



**Diversity, Equity
& Inclusion**
Gender and Beyond

May 2024

First Sentier MUFG
Sustainable Investment Institute

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The First Sentier MUFG Sustainable Investment Institute (the Institute) provides research on topics that can advance sustainable investing. As investors, both First Sentier Investors and MUFG recognise our collective responsibility to society and that investment decisions should be made with consideration to our communities both now and in the future.

The Institute commissions research on Environmental, Societal and Governance issues, looking in detail at a specific topic from different viewpoints. The Institute recognises that investors are now looking in far greater depth, and with far greater focus, at issues relating to sustainability and sustainable investing. These issues are often complex and require deep analysis to break down the contributing factors. If as investors we can better understand these factors, we will be better placed to consider our investment decisions and use our influence to drive positive change for the benefit of the environment and society.

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An Academic Advisory Board advises the Institute on sustainability and sustainable investment research initiatives. The Academic Advisory Board comprises prominent leaders from academia, industry and nongovernmental organisations in the fields of Responsible Investment, climate science and related ESG endeavours. The Board provides independent oversight to ensure that research output meets the highest standards of academic rigour.

Contact

Institute@firstsentier.com

www.firstsentier-mufg-sustainability.com

www.mufg-firstsentier-sustainability.jp

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Introduction

Diversity has been in focus for many years on the investor agenda. Whilst the gender lens continues to be critical, the scope of diversity approaches is evolving. Highlighting the case for action, we examine the importance of broader areas of equity and inclusion and analyse a series of key themes beyond gender comprising disability and neurodiversity, LGBTQ+, ethnicity and socioeconomic background. Japan is also examined as a spotlight for our extended vision of DEI.

Why diversity?

A consideration of DEI or “Diversity, Equity and Inclusion” has increasingly become an expectation of sustainable investment approaches globally. Two key viewpoints emerge behind the inclusion of DEI as an investor consideration – a business case and a moral case. Given the multitude of studies on the impact of greater diversity on businesses, the primary outcomes for investors cited are improved financial returns (including improved strategic, legal and operational management) as well as enhanced social and human capital impacts.



The Case For Action

Financial Materiality

A considerable body of literature now exists, built up over the last two decades, citing the links between improved diversity and enhanced business outcomes, including financial materiality. The inputs examined have been primarily focused on gender but are increasingly addressing the impact of diverse identities¹. Findings from some frequently cited studies are below:

- Companies in the top quartile for ethnic/cultural diversity on executive teams were found to be 33% more likely to have industry-leading profitability whilst those in the bottom quartile for both gender and ethnic/ cultural diversity were 29% less likely to achieve above-average profitability according to a widely cited McKinsey study²
- Companies with above-average diversity within their management reported innovation revenue that was significantly higher than that of companies with below-average diversity – at 45% of total revenue versus 26% as cited in a BCG study³
- Companies demonstrating leadership in disability inclusion achieved higher revenue, net income and economic profit margins compared to other companies in the sample (140 US companies); they also outperformed on shareholder returns according to Accenture⁴
- A Harvard Business Review study maintains disability inclusion contributes to a firm's competitive advantage: by allowing access to employees with unique skills; facilitating collaborative and productive organisational culture; enhancing positive customer perception and relationships; improving access to capital and talent through enhanced social responsibility credentials⁵
- A Harvard Business Review industry case study details successes of neurodivergency inclusion programs introduced by several organisations in the recent years, showing comparatively high productivity and innovation of neurodiverse teams⁶
- A study by Alex Edmans, Caroline Flammer, and Simon Glossner provides evidence in favour of a broader DEI perspective, including limited correlation between DEI metrics and demographic diversity, and positive association of high DEI with future profitability⁷

Our view is that wider data collection concerning a range of diverse identities is likely to become more prevalent as a result of multiple stakeholders requesting it. However, investors should not wait for disclosures to mature before turning their focus to emerging DEI themes.

One reason for the relative lack of studies on impact of demographic characteristics beyond gender is that there are still relatively few datasets. However, our view is that wider data collection concerning a range of diverse identities is likely to become more prevalent as a result of multiple stakeholders, including regulators, the media, employees and investors requesting it. A range of employer benchmarks measuring DEI disclosure and impact are emerging, which we highlight throughout this report. **The demand for greater disclosure may allow for broader and more enhanced analysis and increase the materiality of DEI as such data becomes more visible for interested stakeholders. However, investors should not wait for disclosures to mature before turning their focus to emerging DEI themes.**

Human Capital is a primary area of perceived benefits, with multiple studies showing added value accrued to recruitment, retention, corporate culture and workforce welfare (including for example reduced burnout⁸).

Brand value can therefore be supported by corporate diversity practices, especially where growing reputational and legal risk are accelerated by global newsflow. The intensification of social media exposure for branding has accelerated the speed at which reputational risk affects companies on the wrong side of both cultural sensitivities in marketing or discrimination allegations from employees, candidates and customers.

Improved decision making (including innovation) may result from broader and better quality cognitive diversity, with enhanced interaction between employees, customers, and suppliers. However, increasing cognitive diversity should

1. Selected studies are cited in relevant sections of this report

2. <https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/delivering-through-diversity>

3. <https://www.bcg.com/publications/2018/how-diverse-leadership-teams-boost-innovation>

4. Accenture, Getting to Equal: the disability inclusion advantage, 2018

5. Lisa Alemany, Freek Vermeulen, Disability as a Source of Competitive Advantage, Harvard Business Review, July-August 2023

6. Robert D. Austin, Gary P. Pisano, Neurodiversity as a Competitive Advantage, Harvard Business Review, Vol 95(3), 2017; <https://hbr.org/2017/05/neurodiversity-as-a-competitive-advantage>

7. Alex Edmans, Caroline Flammer, Simon Glossner, Diversity, Equity, and Inclusion, European Corporate Governance Institute – Finance Working Paper No. 913/2023, May 2023 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4426488

8. The CCLA Mental Health Benchmark explicitly include DEI as a criteria for scoring in the context that such measures improve the welfare of the workforce.

not be dependent on only demographic diversity but focus on varied experience, skills and qualifications to avoid the risks of groupthink.

Cognitive diversity refers to differences in the information processing styles within a group; these differences can stem from demographic characteristics, education, experience, skills, abilities, perspectives and other factors. Cognitively diverse team is more likely to be able to consider a problem or a task from different perspectives, which can lead to beneficial outcomes, including efficiency⁹, creativity¹⁰ and innovation¹¹. The benefits of cognitive diversity are increasingly recognised by a variety of stakeholders – with examples including the UK Corporate Governance Code and the FCA¹².

Regarding direct financial risks, litigation against employers has resulted from a number of DEI shortcomings.

Multiple payouts across sectors have occurred as a result of discrimination cases (commonly citing gender, disability, ethnicity and sexual orientation). Visibility can be low as many cases are settled with non-disclosure agreements (NDAs). Furthermore, discrepancies in pay have resulted in numerous group lawsuits based on gender pay gaps. Though several sectors have been affected, the retail sector has been notable for some significant equal pay claims.

Regulatory and reporting tailwinds may be underestimated

The increased focus by regulators and industry bodies on broadening disclosure frameworks beyond gender and also to incorporate equity and inclusion indicators is another material trend for investors to consider.

In the long run the desired effect is to drive more visibility of DEI performance, risks and opportunities.

Recent reporting frameworks explicitly enhance DEI as a material investment factor and begin to solve for the lack of data required to make the fullest DEI assessments.

We cite key examples (see Appendix for full details) such as the NASDAQ Board Diversity Rule (which also covers its listed companies domiciled outside the US), the EU Corporate Sustainability Requirement Directive (CSRD), the UK Financial Conduct Authority (FCA) consultation and the CFA DEI Code:

- NASDAQ: Mandatory Board Diversity Rule for companies listed on this exchange make them subject to obligatory reporting on board characteristics include ethnicity, LGBTQ+, disability or underrepresented individual in home country for non US firms.
- EU CSRD: Mandatory corporate sustainability standards reference diversity (policy, incidents of discrimination and representation in workforce of ethnic/ minority groups, and persons with disabilities) as materiality factors.
- UK FCA D&I Framework: Mandatory standards (not yet finalised) to potentially include workforce representation on ethnicity, sexual orientation, disability or long-term health conditions. Socio-economic background may be considered on voluntary reporting basis.
- CFA DEI Codes: Voluntary industry principles to include reporting on ethnicity, sexual orientation, neurodiversity, socioeconomic status and intersectionality of two or more groups.

9. Alison Reynolds, David Lewis, Teams Solve Problems Faster if They're More Cognitively Diverse, Harvard Business Review, 30 March 2017 <https://hbr.org/2017/03/teams-solve-problems-faster-when-theyre-more-cognitively-diverse>

10. Xiao-Hua (Frank) Wang, Tae-Yeol Kim, Deog-Ro Lee, Cognitive diversity and team creativity: Effects of team intrinsic motivation and transformational leadership, Journal of Business Research, Vol 69(9), September 2016 <https://doi.org/10.1016/j.jbusres.2016.02.026>; Terri Kurtzberg, Feeling Creative, Being Creative: An Empirical Study of Diversity and Creativity in Teams. Creativity Research Journal, 17(1), 2010 https://doi.org/10.1207/s15326934crj1701_5

11. Xingwen Chen, Jun Liu, Haina Zhang, Ho Kwong Kwan, Cognitive diversity and innovative work behaviour: The mediating roles of task reflexivity and relationship conflict and the moderating role of perceived support, Journal of Occupational and Organisational Psychology, Vol 92(3), September 2019 <https://doi.org/10.1111/joop.12259>

12. Financial Conduct Authority, Bank of England, Prudential Regulation Authority, Diversity and inclusion in the financial sector – working together to drive change, DP21/2, July 2021.

A business and a moral case

Despite the wealth of research pointing towards a positive relationship between diversity and financial performance, the rationale for requiring in depth evidential studies has often been questioned, and diversity is seen as desirable in its own right. Furthermore, quantitative studies are sometimes criticised on methodological grounds for being inadequately robust in academic terms. Potential weaknesses including confirmation bias, confusion with correlation and causation, and lack of peer review¹³.

There is increasingly an expectation amongst key stakeholders including the workforce, suppliers, regulators and investors that DEI is integrated in new ways and in more detail despite the varied financial and moral cases that underlie the justifications for it.

Whilst many studies examined show positive outcomes, we note methodology objections to some of the positive outcomes have been raised based on the robustness of data and statistical techniques used. Furthermore, we highlight as a central approach of our study the problematics of exclusive focus on company reporting on workforce demographics, rather than aspects of employee views on their lived experience of equity and inclusion, which is needed in creating positive outcomes for the business and investors. A case for the inclusion of DEI based purely on financial materiality, even with gradually increasing regulatory oversight, may thus be insufficient, even where evidence is robust.

The importance of other non-financial considerations including a moral case is critical. Though the moral case for diversity may not require explicit evidence of financial returns, workplaces supported by investors that believe creating a diverse, equitable and inclusive workforce culture is the right thing to do, may function more efficiently as businesses by attracting and retaining better and broader talent in the long term.

Diversity beyond gender: the context for investors

Gender continues to be a central theme of importance, with further areas of DEI implementation in progress globally. DEI practices for other identities have, to date, been less well formulated and integrated by employers, regulators and investors. We therefore analyse specific employee groups covering the key characteristics of ethnicity, sexual orientation, socioeconomic background, disabled and neurodivergent individuals (and also acknowledge the importance of their intersectionality and overlap with gender themes):

- Regional variations need to be taken into account particularly when examining ethnicity, as there are differing definitions of ethnic minorities in all countries. Laws on disclosure and even collection of employee racial identities also vary significantly - with some jurisdictions such as France prohibiting its collection, but others such as the US (via the Equal Employment Opportunity Commission) requiring employers to collect (but not necessarily publicly disclose) employee demographic data including gender and ethnicity. We highlight some of the differences in regional approaches, including the benefits to investors of voluntary ethnicity pay gap reporting.
- Sexual orientation remains one of the least well-attributed scopes of DEI. We highlight relevant equity and inclusion frameworks and identify approaches around corporate policies, practices and benefits relevant to lesbian, gay, bisexual, transgender and queer employees.
- Disability and neurodivergence can also be considerably better incorporated into human capital approaches in the workplace. Understanding the differences in abilities can enhance the talent pool and attract specific skills if individuals are recruited and retained as a result of the most appropriate equity and inclusion practices.
- One area of analysis which is addressed less often than ethnicity, gender or sexuality is that of employee socioeconomic background. We analyse some of the ways in which backgrounds can be identified, and the challenges faced. Businesses that focus on the inclusion of a wider range of socioeconomic backgrounds and facilitating greater upward social mobility can also reap the benefits of a broader scope of DEI in the long term, while facilitating social impact in the process.

13. Article in The Spectator magazine by Alex Edmans of London Business School summarises representative objections <https://www.spectator.co.uk/article/is-diversity-actually-good-for-business/>

Several regulatory developments are cited to support the growing importance and momentum of broader DEI reporting, including the US Nasdaq board disclosure rule which requires all its listed companies to report on board diversity beyond gender and the inclusion of DEI in new frameworks from the EU Corporate Reporting Sustainability Reporting Directive (CSRD), a UK Financial Conduct Authority (FCA) Diversity & Inclusion consultation and the voluntary CFA (Chartered Financial Analyst) DEI Code. As such reporting enters the public domain, its financial materiality can only increase for investors themselves. This is especially relevant given the interest of regulatory institutions in extending DEI corporate and investor disclosures.

We supplement our study with a a spotlight on Japan, which reviews our key themes across this country in depth, as a greater interest and scrutiny of diversity emerges in the region amongst employees (especially younger generations), regulators, civil society participants, companies and investors.

What can investors do?

The range of tools available to investors to address DEI concerns include engagement, voting and analytical routes to better understand DEI characteristics of investee companies

- **Engagement** will continue to be a key means for investors to achieve DEI outcomes, not only to better assess risk of current and potential investments, but also to effect social impact. We therefore provide engagement questions in the relevant sections intended for investors to better assess DEI practices in the lesser scrutinised areas of ethnicity, disability and neurodiversity, sexual orientation (LGBTQ+), and socioeconomic background. Engagements to encourage the adoption of a living wage, both in the direct workforce and supply chain, will advantage cohorts of diverse employees that often can represent the majority of employees who are at the lowest ends of any pay scale.
- Analytical proxies may be used to overcome the lack of data for ethnicity as a DEI factor:

As employee ethnicity data is most often not reported, due to regulatory or other reasons, some firms may instead report the number of nationalities employed. For example if this is disclosed at a global level, the number of nationalities may be mapped against the total number of countries of operation/ revenue generation as a starting point to understand the breadth of national representations against the level of internationalisation of the firm. Whilst there may be many factors that need further engagement, a significant mismatch

may flag insufficiently broad representation and a potential lack of cognitive diversity. The material implication may be sub optimal ability of the business to diversify geographically.

For Board Level analysis – understanding the context behind the percentage of board members that are nationals of the country of domicile against the percentage of domestic revenues generated may be a starting point to assess materiality before further engagement. Where there is a flow of significant non-domestic revenues but the majority of board members are domestic nationals further investigation of the mismatch may be warranted to better understand the cognitive diversity of the board. Note that naturalisation (i.e. board members born abroad but gaining the nationality of domicile) or significant foreign experience may also indicate cognitive diversity without a broad range of nationalities and ethnicities.

- **Applying DEI analysis at all levels of seniority**
Understanding levels of diversity across all levels of seniority of a company can assist investors to identify areas of DEI where progress is weaker and therefore potential material risks from a lack of diversity. Senior management are critical in DEI implementation as they may have operational responsibility. They also serve as a pipeline for the board and as such, less diversity at senior management level may potentially constrain board level diversity.

The comparative representation of a particular diverse employee group at multiple levels of a firm can be an indicator of the firm's overall integration of diversity.

Promotion data by demographic would ideally be part of the contextualisation required to fully assess this. A consistent year on year ratio approaching one for “% diverse employees in group: % diverse employees in management” can indicate a more diverse pipeline and ability to rise within an organisation. The same applies for the ratio of diverse employees in senior management compared to the board level. As an acknowledgment of how important senior diversity is, we note the introduction in France of the extension of quotas from board gender diversity to gradually include targets for equal gender representation amongst senior executives and management committee members, with sanctions for noncompliance of up to 1% of a company's payroll¹⁴.

14. <https://www.loc.gov/item/global-legal-monitor/2022-01-23/france-law-on-economic-and-professional-gender-equality-adopted/>

- **Shareholder proposals** on diversity related audits have been tested on large organisations in recent years. Since the killing of George Floyd in 2020, these include shareholder resolutions for Civil Rights Audits in the US, which broadly analyse the policies and practices of a company beyond regulatory compliance in relation to specific diversity matters.
- **Investors in Energy Transition** may assess the levels of DEI and cognitive diversity in investee companies as an indicator of the ability for long term strategic change. This may be an opportunity for investors where long term transformation is underway and more diverse employees may have a place in facilitating large scale changes required for decarbonisation.

Different local contexts and extent of executive support may drive sensitivity to DEI

While many global businesses fully recognise the beneficial effects of a robust approach to DEI in their organisations, both executive support and differing regional perceptions of DEI continue to be a frequent challenge. For example, according to a 2023 survey on the state of DEI in Australian workplaces, just 50% of respondents reported that DEI is seen as a priority; and 49% felt a lack of an appropriate focus on DEI strategy¹⁵. A separate US Survey from the Pew Research Centre¹⁶ finds though 56% of the overall US workforce say focusing on DEI is a good thing there are notable partisan differences. It found that Democrat party voters and Democrat leaning workers were 78% likely to say DEI was a good thing, versus 30% of Republicans. Such differences in political views are replicated in many regions globally. This highlights the need to revisit the motivations behind dedicating business resources to DEI initiatives and to be aware of local contexts and differing perceptions of DEI in garnering executive support for it.

15. Australian HR Institute, The State of Diversity, Equity and Inclusion in Australian Workplaces, 23 February 2023 <https://www.ahri.com.au/wp-content/uploads/DEI-Report-2023.pdf>

16. Rachel Minkin, Diversity, Equity and Inclusion in the workplace, Pew Research Center, 17 May 2023, <https://www.pewresearch.org/social-trends/2023/05/17/diversity-equity-and-inclusion-in-the-workplace/>

The importance of Equity and Inclusion in DEI

Why Equity and Inclusion?

In our view, an important but under-analysed area is a broader focus on equity and inclusion in studies. Mainstream research on diversity has yet to fully explore these factors and has naturally tended to focus on areas where data is most readily available i.e. gender composition of firms. However shifting the focus away from solely demographic characteristics (such as gender, race, or ethnicity) towards incorporating elements of the lived experience of employees, via concepts of equity and inclusion, may more accurately map improved business outcomes. In addition, inclusion is likely to be an important element of encouraging cognitive diversity, ensuring that employees are comfortable to express their different perspectives and thought processes.

Equity (E) and inclusion (I) are less well understood factors in DEI but critical considerations for any investor approach on the subject. Incorporating diversity in isolation and excluding equity and inclusion factors may result in an over-emphasis on changing demographic statistics of a board or workforce rather than the actual business, employee and social outcomes. The resulting impact may be a wider range of employee backgrounds and identities on paper but less well integrated teams in practice. This can create difficulties in retaining those diverse employee cohorts where a company culture has not shifted to ensure that wider range of employees is integrated to fully harness their outputs within strategic and operational decision-making. In this paper, we therefore emphasise a variety of workplace practices that focus on equity and inclusion.

As an illustration, whilst many large firms may have a broadly diverse graduate intake, this cohort tends to become less diverse as seniority increases due to disproportionately high turnover of diverse candidates over time. Retention headwinds are sometimes caused by a company culture that does not fully integrate and facilitate the promotion of diverse candidates. A focus on equity and inclusion factors would be needed to explain this scenario and assist in analysing material impacts, beyond a purely demographic analysis of the representation of diverse employees.

Equity

Equity prioritises the concept of fair treatment, and may take into consideration historical and socio-political contexts of individuals and groups in the workplace.

