![WDi - Workforce Disclosure Initiative]

Company Guidance:
Diversity & Inclusion

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In this briefing

What do we mean by diversity and inclusion?

Diversity is the level of representation of any dimension that reflects people's different identities and backgrounds. This can include their ethnicity, sexual orientation, gender, gender identity, age, social background, religion and beliefs, among others.

Inclusion refers to the extent to which people are valued for their distinctive identities, experiences and perspectives and are provided with equal opportunities for participation.

A full list of terms and their definitions can be found in the WDI glossary.

Why does data on diversity and inclusion matter to investors?

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The death of George Floyd has re-energized the anti-racist movement in the US and around the world, renewing concerns about unequal representation of ethnic minorities at different levels in organisations and the role that companies play in not only perpetuating but also reducing racial inequity in their workforces and in society. We believe many companies, including our own, have much more to do to address this important and urgent problem. Advancing gender equality in company leadership, senior management and throughout organisations also remains critically important, with many companies still falling far short of equal representation. It is important for companies to establish a culture which promotes inclusion in all forms and ensures that no form of prejudice is allowed.

- Katie Frame, Engagement Professional, EOS at Federated Hermes

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Evidence shows that diverse teams make better decisions, leading to long-term value creation for investors. We encourage companies to prioritise diversity across all levels and set measurable targets to demonstrate their commitment and progress.

- HESTA

What causes poor diversity and inclusion?

Structural inequality

Businesses do not operate in a vacuum. As a result, structural inequalities and systematic biases in society that exist outside of companies, such as racism and sexism, are reproduced within the workplace. If companies do not take active steps to improve diversity and inclusion, these inequalities can be perpetuated.

Diversity: Failing to recruit or retain workers from different groups

As diversity and inclusion are distinct but complementary concepts, there can be different drivers for poor performance in each area.

Organisations that are not diverse may be failing to recruit, promote or retain staff from a broad range of groups. This may be due to conscious or unconscious biases in recruitment or promotion processes, either from the staff leading these processes or through more subtle exclusionary measures built into the processes themselves, such as a requirement to have a university degree that isn't necessary to apply for a job. Alternatively, poor diversity may be due to a disproportionately high turnover rate for certain groups of workers, with a failure to create a supportive environment compelling staff to leave, or bias and discrimination leading to higher levels of involuntary turnover among certain groups.

Inclusion: Creating or facilitating a detrimental working environment

If an organisation is not inclusive, it may not offer adequate safeguards from discrimination and harassment, either through effective policies or equitable access to grievance mechanisms, enabling harmful behaviour to continue. The company may not take sufficient action to combat negative perceptions and stereotypes of certain groups or may also fail to recognise that different groups have different needs, instead, implementing policies and practices that advantage certain groups. For example, an organisation may fail to implement flexible working, which has been shown to limit women's progression.[1]

Organisational drivers

More broadly, there are several organisational drivers of poor diversity and inclusion. Leadership may fail to make diversity and inclusion a priority, or a company may not take a strategic approach, meaning initiatives are patchy and poorly implemented, if they are implemented at all. The company may also simply not understand the constitution of their workforce due to a lack of data, and so cannot identify what action needs to be taken to improve diversity and inclusion, or cannot assess how effective any action it is taking is. Lastly, a lack of diversity can, in and of itself, serve as a barrier to more diverse and inclusive organisations. It has been shown that gender-diverse boards are more likely to advance LGBT-friendly workplace policies,[2] demonstrating the reinforcing effect that diversity can have within companies.

What are the consequences of poor diversity and inclusion for workers?

As freedom from discrimination is a human right, poor diversity and inclusion can result in rights violations, with the consequences of corporate failure on these issues being felt by workers across all stages of employment.

People may face greater barriers when accessing employment. For example, studies from the UK and USA have shown that even when applying with identical CVs, applications with names that suggest the applicant is from an ethnic minority are significantly less likely to receive a response than those who appear to be White.[3,4] Barriers to employment for certain groups can have severe ramifications: in Australia, lower employment levels have resulted in people with disabilities living in poverty at the highest rates in the OECD.[5]

The consequences of a failure on diversity and inclusion also continue when people are employed, manifesting in, for example, pay inequality and a lack of representation in senior roles. Even

when experience and education are controlled for, Black men in the USA still earn 2 per cent less than their White counterparts[6] and men's promotion rates were 2.2 per cent higher than women's when other variables are controlled for.[7] Workers may also be subjected to microaggressions, bullying and harassment, and if insufficient policies and grievance mechanisms are in place (or are not properly applied or equally accessible), their ability to access remedy may be limited or non-existent.

