutional bias, strategies and targets for increasing board representation of women and individuals from an ethnic minority background. While the economic rationale for greater board diversity is clear, we are equally propelled by the underlying moral and ethical imperatives.

ⁱ Nolan et al., 'Is Gender Diversity Profitable? Evidence from a Global Survey', WP 16-3, Peterson Institute for International Economics, February 2016, <https://piie.com/sites/default/files/publications/wp/wp16-3.pdf>

ⁱⁱ Peterson Institute for International Economics, 'Is Gender Diversity Profitable? Evidence from a Global Survey', February 2016, <https://piie.com/sites/default/files/publications/wp/wp16-3.pdf>

ⁱⁱⁱ McKinsey & Company, 'Delivering through Diversity', January 2018, https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Organization/Our%20Insights/Delivering%20through%20diversity/Delivering-through-diversity_full-report.ashx

^{iv} Catalyst, 'The Bottom Line: Corporate Performance And Women's Representation on Boards (2004 – 2008)', 1 March 2011, <http://www.catalyst.org/knowledge/bottom-line-corporate-performance-and-womens-representation-boards-20042008>

^v Miki Tsusaka, 'Without proper gender diversity, companies will fail', World Economic Forum, 25 January 2018, <https://www.weforum.org/agenda/2018/01/gender-diversity-dollars-invest-where-it-matters-most/>

^{vi} UBS Asset Management (2018), 'Beyond the board table – extending the diversity debate', <https://www.ubs.com/global/en/asset-management/insights/sustainable-and-impact-investing/si-insights/2018/extending-the-diversity-debate.html>

^{vii} Olivia Seddon-Daines, Yasmine Chinwala, 'Diversity from an investor's perspective – why and how the most forward-looking asset owners are addressing diversity and inclusion', New Financial, November 2017, https://30%club.org/assets/uploads/UK/Third_Party_Reports/Diversity_From_Investor_Perspective_New_Financial_FINAL.pdf

^{viii} Hampton-Alexander Review, 'Improving gender balance in FTSE Leadership', November 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/658126/Hampton_Alexander_Review_report_FINAL_8.11.17.pdf

^{ix} The Parker Review Committee, 'A Report into the Ethnic Diversity of UK Boards', 12 October 2017, [https://www.ey.com/Publication/vwLUAssets/The_Parker_Review/\\$FILE/EY-Parker-Review-2017-FINAL%20REPORT.pdf](https://www.ey.com/Publication/vwLUAssets/The_Parker_Review/$FILE/EY-Parker-Review-2017-FINAL%20REPORT.pdf)