Fair treatment comprises access and advantages in the workplace for all people, including not just policies but also operational practices, so that identity does not dictate opportunities or success in the workplace. Equity differs from equality as the concept acknowledges that though a workplace policy may treat all employees equally it may disadvantage certain groups who have unique needs in the process. An example may be that if internships were offered equally to all candidates on an unpaid basis, lower income candidates would be disadvantaged if they could not afford to work without pay, or that if all employees received the same desk set ups and office furniture without any allowed adjustments, those with certain types of physical challenges might be disadvantaged.

Inclusion

Inclusion refers to the lived experiences and perceptions of the workforce, according to their differing backgrounds and identities.

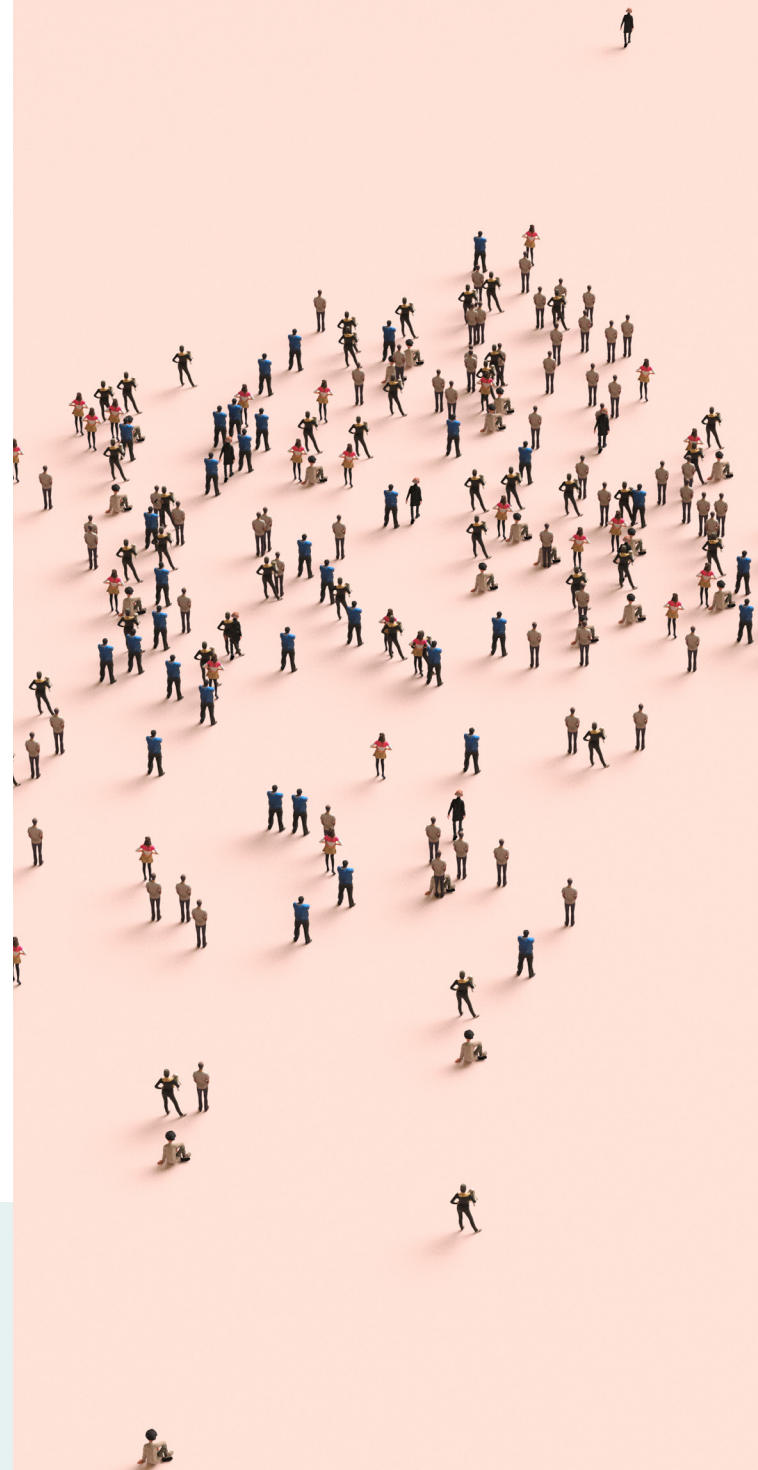
It includes the manner and degree to which all employees are empowered to make the most meaningful contributions. An inclusive culture is one that enables employees to express themselves productively and without discrimination or bias. It is a primary driver that can better facilitate the gains to business that a more diverse workforce can potentially offer. One measure of inclusion may be the extent to which certain identities feel the need to be hidden (for example for fear of non-acceptance). This can be of additional importance for diversity characteristics which may sometimes be less visible, such as some forms of neurodivergence or LGBTQ+.

The two major aspects of inclusion reference firstly personal lived experience – which includes the relationship with management and colleagues and secondly organisational perception a collective impression of policies and culture (including “unwritten rules” which fall outside the actual policies of a firm). Employee network groups can be an important tool in facilitating both aspects.

A significant academic study that supports the broader focus on equity and inclusion, rather than demographic diversity, is by Alex Edmans, Caroline Flammer, and Simon Glossner. It provides evidence in favour of a broader DEI perspective, including limited correlation between DEI metrics and demographic diversity, and positive association of high DEI with future profitability¹⁷.

Employee network groups - part of the toolkit for E and I

Employee community groups across gender, ethnicity, disability and LGBTQ+ are an important part of the equity and inclusion practices of global businesses. Such employee resource groups can input into the diversity strategy through formal processes of feedback but also strengthen the culture internally by giving employees an opportunity to collaborate and contribute to the creation of an inclusive and welcoming environment. This can be done on a more informal basis, including via events open to all employees. These community groups allow diversity strategy to be better developed, monitored and tested as well flagging issues early. Senior leadership involvement makes the work of these groups most effective. However, network groups may choose to be associated with philanthropic and local community activities, which can add brand value and augment licence to operate.



17. Alex Edmans, Caroline Flammer, Simon Glossner, Diversity, Equity, and Inclusion, European Corporate Governance Institute – Finance Working Paper No. 913/2023, May 2023 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4426488

Aspects of diversity beyond Gender

We assess four key areas of diversity which comprise a significant proportion of any global population. These comprise disability and neurodiversity, LGBTQ+, ethnicity and socioeconomic background. Contexts to help understand each of the groups, business benefits, challenges and best practices for employers are identified. Each section ends with selected engagement questions for investors on the four themes respectively.

Disability and Neurodiversity

- For people of working age, mental health and physical impairments (such as issues related to mobility or stamina) constitute the most common types of disability
- Neurodiversity refers to the variance in the ways that our brains process information; neurodivergence describes variations which differ from what is typically considered standard
- People with disability, alongside neurodivergent people, experience employment gaps, wage gaps and frequent discrimination in the workplace; existing legal protections are not sufficient to ensure an inclusive work environment and culture
- Some conditions are under-disclosed by employees (partly due to stigma) and under-diagnosed by healthcare professionals, so actual numbers affected are usually larger than officially collected statistics
- Family and parents of neurodivergent individuals and individuals with disabilities require employer adaptability

Whilst physical and mental challenges may mean it becomes more difficult for a person with a certain condition to participate in some activities and reduce abilities to interact, the same person may have the ability to contribute to the workplace meaningfully, particularly if workplaces environments and culture are accommodating.

Disability prevalence stands at approximately 18% average in OECD countries¹⁸; the World Bank quotes 15% for the global population¹⁹. The prevalence statistics vary significantly between countries due to the differences in the cultural perception and awareness of disability (for example, lower level of recognition of mental health conditions in some countries can lower their disability prevalence rate).

18. OECD, Disability, Work and Inclusion: Mainstreaming in All Policies and Practices, OECD Publishing, Paris, 2022 <https://doi.org/10.1787/1ea5e9c-en>.

19. <https://www.worldbank.org/en/topic/disability>

Understanding disability: social vs medical model

- The social model of disability is increasingly used as a primary approach to understanding disability: it approaches disability as arising from the interaction between people with certain impairments and barriers existing in their environment (where the barriers might be physical, communicative, social or other). These barriers prevent people with disabilities from achieving independence and equality; minimising or removing the barriers can allow people with disabilities control over their lives²⁰.
- The medical model of disability argues that impairments (medical conditions) cause disability, and sees a person with disability as an individual in need of fixing.
- In that way, the social model focuses on adjusting the environment to accommodate personal differences, whereas the medical model views an individual with disability as the one needing to be changed.
Neurodivergence, in particular, is also increasingly considered through the social model lens²¹.

culture; enhancing positive customer perception and relationships; improving access to capital and talent through enhanced social responsibility credentials²³.

- Disability inclusion initiatives contribute to competitive advantage by fostering loyalty, lower turnover and improved productivity in employees with disabilities²⁴.
- A review of research literature on the benefits of hiring people with disabilities showed improvements in profitability (indicators including profits, cost-effectiveness, turnover, retention, reliability, employee loyalty and company reputation) and competitive advantage (through increased customer loyalty and satisfaction, innovation, productivity)²⁵.

The Business Benefits

Studies have proposed the business benefits of increased and more equitable integration and representation of disabled employees. We cite research below that range from consulting firm studies that focus on financial outcomes, to academic insights that attempt to look further at aspects such as enhanced customer perception, and human capital angles, such as organisational culture and employee retention.

Examples of studies on business benefits of disability inclusion:

- Companies demonstrating leadership in disability inclusion achieved higher revenue, net income and economic profit margins compared to other companies in the sample (140 US companies); they also outperformed on shareholder returns²².
- Disability inclusion contributed to the firm's competitive advantage by: allowing access to employees with unique skills; facilitating collaborative and productive organisational

20. Esme Kirk-Wade, UK disability statistics: Prevalence and life experiences, 23 August 2023 <https://commonslibrary.parliament.uk/research-briefings/cbp-9602/>

21. Australian Institute of Health and Welfare, People with disability in Australia, 05 July 2022

<https://www.aihw.gov.au/reports/disability/people-with-disability-in-australia/contents/people-with-disability/prevalence-of-disability>

22. Esme Kirk-Wade, UK disability statistics: Prevalence and life experiences, 23 August 2023 <https://commonslibrary.parliament.uk/research-briefings/cbp-9602/>

23. Australian Institute of Health and Welfare, People with disability in Australia, 05 July 2022

<https://www.aihw.gov.au/reports/disability/people-with-disability-in-australia/contents/people-with-disability/prevalence-of-disability>

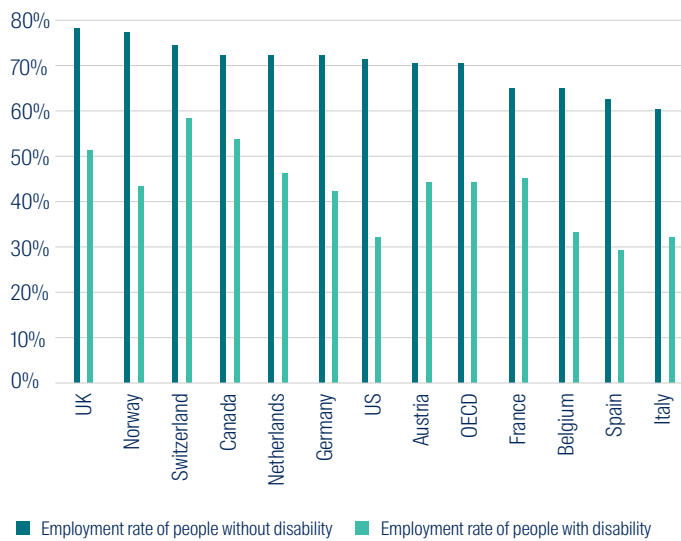
24. Scope, Social Model of Disability [25. <https://www.disabilitywales.org/neurodiversity-and-the-social-model-of-disability/>](https://www.scope.org.uk/about-us/social-model-of-disability/#:-:text=The%20social%20model%20helps%20us,more%20independence%2C%20choice%20and%20control; Andrew J. Hogan, Social and medical models of disability and mental health: evolution and renewal, Canadian Medical Association Journal, 191(1), 7 January 2019; doi: 10.1503/cmaj.181008. PMID: 31009368; PMCID: PMC6312522.</p>
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The Challenges

People with disability continue to face considerable barriers in education and employment, which is reflected by the comparatively low employment rates (averaging at 44% across the OECD countries).

The severity of disability influences the employment rate, with people with severe disability more likely to be unemployed compared to people with moderate disability²⁶. In the UK, the disability employment rate is at 51% (whereas people without disability are employed at 78%)²⁷; in Australia, the disability employment rate is at 48%²⁸.

Figure 7: Employment rate of people with a disability (selected OECD countries, 2019)



Source: SII, OECD, Disability, Work and Inclusion: Mainstreaming in All Policies and Practices, OECD Publishing, Paris, 2022

26. OECD, Disability, Work and Inclusion: Mainstreaming in All Policies and Practices, OECD Publishing, Paris, 2022 <https://doi.org/10.1787/1eaa5e9c-en>.

27. See above

28. <https://www.aihw.gov.au/reports/disability/people-with-disability-in-australia/contents/employment/employment-rate-and-type>

29. Australian Disability Network, Disability statistics <https://australiandisabilitynetwork.org.au/resources/disability-statistics/#:~:text=Over%204.4%20million%20people%20in,with%20disability%20increases%20with%20age>.

30. Based on the UK data for 2021-2022. Department for Work & Pensions, Employment of disabled people 2022, 26 January 2023 <https://www.gov.uk/government/statistics/the-employment-of-disabled-people-2022/employment-of-disabled-people-2022>

31. OECD (2022), Disability, Work and Inclusion: Mainstreaming in All Policies and Practices, OECD Publishing, Paris, <https://doi.org/10.1787/1eaa5e9c-en>.

32. Sarah Aitchison, Disability and Job Disparities, 15 November 2023 <https://www.atticus.com/advice/general/disability-and-job-disparities>

33. See above

34. See above

35. Australian Human Rights Commission, IncludeAbility, Disability and employment in Australia https://includeability.gov.au/resources-people-disability/disability-and-employment-australia#_ednref1

36. <https://social.desa.un.org/issues/disability/crpd/convention-on-the-rights-of-persons-with-disabilities-crpd>

37. <https://www.gov.uk/rights-disabled-person/employment>

Disability pay gap

People with disability tend to spend more time job-hunting post-graduation; in Australia, graduates with disability spend 61% more time to find full-time employment compared to other graduates²⁹. Disability can also impact the choices around the type and length of employment: people with disabilities are more likely to work part-time and they are also more likely to drop out of the labour market. Employees with disabilities are often underrepresented in higher skilled and highly paid roles such as executives, directors, and senior officials and are more likely to work in the public sector or for small employers³⁰. These factors contribute to a considerable wage gap and economic disadvantages experienced by employees with disability.

Within OECD countries, an average wage of a worker with disability is 85-87% of an average wage of a worker without disability³¹. In the UK, the disability wage gap in 2021 was at 13.8%; in the US, in 2022 employees with disability earned on average 42% less than others³². The US data also shows that employees with disability tend to experience over 50% more financial stress, and many work multiple jobs to achieve financial stability³³. Further, households with a disabled family member tend to receive significant lower median incomes and have higher poverty rates compared to families without members with disabilities.

Disability inclusion and discrimination

Workers with disabilities often face everyday discrimination in the workplace and experience lower job security: a recent US survey revealed that over 30% experienced disability-related discrimination at work; almost 20% believe they were let go due to their disability³⁴; in Australia, 45% of workers with disability reported experiencing disability-related unfair treatment or discrimination from their employer³⁵.

Most higher income countries have multiple laws to protect disabled workers from discrimination and more broadly the UN Convention On the Rights of Persons with Disabilities was signed by 164 countries³⁶. UK legislation under the Equality Act 2010 is a good example of the principles employers need to follow in order to ensure discrimination does not take place³⁷.

The law establishes an employer duty to make ‘reasonable adjustments’ in the workplace as well restricting the use of disability-related information in recruitment and redundancy decision-making.

However, existing barriers to employment and frequent discrimination, demonstrated by the statistics quoted above, make it evident that the legislative protections are not sufficient to ensure an inclusive work environment for employees with disabilities. Employers can make a significant contribution towards this goal by incorporating disability inclusion into their DEI strategy. In addition, businesses increasingly recognise economic and ethical benefits of disability inclusion, such as increasing the productivity and wellbeing of existing employees, expanding the talent pool, improving market reach of their products and services and strengthening their brand reputation and social licence. However, developing an effective disability inclusion strategy can be challenging due to limited internal expertise and resources, as well as a need for a flexible and individual-based approach - different types and levels of severity of disability impact people differently and therefore a uniform approach would be unsuitable.

Best Practices

Accessible work environment is a key enabler of inclusion

Creating an accessible work environment for employees with disabilities is one of the key elements of disability inclusion.

In the context of an office space, accessibility can include ensuring the availability of infrastructure enabling individuals with disabilities to enter and use the building (e.g. accessible entrances, elevators, bathrooms, parking); accessibility can also be applied in the context of recruitment (assistance with accessible transportation and accommodation for interviews and in-person assessments), corporate communications and marketing materials (use of plain language, readable fonts and colours, availability of subtitles and transcriptions for the video/audio material), and many other aspects.

Due to the variety of potential needs, businesses are best placed to request individuals to communicate their accessibility needs directly.

Some countries have legally established disability accessibility requirements businesses must comply with: in the UK, existing rules cover buildings, facilities and online services such websites and applications³⁸; The EU Accessibility Act establishes a wide range of accessibility requirements for the provision of goods and services in the European Union³⁹; in Australia, these concerns are covered under the Disability Discrimination Act⁴⁰; and similar rules exist in the US⁴¹.

Current examples of best practice in corporate approaches to disability access and inclusion cover:

- Providing reasonable accommodation in response to employees’ needs (based on one large company’s experience)
- The most frequent accommodation requests related to location change or flexible work, ergonomics, and assistive technology)
- Raising awareness to combat existing negative biases around disability
- Running an employee engagement programme centred on building inclusive culture
- Establishing networks for employees with disabilities
- Providing dedicated medical benefits.

Examples of other countries with anti-disability discrimination legislation include the US (the Americans with Disabilities Act), Australia (the Disability Discrimination Act), Japan (Act for Eliminating Discrimination against Persons with Disabilities), among others.