Experiences of both overt and more subtle forms of discrimination can have a detrimental impact on workers' mental wellbeing. For instance, it has been shown that LGBT people suffer from high rates of poor mental health due to discrimination.[8] Certain groups may also face more severe risks to their physical health. In the USA, Black and Hispanic workers are significantly more likely to suffer injury or death at work,[9] even when working in the same organisation.[10]

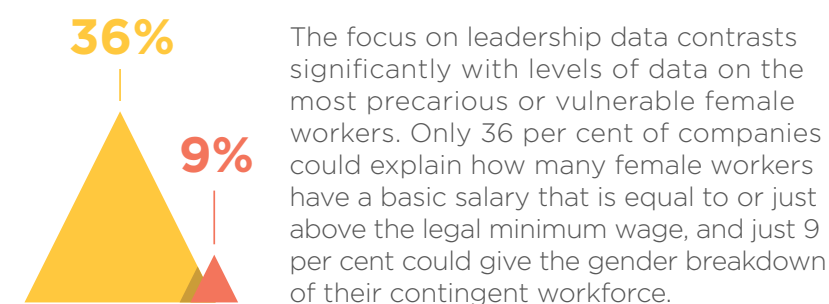# How can diversity and inclusion affect companies?

Poor performance on diversity and inclusion can have significant impacts on companies' performance and risk exposure. These include:

- Worse profitability and reduced financial returns.[11]

- Lower levels of resiliency in the face of competitive pressures.[12]

- Reputational and brand damage.[13]

- Reduced productivity[14] and capacity for innovation and creativity.[15]

- More limited ability to attract and retain talent.[16]

- Reduced employee satisfaction.[17]

- Risk of litigation, which can have significant financial and reputational consequences.[18]

What are businesses doing about diversity and inclusion?

Data from the 2020 cycle of the WDI provides an insight into how companies are addressing diversity and inclusion:

86% **11%**

Companies reported data on women in leadership positions more than any other gender metric, including the gender composition of the total workforce. An average of 86 per cent of companies could provide the percentage of women in leadership positions (the board, executive committee and senior leadership), 11 per cent more than the proportion of companies that could give their overall workforce gender breakdown.

138 **5**

138 companies could explain their plans to address diversity and inclusion, but only five companies gave information for every gender indicator in the WDI.

36% **9%**

The focus on leadership data contrasts significantly with levels of data on the most precarious or vulnerable female workers. Only 36 per cent of companies could explain how many female workers have a basic salary that is equal to or just above the legal minimum wage, and just 9 per cent could give the gender breakdown of their contingent workforce.

78% **57%** **4%**

While the majority of companies (78 per cent) stated how the company has addressed, or intends to address, pay gaps and pay ratios, only 57 per cent of companies provided data on their gender pay gap and just 4 per cent provided data on their ethnicity pay gap.*

75% **36%**

More than twice as many companies can provide data on the gender breakdown of their workforce (75 per cent of companies) than on the workforce's ethnic composition (36 per cent of companies).

*This figure only includes companies that did not indicate that they were legally prohibited from collecting ethnicity data.
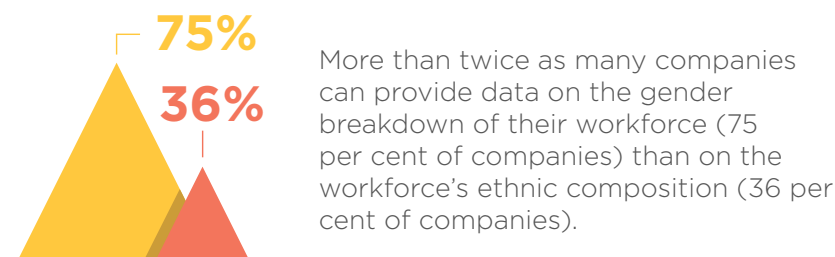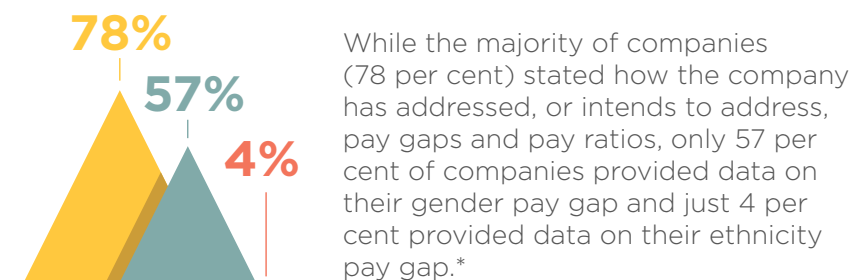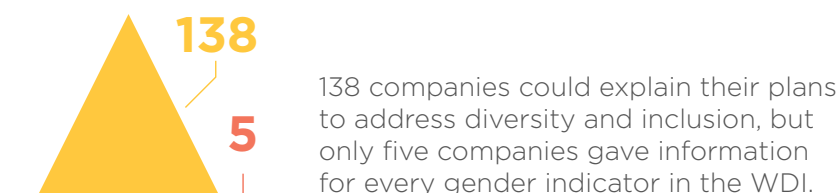
Positive steps and areas for improvement in company practices

