esgbook

More Than A Buzzword*

*Assessing the financial and transparency effects of corporate gender diversity.

2022 Update

by Min Low

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Introduction

In 2021, we published the first report of its kind assessing not only the financial effects of corporate gender diversity but also its impact on transparency. Using ESG Book data, supported by academic and industry research, the 'More Than A Buzzword' report assessed the effects of gender diversity on global public corporations. In particular, it examined whether more diverse companies demonstrate greater non-financial transparency[1].

With gender diversity continuing to grow in importance and prominence as a key issue in the workplace, this follow-up report assesses the progress that has recently been made on the topic, and expands on several trends highlighted in last year's study. In this update, we look beyond gender diversity to also include in our analysis minority representation, the employment and representation of persons with disabilities and supplier diversity.

Diversity Policies vs Targets Gap

Our ESG Diversity Feature is one of 22 sustainability topics that assesses a company's sustainability. The Diversity feature assesses a company's performance on various diversity metrics, including the representation of and equal opportunity for women and minorities in the workforce and on the board. Inputs to the feature also include the number of discrimination lawsuits as well as corporate commitment to supplier diversity[2].

Looking at the ESG Book Diversity feature at a granular level, we find that there is a significant gap between companies committing to a diversity policy and those setting concrete diversity targets. While policy commitment is an important first step, having a policy on paper ultimately means little if concrete actions are not taken to improve diversity. Having diversity targets thus represents a key goal for companies to work towards in order to improve actual corporate diversity.

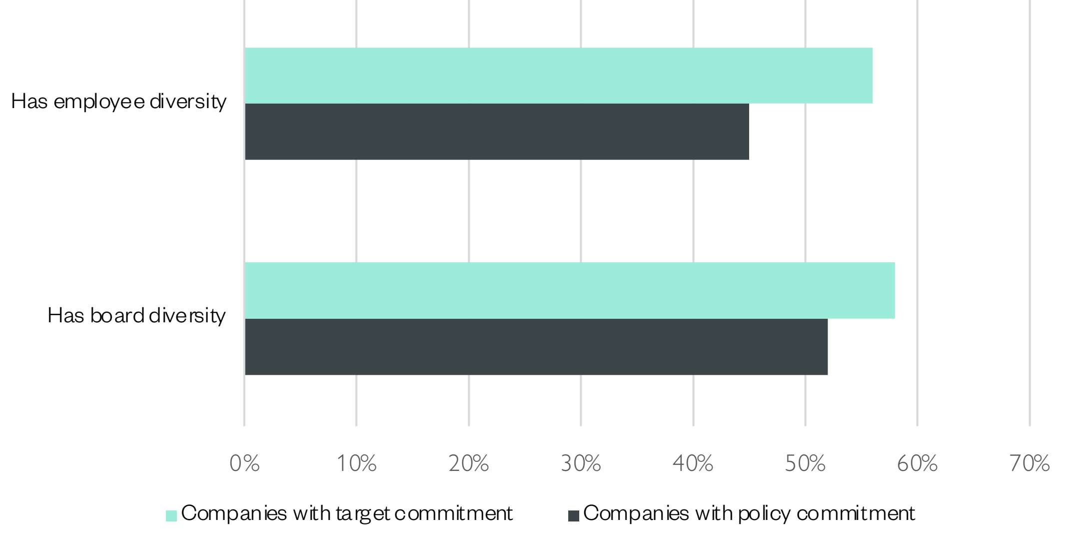
1. The 'More Than A Buzzword' report can be found on our website here.
2. More details on the methodology of our ESG Score can be found in our methodology paper.

An analysis of the top indices worldwide shows that almost all companies considered have committed to a diversity policy, with an average of 94.3% of companies in 2017 and 98.9% in 2021. However, in 2017, less than half of companies (42.3%) with a diversity policy had set a diversity target. While this has increased to an average of 59.7% in 2021, the number of companies having a diversity target is still significantly less than those with a diversity policy.

Companies in the United Kingdom and the United States have made the greatest improvement, reducing the policy-targets gap by more than 20% during this time period. In contrast, Germany's top companies (representing 36% of Germany's market captialisation) regressed, reducing from 83% of companies having a target in 2017 to 80% in 2021.

Diving deeper into the datapoint level, our analysis highlights that having a diversity policy is merely a first step towards achieving genuine corporate diversity representation. Defining 'diverse' as having more than 20% female and/or ethnic minority representation at the respective board or employee level, we find that only 32% of companies without a diversity policy in place have a diverse board. This figure is lower at the employee level, where only 17% of companies without a diversity policy have a diverse employee base. In contrast, companies committed to a diversity policy, but which has yet to set a diversity target perform slightly better in terms of actual corporate diversity representation. 49% of companies in this group have a diverse board, while 40% have employee diversity.