38. <https://www.taylorwessing.com/en/interface/2022/the-european-accessibility-act/what-is-the-uks-approach-to-accessibility>

39. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019L0882>

40. <https://humanrights.gov.au/our-work/employers/access-all-improving-accessibility-consumers-disability>

41. <https://www.ada.gov/topics/title-iii/>

Figure 9: Various initiatives, aiming to assist businesses who want to strengthen their approach to disability inclusion, exist in many countries, with some examples being:

Initiative	Geography	Description	Weblink
The ILO Global Business and Disability Network	Global	40 National Business and Disability Networks at a country level	https://www.businessanddisability.org
Disability Confident scheme (UK)	UK	Aids retention and recruitment with employers categorised at three levels from committed to leader	https://disabilityconfident.campaign.gov.uk
IncludeAbility	Australia	Resources for employees, employers, networks and pilot employment programs	https://includeability.gov.au
“Disability:In” Disability Equality Index	Global/US	Disability rating tool across Culture & Leadership, Enterprise-Wide Access, Employment Practices, Community Engagement, and Supplier Diversity	https://disabilityin.org/investors-are-in

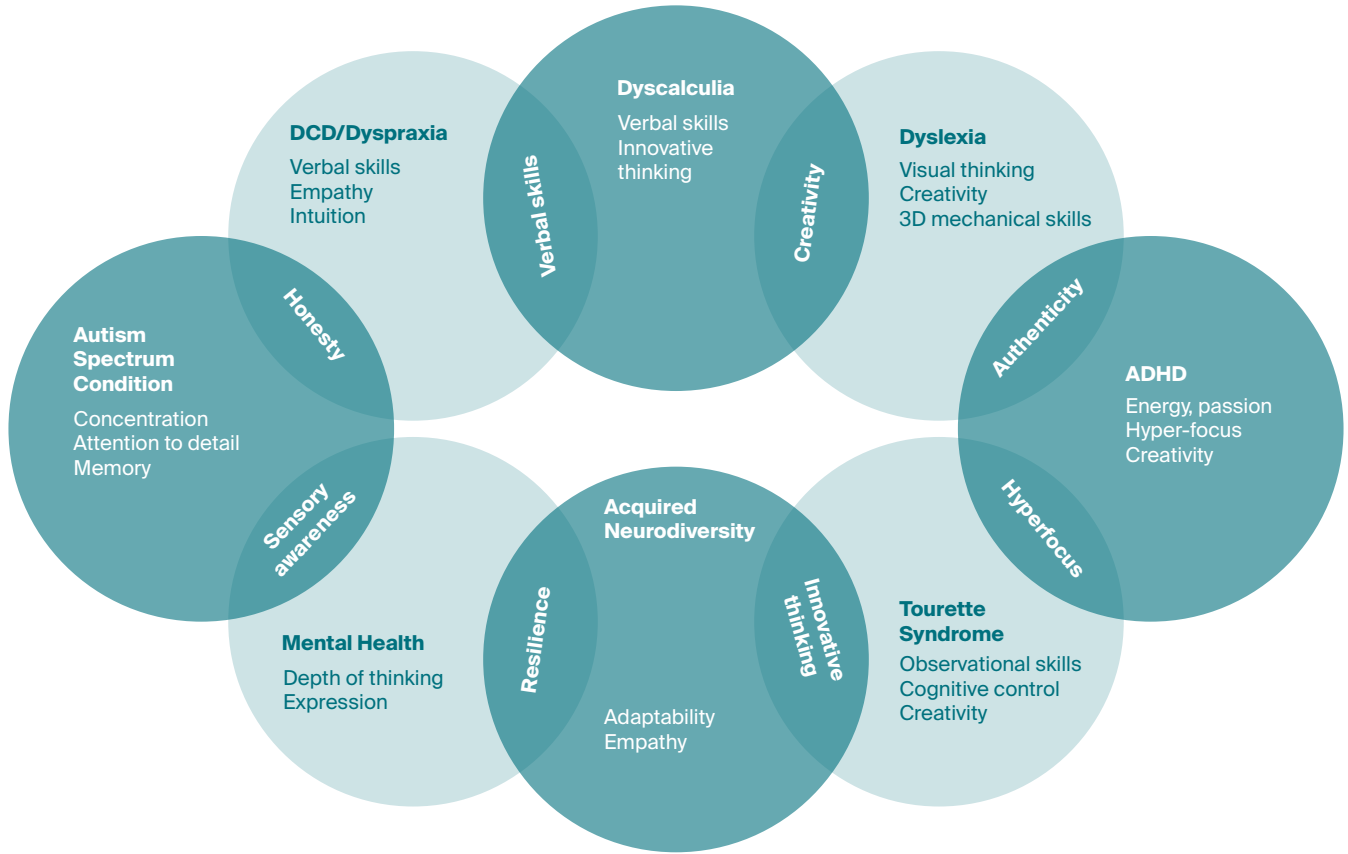
Neurodiversity

Neurodivergence refers to the way that our brains process information. Many will have neurotypical thinking approaches - processing verbal, numerical and other types of information in similar ways, while those whose brain processes information differently can be referred to as neurodivergent. Improved understanding of neurodiversity in the workplace is necessary for building an inclusive environment, ensuring employee wellbeing and optimising business outcomes.

Examples of neurodivergent individuals can include those with such conditions as the autism spectrum condition (ASC), dyslexia, and attention deficit hyperactivity disorder (ADHD)⁴². Some neurodivergent individuals can possess certain above-average skills, however stereotypes such as those with the ASC always being superior at numerical skills can be inaccurate.

42. <https://www.thebraincharity.org.uk/neurodivergent-neurodiversity-neurotypical-explained/>

Figure 10: Key types of neurodivergence, their overlap and potential employee strengths



Source: Adapted from Dr Nancy Doyle based on work of Mary Colley

Neurodivergence as an umbrella term usually covers conditions including autism, ADHD, dyslexia, dyspraxia; a more general application sometimes also includes Tourette Syndrome, dyscalculia, dysgraphia, and mental health conditions (e.g. depression, anxiety)⁴³. Some of these conditions are likely to overlap: a review of co-occurring conditions in people with autism identified 28% prevalence for ADHD and 20% for anxiety⁴⁴.

Other studies cite much higher figures – between 50 and 70% of individuals with autism also present the symptoms of ADHD⁴⁵. ADHD is frequently associated with dyslexia and dyspraxia⁴⁶.

43. Nancy Doyle, Neurodiversity at work: a biopsychosocial model and the impact on working adults, British Medical Bulletin, 135(1), September 2020; doi: 10.1093/bmb/ldaa021

44. Meng-Chuan Lai, Prevalence of co-occurring mental health diagnoses in the autism population: a systematic review and meta-analysis, The Lancet Psychiatry, Vol 6(10), October 2019; doi: 10.1016/S2215-0366(19)30289-5.

45. Camille Hours, Christophe Recasens, Jean-Marc Baleyte, ASD and ADHD Comorbidity: What Are We Talking About?, Front Psychiatry, Vol 13, 28 February 2022; doi: 10.3389/fpsy.2022.837424.

46. Psychiatry UK, The overlap between dyspraxia, dyslexia and ADHD <https://psychiatry-uk.com/the-overlap-between-dyspraxia-dyslexia-and-adhd/>

Figure 11: Population and employment statistics

Condition	General Population	Employment	Work-related strengths ⁴⁷
Autistic Spectrum Condition	Approximately 1 in 100 children globally are diagnosed with autistic spectrum condition ⁴⁸	In the UK, employment rate for people on AS was 29% ⁴⁹ ; in Germany, 25% ⁵⁰ ; in Australia, 31.6% ⁵¹	Memory Innovative thinking Attention to detail Specialist skills
ADHD	Global prevalence of ADHD in children is estimated to be 5% on average; the prevalence of adult ADHD is estimated at 4.4% (while ADHD can change with age, the majority retain some symptoms as adults) ⁵² . Another source places adult prevalence at 6.7% for symptomatic ADHD ⁵³	In the US, the employment rate for adults with ADHD is 67% ⁵⁴	Creative thinking Hyper-focus Passion and courage
Dyslexia	The global prevalence of dyslexia is estimated at between 7 and 20%, depending on the source ⁵⁵	In the UK, an estimated employment rate for people with learning difficulties (which include dyslexia), was 26.5% ⁵⁶	Entrepreneurship; Creativity Visual reasoning Story-telling
Dyspraxia	Dyspraxia is estimated to affect between 6 and 10% of the population ⁵⁷		High verbal comprehension

Source: SII

The Business Benefits

Several studies have proposed the business benefits of better inclusion of neurodivergent employees, including the success of neurodiversity inclusion programmes, but also the risks stemming from assumptions and stereotypical approaches that may be inherent in typical justifications for inclusion of neurodivergent individuals. This last aspect is an important consideration of analysis to be developed, as neurodivergent individuals may not be visibly different and furthermore choose not to readily identify their differences when given the option to.

In addition to an improved work environment for existing employees, larger talent pool, and greater worker retention, business benefits of neurodiversity inclusion include access to new customers (neurodivergent employers are more likely to understand and develop the products and services that suit the

unique needs and preferences of neurodivergent customers), and increased brand reputation, as a wide range of stakeholders increasingly prioritise social inclusion⁵⁸.

Examples of studies on business benefits of neurodiversity inclusion:

- A survey-based study indicates that autistic employees may be less susceptible to the bystander effect and therefore may contribute to improvements in organisational performance by identifying and reporting inefficient practices and processes⁵⁹.
- Several neurodivergency inclusion programs introduced by several organisations in the recent years showed success, demonstrating comparatively high productivity and innovation of neurodiverse teams⁶⁰.

48. Jinan Zeidan et al, Global prevalence of autism: A systematic review update, *Autism Research*, Vol 15(5), May 2022

49. Office for National Statistics, Outcomes for disabled people in the UK: 2021, 10 February 2022 <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/disability/articles/outcomesfordisabledpeopleintheuk/2021#employment>

50. Julia Espelöer, Julia Proft, Christine M. Falter-Wagner, Kai Vogetley, Alarmingly large unemployment gap despite of above-average education in adults with ASD without intellectual disability in Germany: a cross-sectional study, *European Archives of Psychiatry and Clinical Neuroscience*, Vol 273, 14 May 2022

51. <https://a4.org.au/node/2416>

52. <https://adhduk.co.uk/adhd-incidence/#:~:text=Global%20prevalence%20is%20considered%20to,with%20an%20average%20of%205%25.>

53. Peige Song et al, The prevalence of adult attention-deficit hyperactivity disorder: A global systematic review and meta-analysis, *Journal of Global Health*, Vol 11, 2021

54. <https://mydisabilityjobs.com/statistics/adhd-employment/>

55. <https://dyslexia.yale.edu/dyslexia/dyslexia-faq/>; Richard K. Wagner et al, The Prevalence of Dyslexia: A New Approach to its Estimation, *Journal of Learning Disabilities*, Vol 53(5), September – October 2020; doi: 10.1177/0022219420920377

56. Base, Employment Rates for People with Disabilities 2021-22 <https://www.base-uk.org/employment-rates#:~:text=The%20employment%20rate%20for%20people,disability%20has%20fallen%20to%204.8%25>

57. https://www.medicalnewstoday.com/articles/151951#dyspraxia_symptoms; Maëlle Biotteau et al, Developmental coordination disorder and dysgraphia: signs and symptoms, diagnosis, and rehabilitation, *Neuropsychiatric Disease and Treatment*, Vol 19, 2019

58. Australian Disability Network, Business benefits of employing people with disability <https://and.org.au/join-us/why-hire-people-with-a-disability/benefits>

59. Lorne M. Hartman, Mehrdad Farahani, Alexander Moore, Ateeya Manzoor, Braxton L. Hartman, Organizational benefits of neurodiversity: Preliminary findings on autism and the bystander effect, *Autism Research*, 24 August 2023; <https://doi.org/10.1002/aur.3012>

60. Robert D. Austin, Gary P. Pisano, Neurodiversity as a Competitive Advantage, *Harvard Business Review*, Vol 95(3), 2017; <https://hbr.org/2017/05/neurodiversity-as-a-competitive-advantage>

- A case study analysis of an introduction of disability inclusion practices in the context of autism showed improvements in employee perception of the company, and have potential to increase company performance⁶¹.
- While researchers are increasingly focusing on the ‘business case’ for neurodiversity inclusion in the workplace, there are risks stemming from assumptions, stereotypical approaches, and mixed evidence of the causal relationship between diversity and positive workplace outcomes, frequently evident in these studies⁶².

Leveraging specialist strengths of neurodivergent employees

Some studies indicate that neurodivergent individuals carry specialist strengths (e.g. creative and/or innovative thinking, excellent memory, hyper-focus – see also Figure 10) as well as facing certain challenges (e.g. time management, concentration, social difficulties). Occupational accommodations (e.g. flexible work environment and work schedule, additional support and training, assistive technology) could assist neurodivergent employees to access these strengths while mitigating the challenges, allowing them to thrive in the workplace setting.

An increasing number of employers across sectors are recognising the specialist strength neurodivergent employees can bring, departing from the social responsibility-focused approach to hiring neurodivergent talent prevalent in the past decades.

Prominent recent examples include programmes in technology, finance, and defence sectors⁶³, and, in particular, recruitment initiatives introduced by IBM⁶⁴, SAP⁶⁵, and EY⁶⁶. Telstra, a large Australian telecommunications company, successfully piloted a neurodiversity recruitment scheme in 2021 which was subsequently expanded to a full-scale programme⁶⁷.

Some public sector organisations are also working on integrating neurodiversity inclusion in their recruitment processes, with one prominent example being the UK Ministry of Defence⁶⁸.

The Challenges

Inclusion that addresses the specificity of neurodiversity

Employers still face many challenges in addressing neurodiversity inclusion in a holistic and nuanced way, which is necessary in building an inclusive environment, ensuring employee wellbeing and optimising business outcomes. In Australia, only 5% of HR professionals report that their organisations have neurodivergent individuals or individuals with disabilities on their boards, and 76% reported that those categories were underrepresented across their entire organisation⁶⁹. According to the 2018 statistics, labour force participation for people with autism in Australia was at 38%, compared to 84% for the general population⁷⁰.

Conditions are both under-diagnosed and under-disclosed by employees

For example, studies show high levels of underdiagnosis of autism in English adults⁷¹, women and girls⁷², and Black and

Despite the availability of neurodivergence prevalence statistics and employment rates (see the table above), the true numbers of neurodivergent individuals are likely to be significantly higher

Hispanic children⁷³. In addition, individuals who received a diagnosis are often not comfortable to disclose it at their workplace to avoid potential negative consequences to their career⁷⁴. For employers, this means that their workforce is likely to include a mix of diagnosed and undiagnosed individuals with

61. Rachel Friedfeld Kesselmayr, Chase M. Ochrach, Brian N. Phillips, Ngonidzashe Mpofo, Beatrice Lee, Xiangli Chen, David Geslak, Timothy N. Tansey, Autism Employment Initiative in a Global Business Management Consultancy Firm: A Case Study. *Rehabilitation Counselors and Educators Journal*, 11(1); 2022 <https://doi.org/10.52017/001c.32416>

62. Annika L. Benson, Kelsie L. Colley, Joshua J. Prasad, Colin M.G. Willis, Tracy E. Powell-Rudy, Contextualizing cases for neuroatypical inclusion in the workplace, *Industrial and Organisational Psychology*, Vol 16(1), 2023; doi:10.1017/iop.2022.108

63. Nancy Doyle, Neurodiversity at work: a biopsychosocial model and the impact on working adults, *British Medical Bulletin*, 135(1), September 2020; doi: 10.1093/bmb/daa021

64. <https://newsroom.ibm.com/Neurodiversity-IBM>

65. https://jobs.sap.com/content/Autism-at-Work/?locale=en_US

66. https://www.ey.com/en_uk/news/2021/07/ey-launches-first-neuro-diverse-centre-of-excellence-in-the-uk-to-boost-client-innovation

67. <https://www.telstra.com.au/exchange/brilliant-minds-find-room-to-thrive-through-a-new-approach-to-hiring#:~:text=%E2%80%9COur%20neurodiverse%20recruitment%20program%20pilot,richer%20for%20having%20neurodiverse%20talent.%E2%80%9D>

68. Forces.Net, UK actively considering autistic military recruits, defence minister says, 22 February 2022 <https://www.forces.net/news/uk-military-actively-considering-autistic-recruits>

69. Australian HR Institute, The State of Diversity, Equity and Inclusion in Australian Workplaces, 23 February 2023 <https://www.ahri.com.au/wp-content/uploads/DEI-Report-2023.pdf>

70. Australian Bureau of Statistics, Autism in Australia. Survey of Disability, Ageing and Carers, 2018 <https://www.abs.gov.au/statistics/health/disability/disability-ageing-and-carers-australia-summary-findings/latest-release>

71. Elizabeth O’Nions et al, Autism in England: assessing underdiagnosis in a population-based cohort study of prospectively collected primary care data, *The Lancet Regional Health*, Vol 29, 2023

72. <https://www.durham.ac.uk/business/research/latest-news/2022/02/autism-is-still-underdiagnosed-in-girls-and-women-that-can-compound-the-challenges-they-face>

73. Desiree R. Jones, Christina Nicolaidis, Lisa J. Ellwood, Arianne Garcia, Khalilah R. Johnson, Kristina Lopez, TC Waisman, An Expert Discussion on Structural Racism in Autism Research and Practice, *Autism Adulthood*, Vol 2(4), December 2021; doi: 10.1089/aut.2020.29015

74. Almuth McDowall, Nancy Doyle, Meg Kiseleva, Neurodiversity at Work 2023: Demand, Supply and a Gap Analysis, Birkbeck University of London, 2023 <https://eprints.bbk.ac.uk/id/eprint/50834/>

one or more conditions, who might not report their condition. In addition, the implications of their neurodivergent status can overlap with the experiences linked to their gender, racial or ethnic identity, calling for an intersectional approach to inclusion.

Some recent surveys of neurodivergent employees, discussed in more detail in the following section, highlight the existing need for improvement in most employers' knowledge of neurodiversity and provision of necessary support.

Neurodiversity pay gaps rarely measured

Whilst research shows that people with disabilities are more likely to be unemployed, and generally receive less pay; little specific work focuses on neurodivergence pay gaps. Broadly, pay disparity can differ significantly depending on the disability, with mental illness and learning disabilities being linked to particularly large pay gaps (for example, a report from 2017 cited approximately 30% for men with depression or anxiety, and between 15-28% for men with physical impairments)⁷⁵. One of the few studies that exists globally is from the UK Office of National Statistics in 2021 that finds the employees with ASC earned 33.5% less than the non-disabled without long-lasting conditions, making it the largest pay gap amongst conditions measured (25.4% for epilepsy and 22.1% for mental illness).

Best Practices

Increasing levels of employee wellbeing via a focus on psychological safety and career progression

A recent survey drawing on responses from employers and neurodivergent employees in the UK, indicates that career progression and psychological safety were the key influences on retention and wellbeing of neurodivergent employees, overtaking the provision of accommodations in importance⁷⁶.

Another survey-based report aiming to evaluate the current state of neurodiversity practices in the workplace shows that while some employers are making considerable progress in creating an inclusive environment (e.g. 58% of neurodivergent employees disclosing their status to their employer received a positive response; 49% of employers had neurodiversity champions or mentors), a large number of neurodivergent employees are still not comfortable in being transparent in their workplace (32% of employee respondents had not disclosed their condition; 29% of respondents did not ask for adjustments during the onboarding process; only 35% reported a high level of satisfaction with the level of support provided by their workplace)⁷⁷. Flexible working, line managers' attitudes, and improved communication, were the most frequent issues brought up by employees when asked about changes that could make a positive difference in the workplace.

Accommodating family context for parents of neurodivergent children

A key issue employers should consider in their approach to neurodiversity is the unique challenges faced by the parents of neurodivergent children – such as requiring flexible working arrangements to attend medical appointments with their child and provide other forms of care and support, with sometimes unpredictable timetables, while continuing to fulfil employment obligations. Providing appropriate support structures and raising organisational awareness of the challenges is likely to significantly reduce the mental pressures experienced by these parents, prevent burnout and therefore reduce turnover and improve workplace productivity⁷⁸.

75. Simonetta Longhi, Equality and Human Rights Commission, The disability pay gap, 2017 <https://www.equalityhumanrights.com/sites/default/files/research-report-107-the-disability-pay-gap.pdf>

76. See above

77. Lorne M. Hartman, Mehrdad Farahani, Alexander Moore, Ateeya Manzoor, Braxton L. Hartman, Organizational benefits of neurodiversity: Preliminary findings on autism and the bystander effect, *Autism Research*, 24 August 2023; <https://doi.org/10.1002/aur.3012>

78. Robert D. Austin, Gary P. Pisano, Neurodiversity as a Competitive Advantage, *Harvard Business Review*, Vol 95(3), 2017; <https://hbr.org/2017/05/neurodiversity-as-a-competitive-advantage>

Figure 13. Key challenges and recommendations on neurodiversity inclusion throughout the employment cycle⁷⁹

Employment stage	Key themes and challenges		What can employers do?
Recruitment	Job advertising	63% of employers reported a lack of website accessibility features (Neurodiversity Index Report 2023)	Ensure that the company website is accessible to ND candidates
	Adaptations/adjustments to the application and interview process	53% of employers have not made any adaptations for ND candidates in the recruitment process; only 35% of employers provide an alternative application process (Neurodiversity Index Report 2023)	<p>Ensure alternative accessible application routes for ND candidates, without restricting those routes only to candidates with disabilities (e.g. alternative application forms, or methods of communication including email or phone; providing interview questions in advance; allowing preparation time)</p> <p>Seek candidate feedback on the accessibility of alternative application routes and other adjustments to the recruitment process</p> <p>Provide information about the recruitment process to candidates in advance</p>
Retention	Staff knowledge and training	Only 29% of senior leaders and 23% of HR had any ND-specific training in the last 12 months (Neurodiversity Index Report 2023)	Provide comprehensive staff training on neurodiversity throughout the company hierarchy, including all employees taking part in recruitment processes
	Line management capacity	Over 50% of ND employees turn to line managers first for support (Neurodiversity at Work 2023)	Equip line managers with the appropriate knowledge and skills to act as the first point of support and referral
	Career progression & psychological safety	Career satisfaction and psychological safety were reported as the two most important influences on wellbeing of ND employees (Neurodiversity at Work 2023)	<p>Facilitate knowledge sharing to foster inclusion</p> <p>Ensure the career progression pathways are inclusive to ND employees</p> <p>Develop an intersectional strategy for increasing psychological safety</p> <p>Ensure the availability of ND-inclusive support networks and mentorship schemes</p>
	Wellbeing	ND employees report overall low levels of wellbeing – an average of 2.02 out of 5; non-binary employees and women reported lower than average figures – 1.85 and 1.95 respectively (Neurodiversity at Work 2023)	<p>Regularly evaluate employee wellbeing, taking into account the specific needs of ND employees</p> <p>Ensure availability of flexible working arrangements, which are inclusive of the needs of ND employees and employees with ND children (e.g. flexible working hours)</p> <p>Ensure that information about existing support structures is easily available to all employees</p> <p>Seek regular employee feedback on the effectiveness of the organisation's neurodiversity inclusion structures and processes</p>

Source: SII, Almuth McDowall, Nancy Doyle, Neurodiversity at Work 2023: Demand, Supply and the Gap Analysis and City & Guilds Neurodiversity Index Report, Increasing neurodiversity in the workplace, 2023

79. Cited statistics and key challenges are based on information provided in Almuth McDowall, Nancy Doyle, Neurodiversity at Work 2023: Demand, Supply and the Gap Analysis and City & Guilds Neurodiversity Index Report, Increasing neurodiversity in the workplace, 2023.