Positive steps

Some companies are taking action to address these issues. Businesses are signalling support through global initiatives, such as the UN's Women's Empowerment Principles, a set of principles supported by 3,000 companies offering guidance to business on how to promote gender equality, and the Partnership for Global LGBTI Equality, a coalition of organisations working to leverage their power to accelerate LGBTI equality and inclusion globally.

Businesses are also working with their peers through initiatives such as CEO Action for Diversity & Inclusion, a CEO-driven business commitment to advance diversity and inclusion within the workplace, and the 30% Club, a global campaign led by Chairs and CEOs that is taking action to increase gender diversity at board and senior management levels. Companies are also engaging with civil society through organisations such as Business in the Community, where companies work together on several diversity and inclusion initiatives, covering issues such as race, gender and age.

Areas for improvement

There are, however, numerous examples of failures by businesses to effectively address diversity and inclusion issues. Representation continues to be a problem at the highest levels of corporate leadership, with women holding just 16.9 per cent of all global board seats in 2018.[19] Only 6.8 per cent of directors on FTSE 350 boards are people of colour, and 59 per cent of FTSE 250 companies have no directors of colour on their boards.[20] The lack of senior representation has knock-on effects for pay: at Lloyds banking group, Black employees make up 1.5 per cent of Lloyds staff, but only hold 0.6 per cent of the most senior jobs, with Black staff being paid nearly 20 per cent less than their colleagues.[21]

Companies are also failing to tackle discriminatory assumptions and stereotypes. A global survey by McKinsey showed that only 43 per cent of men in senior management positions strongly agree that women are equally good leaders as men.[22] Even on practices that are the minimum requirements for action on diversity and inclusion, such as implementing anti-discrimination and harassment policies, some companies are still lagging behind. For instance, in the USA, 7 per cent of Fortune 500 companies still do not include sexual orientation in their anti-discrimination policies.[23]

Many well-documented cases of discrimination and harassment show how far there is still to go on diversity and inclusion. In 2020, more than a dozen people made allegations of sexual harassment and abuse against employees at Ubisoft, highlighting endemic cases of sexism and sexual assault over several years, the majority of which were ignored, mishandled, or undermined.[24] Workers at Adidas in the USA have claimed that the company has failed to tackle a racist working environment, stating that Black employees are afraid of speaking out and their complaints are often disregarded.[25]

What is the legal framework for diversity and inclusion?

International law

- Article 2 of the Universal Declaration of Human Rights

- Articles 2, 4, 24, 26 of the International Covenant on Civil and Political Rights

- Article 2 of the International Covenant on Economic, Social and Cultural Rights

- Convention on the Elimination of All Forms of Discrimination against Women

- Convention on the Elimination of All Forms of Racial Discrimination

- Convention on the Rights of Persons with Disabilities

- ILO Convention 100 on Equal Remuneration

- ILO Convention 111 on Discrimination

- ILO Convention 156 on Workers with Family Responsibilities

- ILO Convention 159 on Vocational Rehabilitation and Employment

- ILO Convention 190 on Violence and Harassment

Key developments in national law

The following provides an overview of some legislative developments that have occurred relating to diversity and inclusion across the world. For a more comprehensive understanding of the legal framework in different jurisdictions, always consult local legal experts.

1967
In the USA, The Age Discrimination in Employment Act protects certain applicants and employees 40 years of age and older from discrimination based on age in hiring, promotion, discharge, compensation, or terms, conditions or privileges of employment.

2003
In Norway, Section 6-11a of the Companies Act mandates that men and women must both be represented on corporate boards in all public limited companies in the private sector, with women making up at least 40 per cent of all board members.

2010
In the UK, The Equalities Act legally protects people from discrimination in the workplace and wider society based on age, gender reassignment, disability, marriage and civil partnership, race, religion or belief, sex and sexual orientation.

2013
In India, The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act provides protection from sexual harassment for women working in the formal and informal sector. It requires all employers with 10 or more employees to set up internal committees to address sexual harassment claims.

2015
In Japan, The Law concerning the Promotion of Women's Career Activities obliges public and private companies with 301 or more employees to establish quantitative targets to promote women's career progression.

2018
In France, The Act for the Freedom to Choose One's Future Career sets out that companies with over 50 employees must report on several criteria relating to pay equality between men and women. If the company scores below the designated threshold on these criteria, it must define a plan to rectify these discrepancies.