Diversity Commitments and Actual Corporate Diversity Outcomes

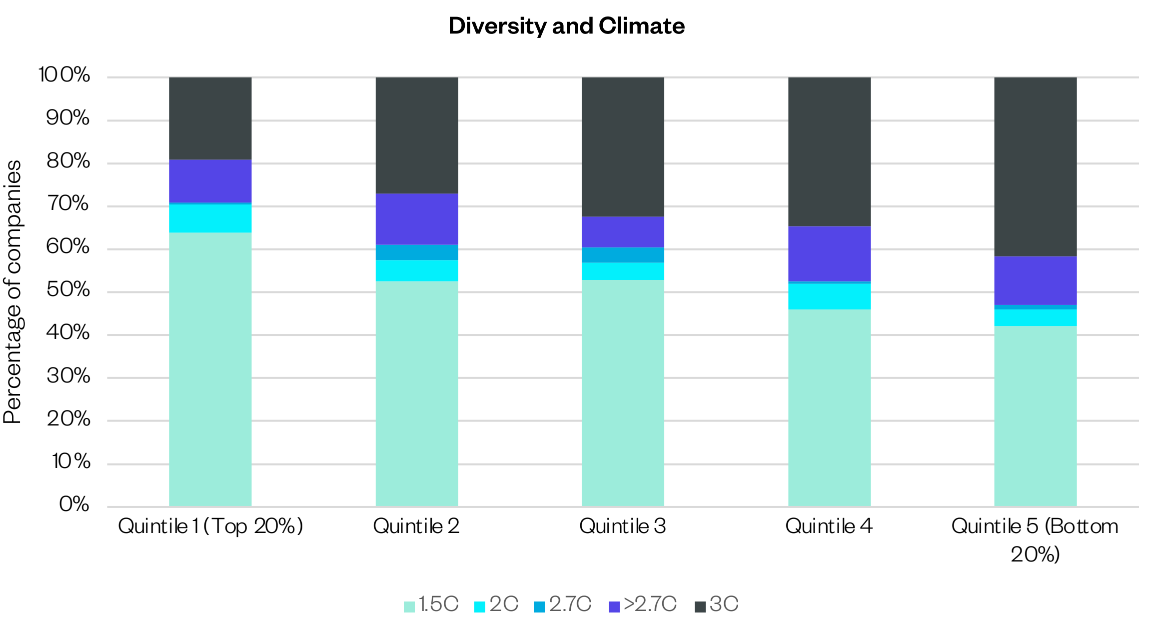


Nonetheless, commitment to a diversity target has a significant impact on actual corporate diversity. Of over 4,000 companies in the ESG Book universe committed to a diversity policy, 52% have diverse boards and 45% have employee diversity. Comparatively, companies that have set a diversity target are 6% more likely to have diverse boards, and 11% more likely to have employee diversity.

Diversity and Climate

In 2021, our original analysis for the 'More Than A Buzzword' report found clear and striking evidence that gender-diverse companies are substantially more likely to disclose their greenhouse gas emissions data. Expanding upon this correlation, we look at whether more diverse companies are more likely to be on track to actually meet global climate goals. This is measured by the ESG Book Temperature Score, which measures the extent to which corporations across the world are contributing to the rise in global temperature. Companies' publicly disclosed Scope 1 and Scope 2 emissions are translated to a score based on sector-specific emissions pathways, ranging from 1.5°C to >2.7°C[3]. A score of 3°C, however, indicates that the company does not disclose emissions in line with the Greenhouse Gas (GHG) Protocol[4].

An analysis of all companies in the top global indices showed that 75% of the most diverse (top 20%) firms are on track to limit global warming to 1.5C above the pre-industrial average. Conversely, only 54% of the least diverse (bottom 20%) firms are aligned with a 1.5C climate pathway.



Broadening our analysis, we also found that of the most diverse 20% (Quintile 1) of the 1,000 largest companies worldwide, 63% are on a 1.5C climate pathway, while only 42% of the least diverse companies are. Notably, 31% of the top 1,000 companies do not disclose their emissions. Non-disclosing companies make up 42% of the least diverse quintile, compared to only 19% of most diverse quintile. Non-disclosure not only highlights a lack of transparency, but also impedes companies from making informed efforts towards improving their sustainability.

3. More details on the methodology of our Temperature Score can be found in our methodology paper.
4. GHG Protocol requires that emissions are reported separately for Scope 1 and Scope 2, and in units of tCO2e.

Conclusion

Diversity is becoming an increasingly important issue for global corporates, as can be seen from the slow but steady increase in diversity commitments from companies around the world. Our analysis reinforces the premise that diversity and environmental performance are closely interlinked. However, there is still a long way to go in order to achieve the objectives of climate change mitigation, and a great deal more work is required to achieve a more equitable society for all. We can start by encouraging greater corporate disclosure and transparency, where the data can subsequently be used to inform policy and initiative developments as well as concrete target-setting. Our newly launched ESG Book platform connects investors and corporates on a common platform, where investors and asset managers can easily view and request corporate disclosure on frameworks and metrics aligned with their sustainability strategies[5]. Together, we can drive the change that we want to see.

For more information, visit esgbook.com or sign-up to our newsletter to get our latest insights and regulatory updates delivered direct to your inbox.

5. Please visit https://www.esgbook.com/ for more information.