Engagement questions on disability and neurodivergence

Investors can drive progress on inclusion on disability and neurodivergence (ND) and assess materiality in their portfolios through focus on following areas:

- Is disability and neurodiversity inclusion integrated into the organisational approach to DEI?
 - What is the process for choosing the training provider? What credentials are considered?
- Do staff members have access to up-to-date and consistent training on disability and neurodiversity (including senior managers, HR, and line managers)?
 - How is neurodiversity and disability inclusion integrated into the career progression pathways?
 - What support networks or mentorship schemes are available for the ND employees and employees with disabilities?
 - What flexible working arrangements are available for the employees with disabilities, ND employees and employees with ND children or children with disabilities? (e.g. WFH, flexible working hours)
 - How does the company make sure that information on the existing support structures is easily available to all employees?
- Is the recruitment process inclusive of neurodivergent candidates and candidates with disabilities?
 - Does the company provide accessibility adjustments in its office space and online services (websites and applications)?
 - What alternative application routes are available to ND candidates or candidates with disabilities (e.g. applying over email or phone instead of the web-based application form, allowing additional preparation time)?
 - Does the company assist with finding accessible transportation and accommodation for candidates with disabilities (in case of in-person interviews or assessment days)?
 - What adjustments to the interview process are available to ND candidates and candidates with disabilities (e.g. providing interview questions in advance, allowing additional preparation time, providing alternatives for an in-person interview)?
- What structures and processes are in place to ensure a disability and neurodiversity inclusive workplace environment, and to facilitate wellbeing and career progression?
 - How does the company ensure that line managers are equipped with the knowledge of organisational resources and networks designed to support ND employees and employees with disabilities?
 - Does the organisation track the turnover of ND employees and employees with disabilities?
 - How does the organisation regularly evaluate psychological safety and wellbeing of employees, including ND employees? If yes, what measures are taken to act on the findings?

LGBTQ+

- Significant workplaces challenges exist with inclusion in focus
- Some growth in different forms of LGBTQ+ discrimination protection laws globally
- Frameworks developed for workplace benchmarking include the Corporate Equality Index and Stonewall Global Workplace Equality Index
- Common perceptions of unfair treatment in recruitment and as employees
- Extending parental and other benefits to LGBTQ+ is a key workplace policy area

A key area of diversity, which is increasingly integrated into DEI policy is LGBTQ+ representation. Percentage population estimates on LGBTQ+ vary greatly (e.g. from 2.2% in a 2018 UK Office of National Statistics survey based on self-identification to 10% in the US based on a 1948 Alfred Kinsey estimate, which is still often quoted in corporate diversity statistics). In Gallup's February 2022 survey of 15,000 US adults, 9% of those surveyed identify as LGBT.

The terminology used to describe sexual orientation and gender identity can vary depending on the geographical region, culture, language, and can sometimes be interpreted differently. Below are the key definitions as presented by International Labour Organisation:

- **LGBTIQ+**: acronym for lesbian, gay, bisexual, transgender, intersex and queer. The plus sign represents people with diverse sexual orientation, gender identity, gender expression and sex characteristics who identify using other terms.
 - Other frequently used acronyms are: LGBTI (lesbian, gay, bi, trans and intersex people), LGBTQ+ (lesbian, gay, bi, trans, queer people).
- **lesbian**: woman whose enduring romantic, emotional and/or physical attraction is to women.
- **gay**: men whose enduring romantic, emotional and/or physical attraction is to men, and also women who are attracted to other women.
- **bisexual**: person who has the capacity for romantic, emotional and/or physical attraction to people of more than one gender.
- **trans/transgender**: terms used by some people whose gender identity differs from what is typically associated with the sex they were assigned at birth.
- **intersex**: people born with sex characteristics that do not fit typical definitions of male and female bodies. Intersex is an umbrella term used to describe a wide range of natural bodily variations.
- **queer**: traditionally a negative term, queer has been reclaimed by some people and is considered inclusive of a wide range of diverse sexual orientations, gender identities and expressions.

Source: SII, International Labour Organisation (ILO)

Some growth in different forms of LGBTQ+ discrimination protection laws globally

Over 80 countries offer protection against discrimination based on sexual orientation in employment, in addition to anti-discrimination norms enshrined by the international rule makers such as the ILO International Labour Standards⁸⁰.

The last few years have seen positive progress on LGBTQ+ rights and protections in many jurisdictions, including employment-specific developments such as the 2019 Hong Kong ruling granting same-sex couples married abroad spousal benefits, the 2020 ruling of the US Supreme Court providing LGBTQ+ individuals protection against workplace discrimination, and a ruling in favour of a transgender employee in a discrimination case in a Beijing court the same year⁸².

The increasing presence of legal protections creates significant legal and regulatory risks for companies who fail to implement effective anti-discrimination policies and develop an inclusive company culture⁸³.

The Business Benefits

Advancing LGBTQ+ inclusion brings a number of clear benefits for businesses and investors. Discrimination against LGBTQ+ individuals can have a negative impact on economic growth⁸⁴, whereas greater social inclusion can increase GDP⁸⁵. Some studies indicate that LGBTQ+ friendliness is positively associated with firm performance: for example, a 2021 research using data on US firms from 2003 to 2016, found “strong evidence that more LGBT-friendly firms have higher profitability and higher stock market valuations.”⁸⁶

Another important benefit is attracting and retaining talent in an environment where workers increasingly value inclusive workplaces— according to a recent survey, 40% of Gen Z and

38% of Millennials are actively looking to change employers in favour of a more inclusive one⁸⁷; similar considerations are also increasingly applicable to customers, which means that a lack of LGBTQ+ inclusion can cause reputational damage and financial losses to a business. An inclusive company culture is also likely to boost productivity and motivation in LGBTQ+ employees, leading to positive business outcomes.

Selected studies on business benefits of LGBTQ+ inclusion:

- In a sample of US companies, LGBTQ+ friendly corporate policies were associated with higher profitability and market valuations⁸⁸.
- A review of a body of research on the impact of LGBTQ+ supportive policies on business outcomes showed that most studies indicate a positive relationship between LGBTQ+ supportive policies and economic outcomes (e.g. greater commitment, improved health outcomes, increased job satisfaction). At the same time, there is no direct link to impact on financial performance⁸⁹.
- The presence of LGBTQ+ executives had a positive effect on the firm's financial performance and market value⁹⁰.
- The presence of LGBTQ+ supportive policies was associated with higher firm value, productivity, and profitability⁹¹.
- A study of large US firms with a high Corporate Equality Index (CEI) score showed a significant positive relationship between the CEI score and innovation, which in turn increases financial performance⁹².

The challenges

Discrimination identified as one of the most common hurdles

Despite the gradual improvement in the social inclusion and legal protections in many countries, LGBTQ+ people continue to face discriminatory sociocultural attitudes globally, which, in addition

80. ILGA World: Lucas Ramon Mendos, Kellyn Botha, Rafael Carrano Leles, Enrique López de la Peña, Iliia Savelev and Daron Tan, State-Sponsored Homophobia 2020: Global Legislation Overview Update, Geneva: ILGA, December 2020, https://ilga.org/downloads/ILGA_World_State_Sponsored_Homophobia_report_global_legislation_overview_update_December_2020.pdf

81. <https://www.globalcompliancenes.com/2019/07/15/hong-kong-highest-court-recognizes-spousal-employment-benefits-gay-couple-20190614>

82. <https://www.caixinglobal.com/2020-07-06/chinas-transgender-community-welcomes-court-ruling-on-employment-discrimination-101576201.html>

83. International Labour Organisation, Inclusion of lesbian, gay, bisexual, transgender, intersex and queer (LGBTQ+) persons in the world of work: A learning guide, 2022 https://www.ilo.org/global/WCMS_846108/lang-en/index.htm

84. M.V. Lee Badgett, The economic cost of stigma and the exclusion of LGBT people: a case study of India, Working Paper, 2014 <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/527261468035379692/the-economic-cost-of-stigma-and-the-exclusion-of-lgbt-people-a-case-study-of-india>

85. The World Bank, Enhancing Economic Growth: The Benefits of LGBTI Inclusion in North Macedonia and Serbia, 26 September 2023 <https://www.worldbank.org/en/news/press-release/2023/09/26/enhancing-economic-growth-the-benefits-of-lgbti-inclusion-in-north-macedonia-and-serbia>

86. Veda Fatmy, John Kihn, Jukka Sihvonen, Sami Vähämaa, Does Lesbian and Gay Friendliness Pay Off? A New Look at LGBT Policies and Firm Performance, Accounting & Finance, Vol. 62(1), 2022; <https://doi.org/10.1111/acfi.12787>

87. Deloitte, Deloitte Global 2023 LGBTQ+ Inclusion @ Work, June 2023 <https://www.deloitte.com/global/en/issues/work/content/lgbt-at-work.html>

88. Veda Fatmy, John Kihn, Jukka Sihvonen, Sami Vähämaa, Does Lesbian and Gay Friendliness Pay Off? A New Look at LGBT Policies and Firm Performance, Accounting & Finance, Vol. 62(1), 2022; <https://doi.org/10.1111/acfi.12787>

89. M.V. Lee Badgett, Laura E. Durso, Angeliki Kastanis, Christy Mallory, The Business Impact of LGBT-Supportive Workplace Policies, UCLA School of Law Williams Institute, May

90. Isabel Costa Lourenço et al, The Relationship between LGBT Executives and Firms' Value and Financial Performance, Journal of Risk and Financial Management, 14(12)2021; <https://doi.org/10.3390/jrfm14120596>

91. Shaun Pichler, Janell L. Blazovich, Kirsten A. Cook, Janet M. Huston, William R. Strawser, Do LGBT-supportive corporate policies enhance firm performance? Human Resource Management, Vol 57(1), January/February 2018; <https://doi.org/10.1002/hrm.2183192>

92. Mohammed Hossain, Muhammad Atif, Ammad Ahmed, Lokman Mia, Do LGBT Workplace Diversity Policies Create Value for Firms?, Journal of Business Ethics, Vol 167, 2020; doi:10.1007/s10551-019-04158-z

to restricting their social and economic potential, can cause negative mental health impacts and limits their integration into workplaces.

In the context of work, LGBTQ+ individuals face challenges across all stages of the employment cycle (hiring, employee benefits and wellbeing, career progress, compensation). A research project on LGBT discrimination on the world of work, conducted by ILO in 2015 highlighted frequent discrimination and harassment on the basis of sexual orientation and gender identity in education as well as employment, which, in extreme cases can result in bullying and sexual or physical assault. The discriminatory behaviour can often be attributed to entrenched perceptions of gender roles and gender expression⁹³. A recent ILO report on LGBTQ+ inclusion highlights persisting obstacles including unfair dismissal, lack of training and promotion opportunities, social exclusion, verbal abuse linked to their LGBTQ+ status⁹⁴.

Common perceptions of unfair treatment in recruitment and as employees

According to another US-based survey, 46% of LGBTQ+ workers have experienced unfair treatment at work; 50% are not out to their direct supervisor; 34% left their job due workplace mistreatment. Transgender employees experienced discrimination at a higher rate than cisgender LGB employees⁹⁵. Another study cites that 50% of LGBTQ+ respondents experienced workplace discrimination linked to their sexual orientation, gender, or intersex status⁹⁶. LGBTQ+ employees surveyed in the UK reported higher levels of workplace conflict compared to non-LGBTQ+ employees (40% vs 29%), which in many instances remains unresolved. Trans employees experienced particularly high rate of conflict at 55%⁹⁷.

Potential drivers behind pay gaps

Similar conclusions regarding persisting challenges in education and employment are echoed in many studies. Recent research focusing on the young adult demographic in the US identified a 22% pay gap in the earnings of LGBTQ+ employees ten years after graduation, as well as increased likelihood of

reporting a mental illness⁹⁸. Decisions that are made prior to employment, such as education and career are likely to be important contributing factors – other US-based research shows that LGBTQ+ students are less likely to graduate school, have lower overall grades, and are more likely to be affected by discrimination⁹⁹; LGBTQ+ students are also less likely to pursue STEM subjects due to fears of discrimination.

Inclusion concerns are high and come with negative workplace impacts

Fears of unequal treatment and discrimination at work cause many LGBTQ+ not to disclose their identity in the workplace: according to a 2020 survey data more than one in four LGBTQ+ respondents were not out at work. The groups who faced the most difficulties in coming out were women and junior employees, and employees in regions outside Europe and North America. This can create additional stress and lower employees' productivity¹⁰⁰. The structure of company benefits can also be discriminatory: not all companies offer LGBTQ+ workers access to parental leave and spousal benefits that are typically available to heterosexual couples, or trans-inclusive healthcare.

It is important to note that even in countries with stronger anti-discrimination laws; these protections can be of limited use to LGBTQ+ individuals who lack the mental and economic resources necessary to pursue legal action.

Reporting discrimination: fear of retaliation

In a situation of workplace discrimination, many employees would choose to leave the company and seek a role in a more inclusive environment instead of filing a complaint¹⁰¹. Many employees refrain from reporting non-inclusive behaviour because they do not think it would be treated seriously (40%) or because they fear making their situation worse (39%)¹⁰². Results of a 2023

93. International Labour Organisation, Discrimination at work on the basis of sexual orientation and gender identity: Results of the ILO's PRIDE Project, 15 May 2015 https://www.ilo.org/gender/Informationresources/Publications/WCMS_368962/lang--en/index.htm

94. International Labour Organisation, Inclusion of lesbian, gay, bisexual, transgender, intersex and queer (LGBTQ+) persons in the world of work: A learning guide, 2022 https://www.ilo.org/global/WCMS_846108/lang--en/index.htm

95. Brad Sears, Christy Mallory, Andrew R. Flores, Kerith J. Conron, LGBT People's Experiences of Workplace Discrimination and Harassment, September 2021 <https://williamsinstitute.law.ucla.edu/publications/lgbt-workplace-discrimination/>

96. Caroline Medina, Lindsay Mahowald, Discrimination and Barriers to Well-Being: The State of the LGBTQ+ Community in 2022, 12 January 2023 <https://www.americanprogress.org/article/discrimination-and-barriers-to-well-being-the-state-of-the-lgbtqi-community-in-2022/>

97. CIPD, Inclusion at work: Perspectives on LGBT+ working lives, February 2021 <https://www.cipd.org/uk/knowledge/reports/inclusion-perspectives-lgbt/>

98. Marc Folch, The LGBTQ+ Gap: Recent Estimates for Young Adults in the United States, SSRN, 1 April 2022, <https://ssrn.com/abstract=4072893> or <http://dx.doi.org/10.2139/ssrn.4072893>

99. Dario Sansone, LGBT students: New evidence on demographics and educational outcomes, Economics of Education Review, Vol 73, December 2019 <https://doi.org/10.1016/j.econedurev.2019.101933>

100. McKinsey, LGBTQ+ voices: Learning from lived experiences <https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/lgbtq-plus-voices-learning-from-lived-experiences>

101. Vivian Ho, The discrimination pushing LGBTQ workers to quit, 6 March 2023 <https://www.bbc.com/worklife/article/20230303-the-discrimination-pushing-lgbtq-workers-to-quit>

102. Deloitte, Deloitte Global 2023 LGBT+ Inclusion @ Work, June 2023 <https://www.deloitte.com/global/en/issues/work/content/lgbt-at-work.html>

Australian employee survey show that only 45% of respondents could identify confidential avenues to report sexuality or gender-related bullying and harassment, highlighting a need for businesses to extend greater efforts to increase employee awareness of safe incident reporting channels. Notably, out of 907 respondents who experienced bullying and harassment, only 337 reported these incidents. Another outcome shows that employees who have witnessed bullying behaviours in the workplace are significantly less likely to believe that their organisational culture is accepting or welcoming of diverse sexual or gender identities¹⁰³.

Best Practices

Businesses and investors around the world are increasingly focusing on the LGBTQ+ inclusion element of the DEI strategy. Notable signs of progress include: 93% of Fortune 500 companies non-discrimination policies covering sexual orientation and 91% - gender identity¹⁰⁴; 80% of a global employee survey reported that their organisations are prioritising LGBTQ+ inclusion¹⁰⁵.

Executive allyship enhances inclusion outcomes

However, a significant amount of work still needs to be done by businesses to build a truly inclusive environment – according to a 2023 survey, only 35% of LGBTQ+ employees agree that their employer demonstrates their commitment to inclusion inside and outside of the organisation¹⁰⁶. An opportunity for employers is executive allyship – knowing that LGBTQ+ employees have support on the executive level can significantly improve inclusion outcomes. In 2023 survey of Australian leadership, almost half (46%) identified as active allies; however the employee responses indicate that those results do not necessarily correlate with internal organisational awareness of the active allyship within leadership¹⁰⁷.

Employer benchmarks can assist investors globally

Best practice benchmarks, such as the Corporate Equality Index (CEI), developed by Human Rights Campaign in the US, is one way to guide companies and investors towards advancing their approach to inclusion. The CEI index evaluates companies against four pillars including:

- Workforce Protections – including non-discrimination policies across business entities;
- Inclusive Benefits – i.e. equitable benefits for LGBTQ+ workers and their families;
- Supporting an inclusive culture – including a broad training focus and executive performance measures integrating LGBTQ+ diversity, transgender inclusion, data collection and employee groups
- Corporate social responsibility – including but not restricted to publically demonstrated support, recruitment efforts, supplier diversity programs, philanthropy and avoidance of large scale anti LGBTQ+ controversies¹⁰⁸.

The benchmark participants consist of mid-to-large US companies.

Another benchmark is the Australian Workplace Equality Index, which focuses on LGBTQ+ inclusion in recruitment; bullying and harassment support; trans and gender diversity inclusion; strategy and accountability; employee networks and visible inclusion; executive leadership and engagement; data analysis; community engagement; and employee participation in the annual Workplace Equality Survey¹⁰⁹.

103. 2023 Australian Workplace Equality Index Employee Survey <https://www.pid-awei.com.au/2023-practice-points/>

104. Corporate Equality Index 2022 <https://reports.hrc.org/corporate-equality-index-2022>

105. <https://www.deloitte.com/global/en/about/press-room/lgbt-inclusion-efforts-yield-positive-impacts-in-workplace-yet-challenges.html>

106. Deloitte, Deloitte Global 2023 LGBTQ+ Inclusion @ Work, June 2023 <https://www.deloitte.com/global/en/issues/work/content/lgbt-at-work.html>

107. 2023 Australian Workplace Equality Index Employee Survey <https://www.pid-awei.com.au/2023-practice-points/>

108. <https://www.hrc.org/resources/corporate-equality-index>

109. <https://www.pid-awei.com.au/>

Other prominent standards and benchmarks which can be used to guide and evaluate business approach to LGBTQ+ include:

- Stonewall UK Workplace Equality Index¹¹⁰
- Stonewall Global Workplace Equality Index¹¹¹
- Hong Kong LGBT+ Inclusion Index¹¹²
- OHCHR Standards of Conduct for Business: Tackling Discrimination against LGBTI people¹¹³

While the best practice benchmarks play an important role in driving LGBTQ+ inclusion, the quality of a company's DEI strategy does not necessarily depend on a membership of a particular index: smaller businesses with fewer resources can struggle to fulfil the requirements and bear the costs required for participation, yet may have a strong DEI approach.