2019
Globally, Discrimination in employment based on sexual orientation is illegal in 40 per cent of UN member states.

Does your company have sufficient data?

The following questions, based on the indicators in the WDI, provide a basis for companies when considering if they have sufficient data to respond to challenges relating to diversity and inclusion.

Getting started

The essential foundations companies need to begin tackling these issues

Can your company explain what action it has taken, or intends to take, to improve diversity and inclusion?

Yes   Somewhat   No

Can your company provide the percentage of its total direct operations workforce in different age categories?

Yes   No

Can your company give the percentage of its total direct operations workforce in leadership positions by gender?

Yes   No

Can your company set out if it has a shared parental leave policy that exceeds the statutory minimum requirements? If not, can you explain why not and any plans to implement such a policy in the future?

Yes   Somewhat   No

Can your company explain if it has a public policy on discrimination and harassment, or similar? If not, can it explain why not and any plans to adopt one?

Yes   Somewhat   No

Leading practice
Demonstrating leadership and providing the tools for innovative, comprehensive responses

Can your company provide the percentage of the company's total direct operations workforce by race or ethnicity? Can you also provide the percentage of the company's total direct operations workforce in leadership positions by race or ethnicity?

Yes   No

Can your company explain what action it has taken, or intends to take, to increase diversity in leadership positions?

Yes   Somewhat   No

Can your company provide the rate of internal hires by race or ethnicity?

Yes   No

Can your company set out the number of discrimination and harassment incidents reported and resolved in the reporting period?

Yes   No

Next steps
Providing the insights required to make more substantial progress

Can your company provide the rate of internal hires (as a percentage of total internal hires) by gender?

Yes   No

How can the WDI help companies with diversity and inclusion?

The WDI survey

The first step to being able to meaningfully address diversity and inclusion is understanding how and where these issues are impacting your company's workforce. Taking part in the WDI can help your company identify where there are gaps in your data and provides a framework to address these, as well as allowing you to benchmark your data collection against peers. Companies that disclose to the WDI can provide more comprehensive data on diversity and inclusion, moving from being able to complete an average of 49 per cent of this section of the survey in their first year of taking part, to 60 per cent in their fourth year.

WDI Engagement Programme

The WDI offers a year-round engagement programme that gives companies the opportunity to hear about best practice, share challenges, and learn from investors and their peers. Based on expert input and constructive discussion, this range of sessions enables companies to take the insights they gained from participating in the WDI and use them to identify innovative solutions to challenges they may be facing. Beyond that, it prepares companies for any legislative changes that may develop in the markets they operate in.

Relevant WDI indicators

Several indicators in the 2020 WDI provide useful insight into companies' practices relating to diversity and inclusion:

1.1, 3.4, 3.6, 4.1 - 4.12, 5.2 - 5.6, 6.1, 7.3

The entire WDI survey, and a detailed breakdown of the specific indicators listed here, can be found at shareaction.org/workforce-disclosure-initiative/why-disclose-to-the-wdi/

Resources

Why Diversity Matters, Delivering through Diversity, and Diversity Wins: How Inclusion Matters *- McKinsey & Company*

A series of reports outlining the business case for diversity and inclusion, demonstrating the benefits to and outcomes of diverse and inclusive organisations.

The Inclusion Index 2019 *- Kantar*

A summary report outlining the findings from the 2019 Inclusion Index, which evaluates the extent to which companies, sectors and countries are diverse and inclusive.

Managing an Age-Diverse Workforce: What Employers Need to Know *– CIPD*

A guide providing insights into the experiences of workers of different ages and recommendations for employers on how to promote and support an age-diverse workforce.

Discrimination in Employment Law Guide *– DLA Piper*

An outline of the legal context surrounding discrimination in 63 countries across the world.

Global Workplace Briefings *- Stonewall*

A suite of briefings that advise employers on how they can create inclusive and equal workplaces for LGBT employees around the world.

Global Gender Gap Report 2020 *- World Economic Forum*

A report benchmarking 153 countries on their progress towards gender parity. It also examines gender gap prospects in the professions of the future.

Magnet for talent: Managing diversity as a reputational risk and business opportunity *- PwC*

A guide outlining the risks and opportunities relating to diversity and inclusion, and giving examples of practical steps businesses can take to improve diversity.

Insights from WDI Investor Signatories

ESG Viewpoint - Racial justice - The imperative for investor action *- BMO Global Asset Management*

ESG Viewpoint - Gender diversity – Are German companies keeping up? *- BMO Global Asset Management*

Newton's diversity engagement and voting policy *- Newton Investment Management*

Endnotes

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