Investor engagement questions on LGBTQ+

Investors can also drive progress in LGBTQ+ inclusion and assess potential materiality in their portfolios by engaging with their investee companies on the following:

- How is sexual orientation and gender expression integrated into the organisational approach to DEI?
- Is the LGBTQ+ inclusion part of the consideration criteria for board recruitment and succession planning? Do the executive leadership and board members demonstrate explicit support for LGBTQ+ inclusion initiatives?
- Does the company non-discrimination policy explicitly include LGBTQ+ identities?
- Does the company have a confidential complaints mechanism covering breaches LGBTQ+ non-discrimination policy? How does a company ensure employee awareness of this mechanism? Does the company track and disclose the statistics and outcomes of these complaints?
- How does the company make sure that the recruitment process is inclusive of LGBTQ+ candidates?
- Do the company website and recruiting materials demonstrate the company approach to LGBTQ+ inclusion?
- Does the company analyse the pay data in order to identify wage gaps (including LGBTQ+ wage gap)? If a wage gap has been identified for LGBTQ+ employees, what actions were taken in response? Is this information public?

- How does the company make sure that the staff receives up-to-date and consistent training on LGBTQ+ inclusion (including senior managers, HR, and line managers)?
- Does the company offer equal benefits to employees in different- and same-sex marriages or partnerships?
- Does the company offer transgender-inclusive medical insurance coverage?
- How does the organisation regularly evaluate psychological safety and wellbeing of LGBTQ+ employees? What actions have been taken in response to the findings?
- Does the organisation track the turnover of LGBTQ+ employees? Is this information publicly disclosed?
- Does LGBTQ+ inclusion form part of the organisation approach to supplier selection and monitoring? If yes, how is it implemented?
- How does the company align its lobbying activities and memberships in industry associations with its approach and commitments to LGBTQ+ inclusion?

110. <https://www.stonewall.org.uk/build-workplace-works-lgbtq-people/uk-workplace-equality-index>

111. <https://www.stonewall.org.uk/top-global-employers>

112. <https://www.communitybusiness.org/latest-news-publications/2023-hong-kong-lgbt-inclusion-index>

113. <https://www.ohchr.org/en/sexual-orientation-and-gender-identity/tackling-lgbti-discrimination-private-sector>

Ethnicity

- Unlike other diverse identities including gender and LGBTQ+ and disability, ethnicity must be defined according to regionally specific contexts
- Self-disclosure is required for ethnicity – an employee's ethnicity is typically decided by the individual and reported on a voluntary basis
- First Nations and Indigenous peoples are an important consideration where ethnicity will be one of many factors
- Whilst protections against discrimination exist in most nations, few require the collection of employee ethnicity composition data (USA is a notable exception)
- Some regions actively prohibit the collection of employee ethnicity data, including France
- US Racial Equity audits have been increasingly proposed as shareholder resolutions
- Beyond the workplace numerous negative product impacts are identified on ethnic populations



Of all diversity types, ethnicity is the most subject to regional variation. This makes it a complex characteristic to define and address for investors. Investor focus has increased particularly in US and UK markets in recent years due to cultural drivers, however longstanding inequalities based on ethnicity are frequent throughout the world. For example, according to the 2021 data, only 10% of ASX 300 directors were of non-Anglo-Celtic background, while approximately half of Australian population is of non-Anglo-Celtic ancestry¹¹⁴. First Nations and Indigenous peoples are an important part of workforce ethnicity considerations in Australia, New Zealand, The USA and Canada.

The Business Benefits

Several studies have gathered evidence to show economic and business advantages of greater ethnic diversity. At the national level for example, a think tank estimated that equal participation from racial minorities was valued at GBP24bn per year for the UK economy (1.3% of GDP). A broad 2021 US study found that the total average earnings of all workers would be 33.5 percent higher, US GDP would have been 7.2 USD trillion higher and the national poverty rate dropped from 10.5 to 6.6 per cent, if ethnic and gender divides were closed.

The following examples of firm-level studies consider positive effects from greater workplace ethnic diversity:

- A study of 143 US law firms showed that increased racial diversity throughout the whole organisation is positively associated with financial performance¹¹⁵.
- Another study showed that while there doesn't seem to be a link between diversity and team performance, teams with high cultural diversity tend to be more creative¹¹⁶.
- While some existing research indicates that racial diversity is linked to higher profitability, better employee relations and improved governance, reliance on business rationale as justification for board diversity can lead to significant costs – social and moral imperative might be a better standpoint¹¹⁷.

The Challenges

Multiple challenges on workplace ethnicity disclosure, including restrictions in France and Germany

Diversity disclosure regulation globally has focused on gender diversity. Ethnicity reporting is far less well developed, despite high levels of ethnic diversity across major cities and regions worldwide, where investor interest is focused.

Disclosure obligations on ethnicity in most countries globally are limited and are largely voluntary. Regional differences are marked.

While in the UK it is relatively common for large employers to collect non-publicly disclosed employee ethnic origin statistics, in other countries such as France, the collection of such data is largely prohibited for employers. The French Constitutional Council (highest constitutional authority) prohibits “the processing of data of a personal nature indicating directly or indirectly the racial or ethnic origins of persons, and the introduction of variables of race or religion in administrative records.” Such data is also typically protected in many national regulations by additional laws on data privacy (as ethnic origin is considered as sensitive information). Germany also prohibits the collection of employee data on some protected characteristics. Thus, direct disclosure on employee ethnicity for some organisations may encounter difficulties, above all, due to legal restrictions in certain countries such as France and Germany. Research into ethnicity of individuals in France for example may be based on objective data such as a person's name, country of origin or nationality.

A spectrum of definitions varying by region

Both globally and regionally there are major variations in how ethnicity is defined. Within countries, metropolitan centres may also accommodate larger ethnicity than non-metropolitan areas. For example according to 2021 census data, 18% of the UK population was from a minority ethnic background, but London's population was estimated at over double the national figure to include 40% from Black, Asian & Minority Ethnic (BAME) heritage in 2018. While data collection on ethnic demographics is prohibited in France, think tank estimates suggest that 85% of the population of Metropolitan France was white or of European origin, with 10% from North Africa, 3.5% Black, and 1.5% Asian.

114. <https://www.pwc.com.au/about-us/insights/non-executive-directors/cultural-diversity-and-the-opportunities-for-australian-boards.html>

115. Stephen Smulowitz, Manuel Becerra, Margarita Mayo, Racial diversity and its asymmetry within and across hierarchical levels: The effects on financial performance, *Human Relations*, Vol 72(10), 2019 <https://doi.org/10.1177/0018726718812602>

116. Günter K Stahl, Martha L Maznevski, Unraveling the effects of cultural diversity in teams: A retrospective of research on multicultural work groups and an agenda for future research, *Journal of International Business Studies*, 52(1), 2021, doi: 10.1057/s41267-020-00389-9

117. Lisa M. Fairfax, The Bottom Line on Board Diversity: A Cost-Benefit Analysis of the Business Rationales for Diversity on Corporate Boards, *Wisconsin Law Review*, 2005 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=835406

In Australia, 27.6% of the population were born overseas, with the top countries of birth being England (3.6% of the population), India (2.6%) and China (2.2%). The most common ancestries (ethnic and cultural background) are English (33%), Australian (29%), Irish (9.5%), Scottish (8.6%) and Chinese (5.5%)¹¹⁸. Aboriginal and Torres Strait Islander people represent 3.2% of the population¹¹⁹.

We emphasise therefore that regional vantage points on race, ethnicity and indigenous peoples are essential when investors consider the optimal workplace approaches to DEI for investee companies.

Where diversity data collection regulation exists it may not be public

The U.S. Equal Employment Opportunity Commission (EEOC) is an agency that was established in 1964 via the Civil Rights Act to enforce civil rights laws against workplace discrimination. In the US, unlike in most European countries, employers are required to collect demographic data including ethnicity and race concerning their employees (via an annual EEO-1 form submission). While the identification is on a self-declared basis by employees themselves, the data is non-public and adapted to local ethnic identities most prevalent for US domestic markets. There is a concerted effort by multiple stakeholders, including some investors, to make such EEO-1 data publicly available.

Our view is that public disclosure is good practice as it can support a company's human capital efforts and facilitate more informed investor dialogue, particularly if accompanied by coherent explanations of the numbers in the context of the business and its DEI ambitions.

Eighty-five companies in the S&P100 had disclosed in 2022 with 11 companies committing to publish their EEO-1 reports publicly¹²¹. Larger firms have tended to be the ones that have issued public domain reporting.

DEI timeframes are long term: Voluntary board ethnicity representation targets in the UK

Targets for diverse representation may take multiple forms. Globally, these are still rare for ethnicity but many markets have introduced either voluntary or obligatory percentage minimums for board gender representation. Indeed some have argued that the obligation for gender diversity in the boards of larger French companies have stimulated and accelerated the adoption of diversity. The French Copé-Zimmermann Act set a quota of 40% for the under represented gender.

A focus on underrepresentation can be helpful in any demographic based framework in focusing on equalising representation.

118. Australian Bureau of Statistics, Cultural Diversity of Australia, 2021 <https://www.abs.gov.au/articles/cultural-diversity-australia#countries-of-birth>

119. Australian Bureau of Statistics, Aboriginal and Torres Strait Islander people: Census, 2021 <https://www.abs.gov.au/statistics/people/aboriginal-and-torres-strait-islander-peoples/aboriginal-and-torres-strait-islander-people-census/2021>

120. U.S. Securities and Exchange Commission, Self-Assessment of Diversity Policies and Practices - Frequently Asked Questions https://www.sec.gov/files/2022.05.26_DAR_FAQs_FV_508.pdf

121. <https://comptroller.nyc.gov/newsroom/nyc-comptroller-and-pension-fund-trustees-announce-agreements-with-11-companies-to-disclose-annual-workforce-diversity-data/>

The UK is one of the few markets that have proposed targets (notably these are voluntary), for ethnic representation on the boards of large listed companies. 96 FTSE100 companies now have at least one ethnic minority director on their boards, up from 47 FTSE100 companies in 2016¹²². Notably the first set of UK Parker recommendations on ethnicity came out in 2017, so one consistent takeaway for investors is that the timeline for progress are typically several years in nature, and engagements should be prepared for long term improvements.

Ethnicity pay gaps

Race and ethnicity can also impact pay gaps, especially increasing existing gender pay gaps: for example, in 2022, US Black and Hispanic women experienced the largest wage gap compared to white men – 70% and 65% respectively (for white women, the gap was at 83%, and 93% for Asian women). This disparity also affects the rate at which gender pay gap closes over time – while the gender pay gap narrowed for all women since 1982, the change was more significant for white women¹²³.

Outside of gender considerations, race and ethnicity remain important factors linked to pay disparity. A key takeaway, further supported by the Runnymede Trust's (a UK think tank) research¹²⁴, is that whilst employees of ethnic origin were more likely to be in low paid jobs and suffer lower earnings even when controlling for educational qualifications, some sections of ethnic communities were not subject to the same pay gaps. **We emphasise the complexity of the idea of “ethnicity” in any analysis and remind investors that the term itself may not necessarily be used to encompass a group homogeneously subject to the same trends, treatment and levels of discrimination.** Accompanying context and explanatory narrative is therefore important in any ethnic pay gap disclosure.

In the US, the historical economic disparities between races also continue to persist, as evident in the high prevalence of poverty within Black and Hispanic population¹²⁵. Despite the significant improvement in education rates over the last decades, Black employees continue to experience pay disparity in the US - earning 24% less in hourly pay compared to White employees (2019 data). Black employees are underrepresented in higher-paying occupations and sectors (such as tech), as well as often living in less wealthy areas. Education, location and social networks are some of the important contributing factors to this disparity.

While the racial pay disparity trend has been growing wider since 2000, recent years have brought a more positive dynamic which could be attributed to the strength of the US economy and labour market, minimum wage increases, and greater private sector efforts to enforce DEI initiatives post the Black Lives Matter movement¹²⁶.

In Australia, 16% of respondents in an Australian population survey reported having experienced discrimination based on skin colour, ethnicity or religion; 34% of overseas-born respondents experienced discrimination compared to 11% of those born in Australia¹²⁷. In 2021, Aboriginal and Torres Strait Islander workers reported being twice as likely to experience discrimination and harassment as non-Indigenous employees¹²⁸. Less data is available on the economic disparities between ethnic groups in Australia, but it is evidently present in the context of Indigenous population: in 2021, 35% of Aboriginal and Torres Strait Islander adults were living in households in the lowest household income quintile¹²⁹; Indigenous Australians also found to have significantly higher unemployment rates compared to non-Indigenous people¹³⁰. Another source highlights the ethnic gender pay gap in Australian businesses reaching between 33-36%¹³¹.

122. The broader index of FTSE 250 firms is also progressing, with 67% meeting the target of at least one ethnic minority director in 2022, up from 55% a year earlier.

123. Rakesh Kochhar, The Enduring Grip of the Gender Pay Gap, Pew Research Center, 1 March 2023 <https://www.pewresearch.org/social-trends/2023/03/01/the-enduring-grip-of-the-gender-pay-gap/#:~:text=A%20good%20share%20of%20the,those%20ages%2055%20to%2064>

124. Omar Khan, The Colour of Money, 2020 <https://www.runnymedetrust.org/publications/the-colour-of-money>

125. Counselor for Racial Equity Janis Bowdler, Assistant Secretary for Economic Policy Benjamin Harris, Racial Inequality in the United States, US Department of the Treasury, 21 July 2022 <https://home.treasury.gov/news/featured-stories/racial-inequality-in-the-united-states>

126. David Leonhardt, The Racial Wage Gap is Shrinking, New York Times, 19 June 2023 <https://www.nytimes.com/2023/06/19/briefing/juneteenth-racial-wage-gap.html>

127. The Scanlon Foundation, Mapping Social Cohesion 2021, <https://scanloninstitute.org.au/mapping-social-cohesion-2021/#:~:text=It%20measures%20attitudes%20within%20the,participation%20and%20acceptance%20of%20diversity.&text=In%202021%20the%20SMI%20is,in%202021%20than%20in%202019>

128. Diversity Council Australia, Inclusion@Work Index 2021–2022: Mapping the State of Inclusion in the Australian Workforce, Sydney, 2021 <https://www.dca.org.au/research/inclusion-at-work-index>

129. Australian Institute of Health and Welfare, Aboriginal and Torres Strait Islander Health Performance Framework: summary report July 2023, Canberra: AIHW <https://www.indigenoushpf.gov.au/measures/2-08-income#implications>

130. Parliament of Australia, A hand up not a hand out: Renewing the fight against poverty (Report on poverty and financial hardship), 11 March 2004 https://www.aph.gov.au/parliamentary_business/committees/senate/community_affairs/completed_inquiries/2002-04/poverty/report/c13#:~:text=Most%20indicators%20of%20poverty%20and,living%20below%20the%20poverty%20line.

131. Alicia Vrajlal, Addressing equal pay needs an intersectional approach, 27 September 2023 <https://www.missingperspectives.com/posts/addressing-equal-pay-needs-an-intersectional-approach-cultural-pay-gap>

Best Practices

Identifying disclosure indicators for ethnicity pay gap

Two base indicators identify the extent of ethnicity pay gaps over time, and how they might fit into overall DEI strategy¹³². Firstly the proportion of employees from ethnic backgrounds (ideally compared against a local context which could be regional or national) and secondly the % of workforce that were covered in survey (either as a result of survey scope not covering entire workforce or responses where employees chose not to respond to questions on ethnicity).

Figure 16: Ethnicity Pay Gap Context Indicators

Indicator	Explanation
Proportion of employers workforce from minority ethnic backgrounds by country (where local regulations allow)	It is helpful to publish any company figures with reference to national context and potential narratives for any deviation. (Non-urban centres may typically have far lower proportions of ethnic minorities than major metropolitan areas.)
Proportion of employees who have disclosed their ethnicity	Low disclosure rates may improve over time as a company culture better foregrounds DEI and employees understand the benefits of disclosure. For the percentage of workforce not disclosing, an understanding of those who are not included in the scope of survey and those who “prefer not to give a response” can be a helpful indicator.

Source: SII, CIPD Ethnicity Pay Gap Reporting Guide for Employers

First Nations concept serves alongside ethnicity categories

First Nations refers to the earliest known indigenous populations of a country. The concept is a very important one in those countries where indigenous populations live alongside communities that have settled over multiple generations and often over a period of several centuries. For example the USA recognises Native American tribes and incorporates them into official demographic categories for the country. However multiple groups of indigenous peoples are found globally and may not necessarily be officially incorporated into legally recognised demographic groups for the countries they have resided in. We acknowledge also that groups may have different preferences regarding the use of the term “indigenous” and may wish to be known by specific terminologies more associated with their group name or Country.

One example of a holistic consideration of indigenous peoples’ rights is the Aotearoa New Zealand Stewardship Code. One of its nine principles of effective stewardship is to “Incorporate material ESG matters”; this cites a key topic to “Consider Stewardship from a Te Ao Maori worldview”. Key aspects of the Te Ao Maori world view are highlighted in the Guiding Principles of the Code. We cite this Stewardship Code, as it incorporates the specificity of its national heritage and seeks to facilitate broader inclusion not simply at a demographic level but incorporates an indigenous cultural perspective at its core.

Indigenous employment in Australia

The Indigenous Employment Index 2022, which focuses on employment practices aiming to achieve Indigenous employment parity, showed that Indigenous employees frequently have lower retention rates compared to the rest of the workforce; senior leadership representation levels are extremely low; over 50% of Indigenous interviewees reported experiencing direct or indirect racism over the course of their career.

The report also highlights the employment practices that resulted in positive impact, including:

- Setting and regularly reporting on Indigenous employment targets
- Reconciliation strategies or plans led by Indigenous leaders
- Participation in education-related programs that help Indigenous Australians enter employment

Finally, the Indigenous Employment Index calls on the institutional investors to: recognise the risk stemming from the failings of company culture and racism, assess their portfolio companies and investment prospects against Indigenous employment performance indicators, and set clear expectations on inclusion through portfolio engagement¹³³.

132. For an in-depth guide see ShareAction's Ethnicity Pay Gap Reporting: An investor briefing and toolkit <https://shareaction.org/reports/ethnicity-pay-gap-toolkit>

133. Rebecca Cassells, Alan Duncan, Michael Dockery, Jaslin Kalsi, Lili Loan Vu, Astghik Mavisakalyan, Silvia Salazar, Woort Koorliny: Australian Indigenous Employment Index 2022, May 2022 <https://bcec.edu.au/publications/woort-koorliny-australian-indigenous-employment-index-2022/>

Another prominent initiative in this area is driven by Reconciliation Australia (a non-profit body supporting reconciliation action within Australian schools, private and public sector organisations). Reconciliation Australia enables businesses to facilitate economic equity and provide benefits to Indigenous Australians through Reconciliation Action Plans¹³⁴.

Investor tools: Racial equity audits tested in US shareholder resolutions

US Shareholder Proposals for racial equity audits became an important development in 2021 and 2022 when they peaked (though still small in number they garnered widespread media attention). They refer to requests for the board to facilitate an audit that establishes a company's impact on persons of colour which can include both workforce within a company and external stakeholders. A number of related audit measures have been proposed in the US including Racial Impact Audits which typically focus more on a third party audit to ameliorate impacts on persons of colour beyond minimum legal requirements, including external stakeholders.

A handful of non-discrimination audits were also proposed in US shareholder resolutions in 2022. These refer to the demand for a board to address the concern that anti-racism initiatives may adversely impact non-diverse employees.

Investor engagement questions on ethnicity

Investors can also drive progress in ethnicity inclusion and assess potentially material impacts in their portfolios by engaging with their investee companies on the following:

- How is ethnicity integrated into organisational approach to DEI?
- Is ethnic diversity part of the consideration criteria for board recruitment and succession planning?
- How does board ethnic diversity compare to the industry average? Are there any goals/commitments to increase board diversity?
- Does the company non-discrimination policy include ethnicity?
- Are local targets set for representation of ethnic minority employees in regions where regulations allow it?
- Does the company collect and disclose data on the number of nationalities employed globally? Does this meaningfully track against the geographical footprint of the company? i.e. number of employee nationalities represented globally vs number of countries of operation
- Is the company considering measuring its ethnicity pay gap as part of its DEI approach?

134. <https://www.reconciliation.org.au/reconciliation-action-plans/>; Reconciliation refers to the strengthening of relationships between Aboriginal and Torres Strait Islander peoples and non-Indigenous peoples for the benefit of all Australians. <https://bcec.edu.au/publications/woort-koorliny-australian-indigenous-employment-index-2022/>

Socioeconomic background

- Socioeconomic factors are an under-targeted aspect of diversity
- Family socioeconomic origins not subject to same legal protections of gender, ethnicity, disability and LGBTQ+
- Establishing socioeconomic status can be initiated via voluntary employee survey questions
- Social mobility projects may deliver positive ROI – including recruitment and retention
- Multiple studies cite regional economic returns from increased social mobility
- Positive social impacts to local communities can be significant
- Measures of social mobility impact can be intra and inter-generational (within one's own lifetime or over a generation or more)

Socioeconomic factors an Under-Targeted Aspect of Diversity

Diversity comprises not just legally protected characteristics such as gender, ethnicity, sexuality and, religion and disability but also socioeconomic background (where legal definitions and protections are not typically in place). Though socioeconomic status is less often considered as a part of diversity improvement initiatives, it can be viewed as a central factor relevant to much of the rationale driving DEI strategies i.e. to maximise cognitive diversity, improve social impact and business performance.

Business Benefits

Local community impact under a social mobility lens

For many businesses (including consumer facing firms), a social mobility strategy can create the advantage of building an employee base that better reflects a wide customer exposure, increases staff engagement and retention, as well as the benefits a broadened supply of talent brings. Company reporting on ROI from social mobility projects is often tied to their philanthropic efforts, local community impact and youth programmes, as well as increasing the effectiveness of operational and supply chain presence and brand building.

Longer term retention benefits of social inclusion

Upward mobility of a workforce can positively impact the performance of a business as employees work with employers to increase their skill levels progressively. Investors may use employee retention as a key performance indicator in social mobility to maximise the continued contribution to profitability through the development of a longer term workforce. In order to

harness any upskilling that employers have facilitated through training and experience, a focus on and implementation of equality and inclusion strategies is essential, in order to keep talent and optimise output.

United Utilities, a UK utilities business, for example, reports on social mobility aspects of its regional investment programme in the North West of England, citing a wide variety of projects including skills development, formal apprenticeships, school educational and work experience programmes, job creation and local economic stimulus. Such programmes, where effective, can enhance social mobility both directly and indirectly. The benefits to the business can be significant in terms of human capital impact - of those candidates that completed the company's Youth Programme half started at United Utilities itself.

The Challenges

A 2022 Chartered Management Institute (CMI) study found that amongst its cohort of 1037 UK based employees, only 26% thought that employers were taking active steps to increase the proportion of employees from lower socioeconomic background through their recruitment practices, indicating significant potential for businesses to expand their integration of social mobility in their human capital strategies¹³⁵.

Assessing socioeconomic background

Social mobility captures the change in a person's socioeconomic status. The concept overlaps with the idea of social class and is often measured by indicators, which reference occupation, household income, wealth and access to opportunities for career advancement (including education). As with ethnicity, employers use a largely voluntary and employee-defined approach to collecting employee data. A starting point is via surveys to collect data disclosed by employees themselves on their socioeconomic background (often as part of an overall DEI survey). These may be anonymised to encourage greater responsiveness from employees.

Changes to these indicators can be placed into a generational context in order to measure progress. Key markers for progress on social mobility comprise the comparison with a parent (known as inter-generational mobility) or within the lifetime of a person (intra-generational mobility).

135. Hamish Shah, Jules Bennington, Daisy Hooper, Madalina Radu, The Everyone Economy: CMI's plan for sharing work, opportunity and success, 2022 <https://www.managers.org.uk/wp-content/uploads/2022/06/The-Everyone-Economy-CMIs-75th-Anniversary-Report.pdf>

Figure 18: Three key types of social mobility

Social Mobility Type	Description
Intergenerational economic mobility	The ability to move up the economic ladder from one generation to the next
Intragenerational economic growth	Increasing income within one's lifetime
Individual economic growth	Improving one's position within society by acquiring more education and skills

Source: The Sutton Trust

Sample questions to establish socioeconomic background for employers to survey both candidates and employees are listed below. These indicators have been found to be some of the most accurate markers of socioeconomic context. The first question around parental profession elicits the highest response rates from employees, is easy to understand and is applicable to all employee age groups and all countries. Responses where one socioeconomic group dominates vs national benchmarks may mean further strategic follow up from the employer would be beneficial.

Figure 19: Example questions to establish socioeconomic background:

Voluntary survey questions for employees and candidates
What was the occupation of your main household earner when you were aged about 14? (Source: Social Mobility Commission toolkit)
Highest level of education and type of schooling (state funded or private fee paying)?

Source: SII

The most visible benefits of upward social mobility to individuals include increased standard of living, employability, professional status, and access to professional networks. The converse is also true, where widening distribution gaps in the above factors increase inequality and potentially lower trust (especially in institutions), and negatively impact local communities.

Categorising socioeconomic status

Whilst a person's working activity (and that of their parents) may relate to slightly differing social statuses across cultures globally, a typical approach to categorisation will identify three main

groups of socioeconomic status – professional, intermediate and working class. These sub categories are essential in measuring differences within status - including the quantification of pay gaps. Below is a UK based example of such categorisation, which will have many overlaps for Australia, New Zealand, Japan, North America and Europe.

Figure 20: Socioeconomic categories (UK)

Status	Occupational group	Example Occupations
High socioeconomic status	Professional	Police officer (sergeant or above), software designer, accountant, solicitor, medical practitioner, scientist, civil / mechanical engineer, Finance manager, chief executive, large business owner
Middle socioeconomic status	Intermediate	Small business owners (less than 25 employees): corner shop owners, small plumbing companies, retail shop owner, single restaurant or cafe owner, taxi owner, garage owner Secretary, personal assistant, call centre agent, clerical worker, nursery nurse
Low socioeconomic status	Working class	Postal worker, machine operative, security guard, caretaker, farm worker, catering assistant, sales assistant, HGV driver, cleaner, porter, packer, labourer, waiter/waitress, bar staff Motor mechanic, train driver

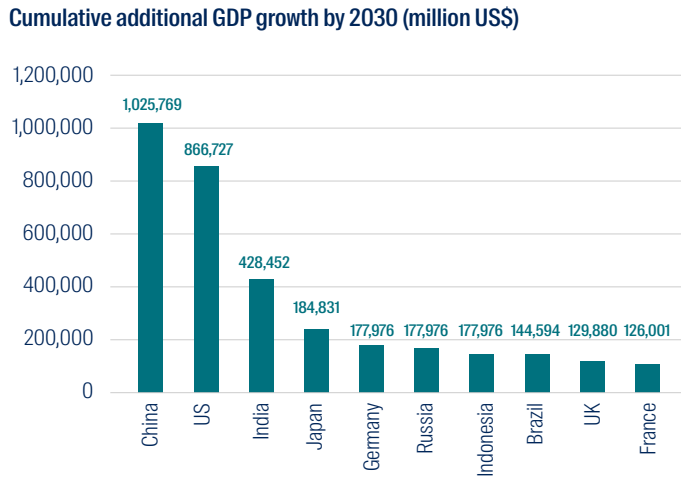
Source: SII, Social Mobility Commission

Social mobility measures better integrated at national rather than firm level

Socioeconomic background is a more common measure to include when analysis takes place at a national level. For example, one indicator of both the fairness and inclusion of countries is their ability to enable social mobility, but this has been far less applied at the microeconomic level to investee companies. Studies have shown the national economic benefits of greater inclusion based on socioeconomic background. The World Economic Forum (WEF) cites significant increases in GDP

across countries globally as a reward of improving social mobility, with Japan for example adding 238,691 million USD and the US 866,727 million USD to its GDP in the decade to 2030.

Figure 21: Estimating the opportunity cost of social mobility



Source: SII, World Economic Forum Global Social Mobility Report, 2020

There are multiple factors that govern social mobility outcomes at a national level (including amounts of state support within education, health, housing and childcare) and, furthermore, large regional variations within countries also arise. Businesses employing workforces in those countries and regions with the greatest social mobility challenges may have to work harder to bridge social gaps and inherent inequalities. Harnessing talent regionally can lead to growth opportunities benefiting the business, employees and local communities. UK government figures for example estimate that “Levelling up” national social mobility to the level seen in London would see the lowest socioeconomic groups earn £2 billion more.

Intersectionality: Overlap of socioeconomic background with diversity characteristics

The concept of “intersectionality” is particularly important for socioeconomic background. It refers to the overlap of two or more different characteristics

- i.e. both disabled and from a disadvantaged social background. Beyond socioeconomic context, intersectionality can of course apply to any other diversity characteristics.

Significantly, there may be vastly differing degrees of workplace impact on certain groups if socioeconomic context of individuals is taken into account. For example, an individual with a privileged background belonging to a protected diversity characteristic such as ethnicity, whilst still subject to the obstacles of any bias in the workplace, could potentially have comparatively fewer challenges compared to an individual from both a disadvantaged and ethnic background. However, those from a less privileged socioeconomic background could also face bias and discrimination (i.e. in certain regions and metropolitan areas accent can be one feature of this) regardless of the presence of any other legally protected diversity categories.

Disproportionate impacts on those least advantaged socioeconomically

During periods of economic shocks and downturns e.g. during recessions, socioeconomic disadvantage is also an amplifier of negative workforce impact when typically the least socially mobile employees are affected disproportionately. Vulnerable employee segments such as minimum wage “gig” workers can experience outsized impact from layoffs and volatility of pay rates. This was evident most recently during the COVID 19 pandemic where workers on minimum wage and non-permanent contracts (typically from lower socioeconomic statuses) were more affected by economic instability impacts compared to higher paid permanent contract workers.

The socioeconomic pay gap

Whilst monitoring of the gender pay gap has increased and certain jurisdictions have mandated collection of such data to be reported to government bodies, few countries have fixed obligations for private companies to report gender pay gaps publicly. As other areas of pay gap reporting concerning different diversity characteristics are very rarely mandated typically reporting has been poor.

Socioeconomic pay gap reporting will typically need to take into account three main groups- 1) Professional (i.e. teacher, solicitor, accountant), 2) Intermediate (secretary, clerical worker), 3) Working class backgrounds (gardener, postal worker) and report gaps between the groups.

One overall 2023 estimate¹³⁶ of the UK’s socioeconomic pay gap is 12 % (difference in earnings from employees in the same occupation from upper-middle and working class backgrounds). Note, as a comparison, the headline 2023 UK mean gender pay gap¹³⁷ was 7.8%.

However, when intersectionality is introduced – i.e. the convergence of two or more diverse identities - the gap is increased, by approximately 16%, compared to simply adding the socioeconomic and gender pay gaps together. The same pattern is repeated with some ethnicity pay gaps when differences in between professional-managerial and working class origins is taken into account.

Best Practices

Areas for investor focus include unpaid internships, contextual recruitment and workplace culture

The recruitment stage is particularly important in providing more balanced and inclusive employer policy. Key areas include the elimination of unpaid internships, the provision of all financial expenses incurred for interviews and contextual recruitment (i.e. top grades from a state funded school in an economically disadvantaged area will be more difficult to achieve than a top fee paying school) and potential based (rather than experience based) recruiting. Targeting candidates from non-traditional backgrounds and expanding the breadth of schools and universities where talent is sought is also important.

Another area of focus is an inclusive workplace culture that encourages conversation and openness surrounding social mobility and socioeconomic status. This is important in increasing the retention of staff from disadvantaged

backgrounds. Fitting socioeconomic background into broader DEI strategy, mentoring, equal training opportunities for all staff, openness from senior staff to take feedback where behaviour has made employees uncomfortable are elements in advancing an inclusive culture.

Figure 22: Social Mobility Employer Index – Eight Assessment Areas and Questions

The Social Mobility Foundation, a UK based non-profit has created an Employer Index to measure and rank performance on enabling social mobility. It comprises detailed questions for eight assessment areas:

Assessment Area	Questions
Work with young people	Are employers doing outreach work with young people from lower socioeconomic backgrounds? Is outreach delivering accessible routes into the profession?
Routes into the employer	Are there well-structured routes into the organisations? Does parity of esteem exist between non-graduate and graduate routes? Are graduates treated equally no matter where they went to university?
Attraction	Do employers recruit graduates from universities outside the highest ranked universities? Are they making an active effort to diversify their attraction methods to reach those from lower socioeconomic backgrounds?
Recruitment and selection	Do employers reward potential? Is the employer removing barriers that prevent individuals from lower socioeconomic backgrounds progressing to selection?
Data collection	To what extent do employers collect and analyse data to understand the socioeconomic diversity of their workforce?
Progression, culture and experienced hires	Is the social mobility of existing employees being measured? Are there tangible efforts to create a more inclusive workplace culture?
Advocacy	Do employers engage staff, suppliers and clients in social mobility efforts?
Employee survey (optional)	What do employees think about the health of social mobility inside the organisation?

Source: 2023 Employer Index report - Social Mobility Foundation

136. Social Mobility Research, The Class Pay Gap 2023 [https://www.socialmobility.org.uk/campaign/the-class-pay-gap-2023#:~:text=In%20the%20UK%2C%20it%20still,12%25%20less%20%E2%80%93%20a%20year](https://www.socialmobility.org.uk/campaign/the-class-pay-gap-2023#:~:text=In%20the%20UK%2C%20it%20still,12%25%20less%20%E2%80%93%20a%20year.). See also Sam Friedman and Daniel Laurison, The Class Ceiling: Why it pays to be privileged, 2019, Great Britain: Policy Press.

137. Department for Business, Energy and Industrial Strategy, BEIS: gender pay gap report, 2023, 30 November 2023 [https://www.gov.uk/government/publications/beis-gender-pay-gap-report-and-data-2023/beis-gender-pay-gap-report-2023-html#:~:text=Analysis%20of%20pay%20gap&text=8.1%25-,For%20BEIS%20\(including%20executive%20agencies\)%20the%20headline%202023%20GPG%20figures,median%20gender%20gap%20of%206.7%25](https://www.gov.uk/government/publications/beis-gender-pay-gap-report-and-data-2023/beis-gender-pay-gap-report-2023-html#:~:text=Analysis%20of%20pay%20gap&text=8.1%25-,For%20BEIS%20(including%20executive%20agencies)%20the%20headline%202023%20GPG%20figures,median%20gender%20gap%20of%206.7%25.).

Of the 143 organisations (which include listed, unlisted companies and government bodies) which volunteered to be measured, 37 publish socioeconomic data and 18 are measuring their class pay gap. Only a small minority - three firms - offer unpaid internships. For investors engaging on this area, the questions above may usefully guide discussion with corporates, but equally signal that even where companies are resourced and willing to advance socioeconomic inclusion the vast majority are at the start of their journey.

Investor engagement questions on socioeconomic background

Investors can drive progress in socioeconomic inclusion and assess potential materiality in their portfolios by engaging with their investee companies on the following key questions:

- How is socioeconomic diversity integrated into the organisational approach to DEI? (including data collection via employee surveys and progress tracking – i.e. via retention)
- Is impact of intersectionality of socioeconomic background with other diversity characteristics measured over time?
- Is contextual recruitment practiced? (including looking at applicants academic abilities in the context of their socioeconomic background)
- Are internships paid and targeted publicly at a diverse range of applicants?
- Are non-graduate career routes given the same potential opportunities for successful performance as graduate intake?
- Are key training opportunities made clear and broadly available so that employees may request access themselves?

Supplement: Extending the DEI lens in Japan

- Demographics are an important consideration in the Japanese market – as the country contends with a decreased labour supply
- Access to underutilised diverse talent can counteract population decrease and ageing demographics
- Gender is a core diversity area with selected workplaces practices evolving
- Japan's paid paternity leave (52 weeks) is the second most generous among OECD nations, but its takeup increased from only 1% in 2010 to 14% in 2021
- Gender pay gap reporting requirements introduced in 2022 but Japan's gender pay gap amongst the largest of OECD countries (though decreasing)
- Treatment of migrant workers has been under the spotlight in Japan
- High degree of trust in business relative to other countries (according to Edelman Barometer) may increase expectations on businesses to drive improved DEI

Over the last two decades, the Japanese Government has introduced a variety of measures aiming to reduce long-standing societal inequalities. Establishing equality of opportunity and promoting greater inclusivity has been recognised by the government as a key condition of growth and national wellbeing. Most recently this has been signified by the gender pay gap reporting obligations, introduced in 2022, as well as the gender diversity reporting requirements from the Japan's Financial Services Agency (JFSA).

DEI enables access to underutilised talent as labour supply contracts

The key societal changes underscoring these developments are the ageing population and contracting labour supply (Japan's population is projected to decrease from 127 million inhabitants in 2015 to around or less than 90 million by 2065). Reducing gender inequality and improving employment opportunities for women, foreign workers, older people and people with disabilities is seen as an important element of expanding the labour pool. Stakeholder pressure, including increasing attention paid by both employees and investors to these issues plays a significant role in motivating corporates to act.

Business seen to have critical position in enhancing DEI nationally

As shown by the 2023 Edelman Trust Barometer for Japan, a high degree of trust placed in businesses by the population (in comparison to decreasing trust in other societal institutions including NGOs, the government, and the media) creates additional expectations for companies to act on a variety of sustainability issues including inequality, the environment and discrimination. In this climate, Japanese companies increasingly perceive DEI efforts as beneficial for retaining and attracting talent*, fostering innovation and improving resilience.

Academic research has found a corresponding change in corporate behaviour, with a growing number of companies creating a department dedicated to promoting diverse workforces (13.07% of companies in 2012 to 29.69% in 2020), increasing the ratio of women on boards and in managerial positions, and introducing new modes of working such as flexible working hours. In 2023, this sentiment is reflected in 40% of TOPIX100 companies having strong or very strong diversity policies, and 35% strong non-discrimination policy¹³⁸.

* <https://www.edelman.com/trust/2023/trust-barometer>

138. Yoshiki Shinohara and Lailani L. Alcantara, The transition of diversity and inclusion policies and corporate behavior in Japan, in Diversity and Inclusion in Japan: Issues in Business and Higher Education, Edited by Lailani Alcantara and Yoshiki Shinohara, Routledge 2023

Improvements in labour participation but gender pay gap still wide vs OECD countries

According to the OECD, since the 2010s Japan has seen notable improvements in women’s labour participation (from 63% to 72.5% from 2010 to 2020) and a reduction in gender pay gap (from 28.7% in 2010 to 22% in 2021)¹³⁹. However, the gender pay gap is still significantly above the 11% OECD average in 2021¹⁴⁰. There also have been comparative improvements in gender diversity of corporate boards and senior management (number of women executives in listed companies increased by 4.8 times between 2012 and 2021¹⁴¹). Traditional societal attitudes to gender roles are increasingly shifting, as shown by the recent population survey where approximately 60% disagreed with the idea that wives should take care of the household while the husband works outside the home, according to a Japanese government white paper published in 2020¹⁴².

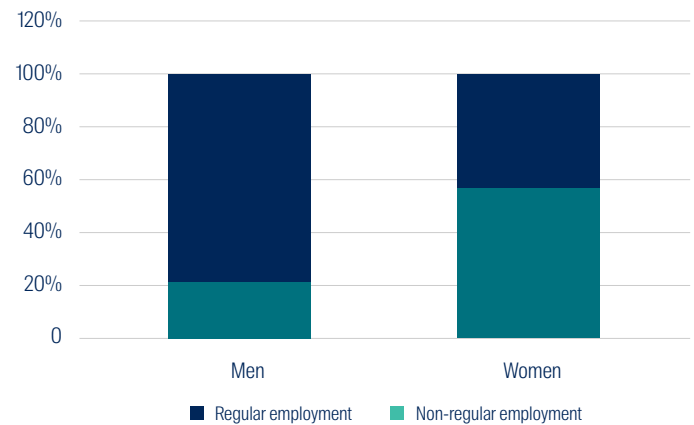
At the same time, there is still significant space for improvement – in 2023 Japan was placed 125th out of 146 countries in the WEF Global Gender Gap report (ranking 9 points lower than the previous year). Out of four evaluation categories (economic participation and opportunity, educational attainment, health and survival, political empowerment), Japan shows relatively low scores in political empowerment and economic participation and opportunity¹⁴³. Challenges holding back progress in workplace gender equality include:

- Unequal responsibility split: Women continue bearing the primary responsibility for most of the housework and childcare (the wife’s work-related time in dual-income households with a child under 6 is around 50% of the husband’s¹⁴⁴)
- Long work hours: men’s extremely long working hours prevent greater participation in housework and childcare, which also impacts women’s work-life balance
- Limited full-time employment opportunities for women: a large proportion (53.4% of female workers in 2022) of women workers are employed as non-regular employees, which contributes to the gender wage gap - non-regular workers earn around 60% of the regular workers’ hourly pay. Further, the Japanese labour market has limited horizontal mobility (in contrast to many OECD countries), which means non-regular employees have little opportunity to shift to permanent full-time employment¹⁴⁵.

- Limited opportunity to balance childcare and work: according to a government study, the most common reason for quitting employment after the first child was the difficulty in balancing work and childcare responsibilities¹⁴⁶

As a result of these societal conditions, full-time regular employment becomes difficult for most women past pregnancy and childbirth, leaving the option of part-time work which offers the flexibility necessary for women who still bear most of the housework and childcare responsibilities. At the same time, the comparatively low pay and the lack of opportunities to progress into a full-time role narrows women’s promotion opportunities and contributes to the gender wage gap.

Figure 23: Employment patterns by gender



Source: SII based on data from the Statistical Handbook of Japan 2022, <https://www.stat.go.jp/english/data/handbook/c0117.html>

Corporate gender diversity practices in Japan

In the corporate space, responsible investors are often seen as a force in facilitating gender diversity, as investors pay increasing attention to corporate diversity practices and reporting. The JFSA (Japanese Financial Services Agency) aims to support this trend by ensuring the availability of relevant non-financial information. The amendments to disclosure requirements for listed companies, which came into force in 2023, include the ratio of female managers, the ratio of male employees taking childcare leave, and the gender pay gap.

139. OECD (2023), Measuring Progress towards Inclusive and Sustainable Growth in Japan, OECD Publishing, Paris, <https://doi.org/10.1787/3ced6c79-en>

140. <https://data.oecd.org/earnwage/gender-wage-gap.htm>

141. Current Status and Challenges of Gender Equality in Japan, May, 2022 https://www.gender.go.jp/english_contents/pr_act/pub/status_challenges/index.html

142. Government of Japan, Cabinet Office, Gender Equality Bureau, White Paper on Gender Equality 2020, Summary https://www.gender.go.jp/english_contents/about_danjo/whitepaper/index.html

143. World Economic Forum. Global Gender Gap Report 2023 Insight Report, June 2023 <https://www.weforum.org/publications/global-gender-gap-report-2023/>

144. Government of Japan, Cabinet Office, Gender Equality Bureau, White Paper on Gender Equality 2020, Summary https://www.gender.go.jp/english_contents/about_danjo/whitepaper/index.html

145. OECD (2023), Measuring Progress towards Inclusive and Sustainable Growth in Japan, OECD Publishing, Paris, <https://doi.org/10.1787/3ced6c79-en>

146. Government of Japan, Cabinet Office, Gender Equality Bureau, White Paper on Gender Equality 2020, Summary https://www.gender.go.jp/english_contents/about_danjo/whitepaper/index.html

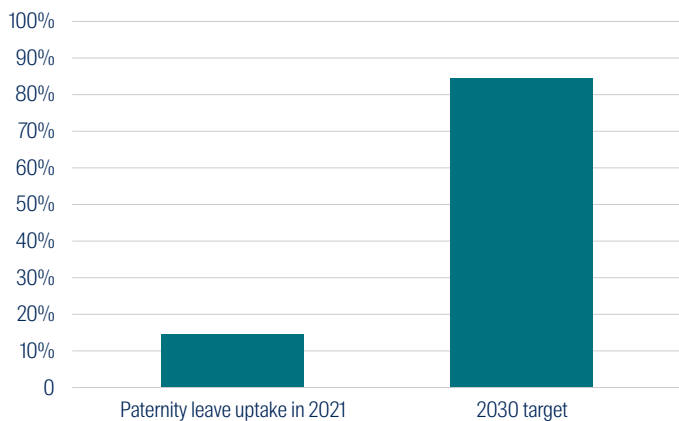
As of July 2023, 54% of TOPIX100 companies do not disclose gender pay gap-related information, and 49% do not have a gender pay equality programme in place¹⁴⁷. In addition, companies will be required to disclose their human development policies and policies on improvement of the workplace environment¹⁴⁸.

Japan’s paid paternity leave amongst the most generous of OECD countries but take up poor

Encouraging male employees to make use of paternity leave has been one of the key measures introduced by the government in a bid to reduce the childcare burden on women. However, it has been reported that despite policy change and private sector encouragement, many employees are concerned of the potential detrimental effect taking paternity leave might have on their careers¹⁴⁹. According to the government survey data, in 2021 only 13.97% of male employees took paternity leave (which still represents a marked increase from 7.48% of male employees in 2019)¹⁵⁰, however the low take up can be partly attributed to how its use can be stigmatised in the workplace.

Figure 24: Government goal to increase paternity leave uptake

Japan aims to achieve an 85% paternity leave uptake by 2030



Source: SII based on data from <https://www.business-humanrights.org/en/latest-news/japan-govt-targets-85-of-male-workers-to-take-paternity-leave-by-fy-2030/>

In common with most countries low numbers of women are reported in management

The low proportion of women in management is another key indicator reflecting a headwind against gender inequality in Japanese companies (though this is also a challenge faced even in countries considered with better disclosure and representation on workforce and board gender practices). Despite the high levels of labour participation, there have been comparatively few women in managerial and director positions (although the numbers are rising).

According to a government survey, women made up only 11.4% of executives in major listed companies in 2022¹⁵¹. One cause could be the large proportion of female workers being employed in part-time positions due to the lack of flexibility offered by full-time employment, especially after marriage and childbirth (in 2019, 37% of women 25-34 and 51.6% of women aged 35-44% were in non-regular employment)¹⁵².

Women on boards in focus and improving

Achieving female representation on almost every board represents a major step towards gender diversity, but many Japanese companies have yet to achieve the next step. A 2022 survey of large Japanese companies (from the executive search consultant Spencer Stuart) has shown that women hold board seats of 94.2 of Nikkei 225 and 93% of TOPIX 100 companies; the overall ratio of women directors was 14.5% and 16.4% respectively (for reference, this number is 39% for the UK and 31.7% for the US)¹⁵³. Boards with only a single female director made up 36.9% of constituents of the MSCI Japan Index, compared to 2.3% for the MSCI Kokusai Index and 20.6% for the MSCI ACWI Index. Some studies suggest that three seats is the critical mass or “tipping point” needed for female directors’ ability to change the boardroom dynamic and participate on a more equal footing and exert influence relative to male peers¹⁵⁴.

147. SII analysis based on Sustainalytics data as of July 2023.148. <https://data.oecd.org/earnwage/gender-wage-gap.htm>
 148. Financial Services Agency, Summary of Report by the Working Group on Corporate Disclosure of the Financial System Council https://www.fsa.go.jp/singi/singi_kinyu/tosin/20220613/03.pdf
 149. Chris Lau, Japan wants 85% of male workers to take paternity leave. But fathers are too afraid to take it, 26 March 2023 <https://edition.cnn.com/2023/03/26/asia/japan-paternity-leave-policy-challenges-intl-hnk-dst/index.html>
 150. <https://www.business-humanrights.org/en/latest-news/japan-govt-targets-85-of-male-workers-to-take-paternity-leave-by-fy-2030/>
 151. <https://www.japantimes.co.jp/news/2023/04/27/business/economy-business/japan-female-executive-target-2030>
 152. Government of Japan, Cabinet Office, Gender Equality Bureau, White Paper on Gender Equality 2020, Summary https://www.gender.go.jp/english_contents/about_danjo/whitepaper/index.html
 153. 2022 Japan Spencer Stuart Board Index <https://www.spencerstuart.com/research-and-insight/japan-board-index>
 154. Alison M Konrad, Vicki Kramer, Sumru Erkut, Critical Mass: The Impact of Three or More Women on Corporate Boards, Organisational Dynamics, 37(2), April 2008, doi: 10.1016/j.orgdyn.2008.02.005

Business and investor initiatives on gender have become more prominent

The requirements to disclose gender diversity metrics aim to incentivise companies to take active measures to minimise gender inequality in the workplace and promote work-life balance. Some of the existing private sector initiatives include the Challenge Initiative for 30% of Executives to be Women by 2030 (a programme focusing on board gender diversity, including the measures to strengthen the talent pipeline), launched by Keidanren (Japanese Business Federation)¹⁵⁵. Another private initiative, 30% Club Japan, set a target of 30% ratio of women on the boards of directors of TOPIX 100 by 2030¹⁵⁶. The 30% Club is a global business initiative promoting board and senior management gender diversity, which sets the female representation goal at 30% (this number represents a critical mass from where minority groups can influence board decision-making). In the UK – the country where the initiative was founded in 2010 – the proportion of women on corporate boards increased from 12% to 35%¹⁵⁷.

On the investor side, gender diversity has been attracting increasing attention in line with the growing ESG/sustainable investment trend as well as the policy direction. The GPIF's use of the MSCI Japan Empowering Women Index (WIN) and the Morningstar Gender Diversity Index, are some of examples of local investors integrating gender approach in their investment practices. GPIF also noted that gender diversity in Japanese companies is a key ESG issue in its 2022 ESG Report, highlighting the importance of disclosure as a catalyst for company action¹⁵⁹.

Figure 25: Key recent Japanese policy/regulatory initiatives promoting gender diversity

Intensive Policy for Gender Equality and the Empowerment of Women 2023	As part of the Japanese government's latest push to improve diversity, its "Intensive Policy for Gender Equality and the Empowerment of Women 2023" set a target of 30% of director, audit board or executive positions held by women at companies listed on the Prime Market of the Tokyo Stock Exchange (TSE) by 2030 ¹⁶⁰ . While corporate governance bodies generally commended the change, the Asia Corporate Governance Association recommended that the TSE listing rules and Japan's CG Code include specific targets to end all-male boards ¹⁶¹ .
Act on the Promotion of Female Participation and Career Advancement (2015) (2022 revisions)	Requires corporates to devise an action plan and report on promotion of female employees; it was revised in 2019 to expand the scope of the law to a wider range of companies, and establish an employer certification regime. The latest revisions introduce requirements to set specific targets for measures improving opportunities for women's career advancement and work-life balance and disclose gender pay gap data
Act on Special Measures Concerning Fixed-term and Part-Time Employees (2020) <small>*status and pay of part-time employees is a key gender diversity concern due to the high proportion of female employees in part-time roles (53.4% of female workers in 2022).</small>	Aims to address the gender wage gap and establish equal pay for equal work
Corporate Governance Code 2021 revisions	Revisions incorporate requirements to disclose policies, measurable targets and human resource development policies promoting diversity in senior management (by appointing women, non-Japanese nationals and mid-career professionals).
The Government's Fifth Basic Plan for Gender Equality, (Cabinet Office, 2021)	A comprehensive document outlining gender equality initiatives and targets concerning politics, private sector, judiciary, public administration, regions, science, technology and academic fields, etc; among a range of initiatives that aim to promote gender equality and work-life balance, includes new targets for gender diversity in private sector managerial positions: - 30% of women at the Section Chief level by 2025 - 18% of women at the Director level by 2025 - 12% of women at the department manager level by 2025 Other initiatives promoting gender equality in the private sector include encouraging childcare leave for male employees, eliminating gender discrimination and sexual harassment in employment.
Nadeshiko Brand	The Ministry of Economy, Trade, and Industry and the TSE have been publishing an annual list of companies outstanding in encouraging women's empowerment in the workplace.

Source: SII

155. <https://challenge203030.com/EN.php>

156. <https://30percentclub.org/chapters/japan/>

157. <https://30percentclub.org/where-we-are/>

158. Cabinet Office, Women's advancement and information disclosure: what institutional investors look for, Research project on ESG investors usage of information on women advancement, 2018 https://www.gender.go.jp/english_contents/pdf/30esg_research_02_en.pdf

159. Government Pension Investment Fund, 2021 ESG Report https://www.gpif.go.jp/en/investment/esg/gpif_publishes_the_2021_esg_report.html

160. Tokyo Stock Exchange, Revisions to Listing Rules in Relation to the Intensive Policy for Gender Equality and the Empowerment of Women 2023 and the Desired Investment Unit Level, 28 July 2023 <https://www.jpx.co.jp/english/rules-participants/public-comment/detail/d01/p6b22i00000032f2-att/p6b22i00000032h6.pdf>

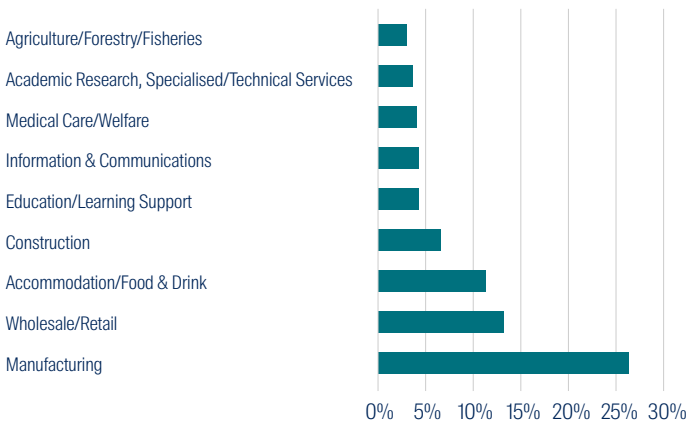
161. Asian Corporate Governance Association, ACGA Open Letter: Gender Diversity in TSE Prime Market Boards, 19 October 2022 <https://www.acga-asia.org/pdf/japan-gender-diversity-letter-en-2022>

Significant number of migrant workers increase need for greater focus on ethnic diversity initiatives

Attracting foreign workers is another key element of addressing the economic impact of the increasing labour and skill shortage.

Japan’s Ministry of Health, Labour and Welfare reported a record 1.9 million foreign workers in the country in 2022, with the largest national groups being the workers from Vietnam, China and the Philippines, at 25.4%, 21.2%, and 11.3% respectively. Currently, foreign workers are primarily employed in the manufacturing (26.6%), wholesale and retail (13.1%) and accommodation and food (11.5% sectors)¹⁶³. Recent expansion of the blue-collar working visa scheme which allows a path towards permanent residency (the eligibility expanded from two to eleven sectors) highlights the policymakers’ efforts to increase the labour migration momentum¹⁶⁴.

Figure 26: Percentage of foreign workers by industry in Japan



While the foreign labour force is increasingly critical to Japan’s economic success (the number of workers would need to raise to 6.74 million by 2040 to allow Japan to sustain the average annual economic growth of 1.24%³⁶), the country’s historically high ethnic homogeneity poses challenges to the workers’ societal integration and employment conditions (such as difficulties in securing a place to live, wage gap or withheld payment, lower promotion opportunities).

Internships a spotlight for labour controversies

Workers in occupations outside of high-skilled labour can face additional problems, demonstrated by the controversy around the ‘technical intern trainee’ programme which involved alleged abuses of labour laws by employers (such as illegal overtime, low or withheld wages, unsafe working conditions). In 2017, a government investigation revealed that 70% of companies that hired technical interns broke labour law; a similar survey in 2020 showed the same proportion of employers in breach of labour standards. The consequences of this corporate behaviour so far included a loss of technical trainee certification for the employer and a revocation of the supervisory organisation’s licence.

An expert report, issued in 2023, suggested changes to the scheme, which include moving away from focusing on transferring technical skills to developing countries to accessing and upskilling the additional labour force to mitigate the worker shortages in Japan. The new program, which could be called the ‘Training and Employment System’, is projected to minimise the costs borne by the trainees and secure greater labour rights and protections, such as improved oversight, job transfer opportunity and greater societal inclusion¹⁶⁵. The Introduction of the Japanese Guidelines on Respecting Human Rights in Responsible Supply Chains in 2022 further signifies the government’s attention to corporate impact on workers’ rights.¹⁶⁶

163. <https://challenge203030.com/EN.php>
 164. <https://30percentclub.org/chapters/japan/>

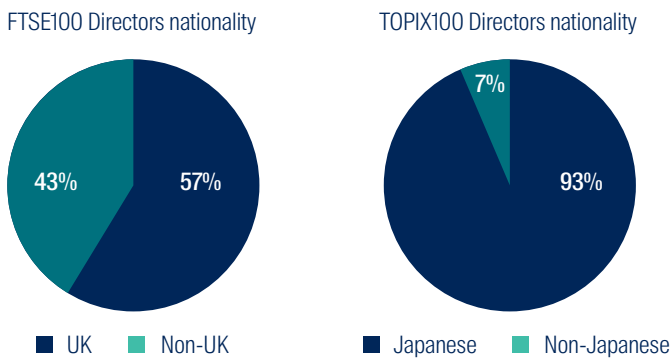
165. <https://30percentclub.org/where-we-are/>

166. Cabinet Office, Women’s advancement and information disclosure: what institutional investors look for, Research project on ESG investors usage of information on women advancement, 2018 https://www.gender.go.jp/english_contents/pdf/30esg_research_02_en.pdf

Foreign nationals under represented at senior management and board level of largest firms

Currently, foreign nationals are rarely present in top management and board director jobs, however the numbers are growing – 5% of Nikkei 225 and 7.7% of TOPIX 100 board directors were non-Japanese in 2022¹⁶⁷.

Figure 27: Director Nationality split



Source: SII analysis based on MSCI data (as of July 2023).

Figure 28: Key recent Japanese policy/regulatory initiatives regarding foreign workers

The Immigration Control and Refugee Recognition Act 2010 & 2019 Amendments	Protection measures for foreign workers and technical intern trainees; the 2019 changes expanded the scope of immigrant employees who could seek a work permit (previously available only to highly skilled workers).
Corporate Governance Code 2021 revisions	Revisions promote diversity in senior management, including appointments of non-Japanese nationals.

Source: SII

Challenges for workers with disabilities

Despite the existing policy drive to support employment of people with disabilities, the private sector has made limited progress in this area.

According to a 2021 research paper, the employment rate of people with disabilities was at 24.2%, compared to 77.7% rate for the non-disabled population between 16 and 85 years old. For comparison, average employment rate for people with disabilities across OECD countries in 2019 was at 42% (with the higher rates reaching 54% in Canada and 58% in Switzerland), and was increasing very slowly over the past decade¹⁶⁸.

In addition to lower employment rates, workers with disabilities in Japan face additional labour market challenges including a wage gap, lack of access to management roles and the occupation gap (e.g. in 2018, 32.7% of workers with physical disabilities were clerical workers, and 30.6% of workers with mental disabilities were service workers)¹⁶⁹. As measure to increase labour participation, companies and public institutions are required to hire a certain proportion of disabled workers, with the number being regularly revised (for the private sector, the quota is currently at 2.3% and is set to raise to 2.7% by 2026) . Growing Japanese membership (e.g. Shiseido, SoftBank, Sony) of the Valuable 500 initiative (global business network promoting disability inclusion) can be seen as an indicator of the increasing drive towards disability inclusion within the private sector¹⁷¹.

167. 2022 Japan Spencer Stuart Board Index <https://www.spencerstuart.com/research-and-insight/japan-board-index>

168. OECD (2022), Disability, Work and Inclusion: Mainstreaming in All Policies and Practices, OECD Publishing, Paris, <https://doi.org/10.1787/1eaa5e9c-en>.

169. Reiko Nishida, Persons with Disabilities' Low-Status Issues in Japan's Labor Market, 36th Annual Pacific Rim International Conference on Disability & Diversity Session 6-D (Paper) March 2021 https://researchmap.jp/r-n/presentations/31763321/attachment_file.pdf

170. <https://japannews.yomiuri.co.jp/society/general-news/20230119-84790/>

171. <https://www.thevaluable500.com/members>

Companies such as Fujitsu report on addressing disability concerns within their recruitment, training and work environment practices¹⁷². At the same time, as of 2022, only 48% of companies achieved the mandated ratio of workers with disabilities¹⁷³. In 2021, out of total employees with disabilities in the private sector, 60% were with physical disabilities, 24% with intellectual disabilities and 16% with mental disabilities.

Recently, companies have been reporting challenges in maintaining the required levels of employment of people with disabilities as previously hired workers begin to retire. In addition, companies cite problems in ensuring the availability of appropriate support structures for workers with intellectual and mental disabilities as they start to be hired more frequently (previously the emphasis was on the employment of individuals with physical disabilities)¹⁷⁴.

Employment practices for people with disabilities also can be compliance-driven, which can lead to a tick-box approach by the employers, limiting growth and promotion opportunities for individuals¹⁷⁵. An example of this approach could be the practice of hiring employees with disabilities under a special subsidiary company (an approach used by many large Japanese companies) to fulfil the government quota, which could lead to the alienation of those workers from the rest of the employees¹⁷⁶.

Figure 29: Key recent Japanese policy/regulatory initiatives regarding employment of people with disabilities

Act for Eliminating Discrimination against Persons with Disabilities (2013)	Prohibits discriminatory treatment
Act on Employment Promotion of Persons with Disabilities 2013	Introduced discrimination protections and required employers to provide appropriate disability accommodations; established employment quotas for public and private sectors.

Source: SII

Japan decreasing population now has a median age of 49 years - the highest of any OECD country

Japan's population has steadily decreased since 2011 and, as of 2023, median age has increased to 49 years, which is amongst the highest in the world¹⁷⁷.

By 2030, one in every three people in Japan will be 65 or older. For employers, the increasing average employee age signifies the need to adapt to the changing needs of the workforce.

The government has been setting the direction with a series of policies which mandate companies to employ older workers by increasing or abolishing mandatory retirement age, or providing continuous employment¹⁷⁸.

This number follows a continued upward trend over the last decade, with a significant proportion of people (40.2%) over 60 reporting a desire to work¹⁷⁹. In 2020, 71% of people aged 60 to 64 were working. A legislative amendment introduced in 2020 required employers to provide employment opportunities for workers up to 70 years of age¹⁸⁰. Research indicates that individuals over the retirement age placed on continuous employment tend to retain mostly similar responsibilities with adjustments, such as reduced workload; there is also a corresponding decline in wages compared to the pre-retirement age¹⁸¹.

172. <https://www.fujitsu.com/jp/about/csr/diversity/>
 173. <https://mainichi.jp/english/articles/20230114/p2a/00m/0na/003000c>
 174. <https://mainichi.jp/english/articles/20220906/p2a/00m/0na/014000c>
 175. <https://disabilityin.org/country/japan/>
 176. Reiko Nishida, Persons with Disabilities' Low-Status Issues in Japan's Labor Market, 36th Annual Pacific Rim International Conference on Disability & Diversity Session 6-D (Paper) March 2021 https://researchmap.jp/r-n/presentations/31763321/attachment_file.pdf
 177. <https://www.worlddata.info/average-age.php>
 178. Yoshiki Shinohara and Lailani L. Alcantara, The transition of diversity and inclusion policies and corporate behavior in Japan, in Diversity and Inclusion in Japan: Issues in Business and Higher Education, Edited by Lailani Alcantara and Yoshiki Shinohara, Routledge 2023
 179. <https://www.nippon.com/en/japan-data/h01055/>
 180. https://www.gov-online.go.jp/eng/publicity/book/hlj/html/202102/202102_09_en.html
 181. Shinya Kajitani, Promoting Employment of Older Workers and Adjustment of their Working Conditions at Japanese Firms, Japan Labor Issues, 7(42), April 2023 <https://www.jil.go.jp/english/jii/documents/2023/042-02.pdf>

Figure 30: Key recent Japanese policy/regulatory initiatives regarding employment of ageing individuals

Guideline of Measures for Ageing Society 2018	Establishes policy measures addressing the ageing society in the medium and long term, including facilitating older people's participation and contribution to society (including employment).
The Act on Stabilization of Employment of Elderly Persons (2021 Amendments)	Revisions which became effective in 2021 increased the age limit for the employer responsibility to provide employment opportunities from 65 to 70.

Source: SII

Increased focus on policies to address LGBT workplace inclusion

Although the public policy-driven incentives for companies to address the LGBT aspect of DEI are limited, corporates are increasingly implementing LGBT-related policies and initiatives: 9.42% of companies adopted basic LGBT policies in 2014, which increased to 22.85% in 2020¹⁸². Examples of companies explicitly addressing LGBT issues in their DEI strategy include Nintendo, Subaru, and Rakuten among others (e.g. providing same-sex partnerships with the same benefits as opposite-sex married couples)¹⁸³. The Business for Marriage Equality campaign, initiated in 2020 and counting almost 400 corporate supporters in June 2023, is another sign of increasing private sector support for LGBT rights in Japan¹⁸⁴.

The introduction of the bill promoting the understanding of LGBT community in June 2023 can be seen as beginning of a policy shift towards greater legislative protections, although it has been criticised as providing insufficient protection against discrimination¹⁸⁵.

182. <https://www.fujitsu.com/jp/about/csr/diversity/>

183. <https://mainichi.jp/english/articles/20230114/p2a/00m/0na/003000c>

184. <https://mainichi.jp/english/articles/20220906/p2a/00m/0na/014000c>

185. <https://disabilityin.org/country/japan/>

Appendix

1. Regulatory developments & new initiatives to extend DEI disclosure

Investors are increasingly the subject of DEI disclosure requests themselves as a result of certain segments of client interest, new regulatory obligations, and varied stakeholder demands. Furthermore, increased regulatory obligations around corporate DEI disclosure will extend the domain of reporting which can be usefully analysed by investors, assisting in the assessment of the nature and quality of DEI strategy implemented in investee companies. We highlight several newer initiatives both regulatory and voluntary; they focus not only on transparency beyond gender but also on equity and inclusion disclosures (where previously board and employee demographics have been central).

EU Corporate Sustainability Reporting Directive (CSRD) broadens and improves reporting

The EU Corporate Sustainability Reporting Directive (CSRD), which entered into force in January 2023, enhanced the corporate sustainability reporting regime by ensuring that companies disclose further data on their sustainability impacts, risks and opportunities for stakeholders to evaluate, as well as expanding the scope of companies expected to comply. The European Sustainability Reporting Standards (ESRS), applicable to companies under the CSRD scope, were developed by the European Financial Report Advisory Group (EFRAG), and adopted by the European Commission in July 2023¹⁸⁶.

Varied DEI metrics as well as a broad double materiality perspective is mandated

The ESRS cover an extensive range of sustainability KPIs, and adopt a double materiality perspective. Double materiality refers to the dual consideration of both sustainability impacts of the organisation externally as well the risks and opportunities to the organisation of sustainability related factors internally. The

social umbrella includes disclosure standards for reporting on an issuer's own workforce, covering KPIs to assess equal opportunities (discrimination based on gender, race/ethnicity, nationality, religion/belief, disability, age or sexual orientation; equality in pay, access to secure employment, equal treatment regarding working conditions, and inclusion of people with disabilities).

Examples of required metrics include gender pay gap; discrimination incidents; employment of persons with disabilities; and difference in provision of benefits to employees with different employment contract types¹⁸⁷. In addition, the ESRS includes a range of indicators related to working conditions for all employees, such as training and skills development, health and safety management, working hours, work-life balance, fair remuneration, security eligibility coverage and collective bargaining. Given that estimates¹⁸⁸ of the number of issuers covered are over 50,000 for the EU and over 10,000 non-EU companies (the largest constituent coming from the US), this dataset has the potential to enhance both the quality and quantity of DEI datasets available to investors. The implementation phase of the EU CSRD, where companies publicly report, is being rolled out between 2024 and 2028 to cover the range of issuer categories under its scope.

Recent financial sector initiatives significantly broaden DEI scope

Although diversity and inclusion initiatives in the financial industry have been making a difference, there is a lot of progress yet to be achieved: globally, only 19% of executive roles, 21% of board seats, and 5% of CEO roles in the financial sector are held by women¹⁸⁹.

*See the Asset Owner Diversity Charter for the investment industry : <https://diversityproject.com/asset-owner-diversity-charter>

186. https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

187. [Draft] ESRS S1 Own Workforce Exposure Draft, April 2022

188. <https://www.lseg.com/en/insights/risk-intelligence/how-many-non-eu-companies-are-required-to-report-under-eu-sustainability-rules>

189. <https://www2.deloitte.com/us/en/insights/industry/financial-services/gender-diversity-in-global-financial-services.html>

According to the Parker Review which focuses on the UK, around 40% of FTSE250 companies lack ethnic diversity within their boards (or disclosure of such)¹⁹⁰, and ethnic minority employees in the financial sector report comparatively low career progression (45%), discriminatory behaviour in the workplace (46%), and lack of leadership commitment to diversity and inclusion (68%)¹⁹¹. Recognising this gap, regulators and the financial industry bodies in the UK have been working on a set of initiatives designed to facilitate further progress.

UK Financial Conduct Authority D&I framework

In September 2023, the UK FCA launched a consultation paper on a proposed Diversity & Inclusion framework in the financial sector. In setting out the background to this regulatory initiative, the FCA highlights the benefits of diversity and inclusion in driving healthy work culture, minimising groupthink, widening the talent pool and allowing for greater understanding of consumer needs. The consultation paper recognises the difficulties faced by women, ethnic minorities, and people from less advantaged socioeconomic background working in the sector, and proposes a framework which would address these challenges by fostering diversity and inclusion.

Additional proposals, applicable to firms with 251 or more employees, will require the companies covered to strengthen their D&I disclosure, establish and implement D&I strategy, set appropriate diversity representation targets and consider lack of D&I as a non-financial risk.

Firms encouraged to prioritise areas of under representation

The FCA does not intend to mandate the content or demographic characteristics of the target, suggesting that firms prioritise areas of greater underrepresentation based on their current diversity profile. The proposed mandatory additional disclosure requirements include age, either sex or gender, disability or long-term health conditions, ethnicity, religion and sexual orientation; and gender identity, socioeconomic background, parental responsibilities, carer responsibilities on a voluntary basis. In addition, the consultation proposes reporting on several inclusion metrics, which cover the employees’ perception of the work environment . The final regulatory requirements are targeted to be published in a Policy Statement in 2024 .

Chartered Financial Institute DEI Codes for North America and UK

In previous years, the CFA Institute (a global body focused on the investment profession and training for best practices and knowledge) introduced voluntary DEI Codes in the US and Canada, ensuring a growing signatory list of over 160 investors to date¹⁹⁴. In October 2023, the UK edition of the CFA DEI Code for investment firms was launched and versions are reportedly planned for Australia and New Zealand, and in discussion for Singapore.

The Code outlines six principles designed to integrate DEI considerations into the talent pipeline:

	Principle	Signatory Commitment
1	Pipeline	Expanding the diverse talent pipeline
2	Talent Acquisition	Designing, implementing, and maintaining inclusive and equitable hiring and onboarding practices
3	Promotion and Retention	Designing, implementing, and maintaining inclusive and equitable promotion and retention practices to reduce barriers to progress
4	Leadership	Using our position and voice to promote DEI and improve DEI outcomes in the investment industry. We will hold ourselves responsible for our firm’s progress
5	Influence	Using our role, position, and voice to promote and increase measurable DEI results in the investment industry
6	Measurement	Measuring and reporting on our progress in driving better DEI results within our firm. We will provide regular reporting on our firm’s DEI metrics to our senior management, our board, and CFA Institute

Source: SII, CFA Institute Diversity, Equity and Inclusion Cod (UK 2023)

The CFA Institute provides an indicative list of characteristics which the signatories could consider in the DEI context, including: gender, gender expression/identity, sexual orientation, race,

190. David Tyler, The Parker Review Committee, Improving the Ethnic Diversity of UK Business, An update report from the Parker Review, March 2023 : 40% of FTSE250 companies have not met the target to have one ethnic minority member per board at the end of 2022
 191. [Draft] ESRS S1 Own Workforce Exposure Draft, April 2022
 192. <https://www.iseq.com/en/insights/risk-intelligence/how-many-non-eu-companies-are-required-to-report-under-eu-sustainability-rules>
 193. <https://www2.deloitte.com/us/en/insights/industry/financial-services/gender-diversity-in-global-financial-services.html>
 194. David Tyler, The Parker Review Committee, Improving the Ethnic Diversity of UK Business, An update report from the Parker Review, March 2023 : 40% of FTSE250 companies have not met the target to have one ethnic minority member per board at the end of 2022

ethnicity, generation, socioeconomic status, mental wellbeing, disability, religion, neurodiversity, citizenship status, native language, intersectionality of two or more groups¹⁹⁵.

NASDAQ’s Board Diversity Rule requires disclosure beyond gender

The US Nasdaq exchange has implemented board diversity disclosure requirements for its issuers that go well beyond any other listing body globally, in broadening the scope of diversity to include not just gender but also other types of diversity. The new rules (approved by the SEC in 2021) oblige most Nasdaq-listed companies to have or explain why they do not have at least two diverse directors. This is based on self-identification by the directors themselves who may be female, from an under-represented minority (which can be self-defined) or LGBTQ+.

NASDAQ separates requirements for issuers based in the US and those abroad, in acknowledgement of the need of localised contexts for diversity reporting. Notably there are domestic definitions of ethnicity in the Board Matrix Guidance for US issuers but broader and less precise demographic categories for non-US issuers.

Broader reporting definitions for issuers outside US:

The NASDAQ rule adapts the transparency requirements for non-US companies using its listing regime, bearing in mind that certain regions globally restrict the collection of some demographic data (including ethnicity). If non-US domiciled companies believe that the disclosures required on the board diversity matrix are prohibited under their home country law they must still submit the matrix. However, they can indicate “Yes” on the matrix where asked, “Disclosure Prohibited under Home Country Law.” According to its guidance, NASDAQ is relying on the representation by the company and will not require any legal analysis supporting its conclusions.

Figure 31: Locally defined demographic categories used for reporting by issuers with principal executive offices inside the US:

Board Diversity Matrix (as of March 14, 2023)				
Board Size:				
Total Number of Directors	9			
	Female	Male	Non-Binary	Did not disclose gender
Gender:				
Directors	3	6	0	0
Number of Directors who identify in any of the categories below:				
African American or Black	0	0	0	0
Alaskan Native or Native American	0	1	0	0
Asian (other than South Asian)	0	1	0	0
South Asian	1	0	0	0
Hispanic or Latinx	0	1	0	0
Native Hawaiian or Pacific Islander	0	0	0	0
White	2	3	0	0
Two or more races or ethnicities	0	0	0	0
LGBTQ+	2			
Persons with disabilities	1			

Source: Nasdaq - Board Matrix Examples

195. CFA Institute Research and Policy Center, CFA Institute Diversity, Equity and Inclusion Code (UK), 2023

Foreign issuers have some additional flexibility over US issuers in that they may satisfy the minimum diversity objective by including two female directors, or by including a female director and an individual who self-identifies as LGBTQ+ or an underrepresented individual based on national, racial, ethnic, indigenous, cultural, religious or linguistic identity in the country where the Foreign Issuer’s principal executive offices are located. A NASDAQ official guidance example is below for foreign issuers with principal executive offices outside of the US.

Figure 32: NASDAQ guidance for foreign issuers

Board Diversity Matrix (as of April 25, 2023)				
Country of Principal Executive Offices:		Canada		
Foreign Private Issuer		Yes		
Disclosure prohibited under Home Country Law		No		
Total Number of Directors		8		
	Female	Male	Non-Binary	Did not disclose gender
Part I: Gender Identity				
Directors	3	6	0	0
Part II: Demographic Background				
African American or Black				0
Alaskan Native or Native American				1
Asian (other than South Asian)				0

Directors who are Aboriginal Peoples: 1

Directors who Disabilities: 2

Source: Nasdaq - Board Matrix Examples

Figure 33. Recent frameworks increasingly incorporate indicators beyond gender with focus on equity and inclusion

Framework	Summary	Scope	Beyond gender focus	Equity and Inclusion focus
EU CSRD/ESRS	Mandatory corporate sustainability reporting standards designed to ensure stakeholders have access to comprehensive sustainability-related information	Listed and non-listed large companies in the EU; SMEs listed in the EU; non EU companies with significant activities in the EU	Discrimination based on race/ethnicity, nationality, religion/belief, disability, age or sexual orientation	Equality in pay, access to secure employment, equal treatment regarding working conditions, and inclusion of people with disabilities; training and skills development, health and safety management, working hours, work-life balance, fair remuneration, security eligibility coverage, collective bargaining
FCA D&I framework	Mandatory corporate sustainability reporting standards designed to ensure stakeholders have access to comprehensive sustainability-related information	Non-financial misconduct proposals – all regulated financial firms in the UK Additional D&I requirements – large firms with 251 or more employees	Age, disability or long-term health conditions, ethnicity, religion, sexual orientation, gender identity	Socioeconomic background, parental responsibilities, carer responsibilities; inclusion metrics
CFA DEI Codes	Voluntary industry principles-based code aiming to advance DEI within the North America/ UK investment sector	North America/ UK investment firms (Australia standard also expected)	Gender expression/identity, sexual orientation, race, ethnicity disability, religion, neurodiversity	Generation, socioeconomic status, mental wellbeing, citizenship status, native language, intersectionality
Nasdaq Board Diversity Rule	Diversity and disclosure requirements for companies aiming to promote gender and minority representation at the board level	Companies listed on Nasdaq Exchange	The diversity objective can be satisfied with one female director and one director belonging to an underrepresented minority or LGBTQ+	N/A

2. Gender Pay Gaps have set a precedent for other forms of diversity and intersectionality

- Pay gap engagement can usefully extend focus beyond gender to reflect broader workforce

Pay gaps are a central consideration across DEI. In this report we address pay disparities in the context of ethnicity, sexual orientation, disability and socioeconomic background, highlighting underlying drivers that can help investors to understand the context of the pay gaps.

An understanding of the gender pay gap is helpful as it serves not only as a model for the development of other types of pay gap reporting but also provides an existing framework to assess pay gaps where overlapping diverse identities is concerned

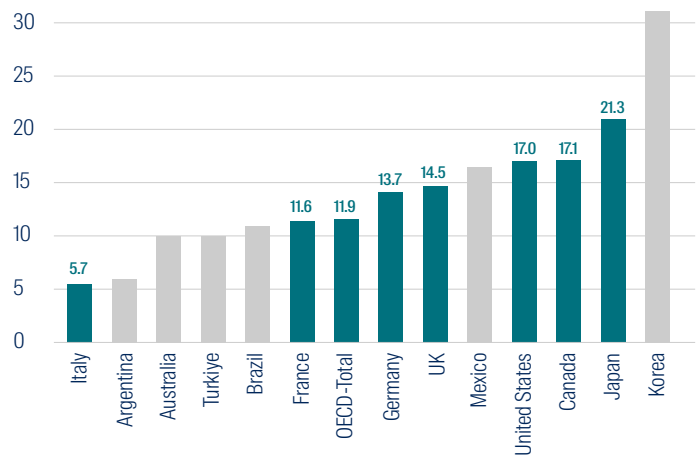
In these cases where intersectionality is applied – i.e. overlapping diverse identities, the pay gap is typically increased. A small number of countries including the UK and Australia have gender pay gap reporting in force, however there are few if any examples of other forms of pay gaps as regulated disclosure.

Gender pay gap concepts set precedent for broader pay gap analysis

The OECD defines gender wage gap as the difference between median earnings of men and women relative to median earnings of men¹⁹⁶. Gender pay gap is a key indication of persistent inequality in employment – women continue to be paid less than men, are more likely to work part-time, and experience difficulties in gaining promotions. The progress of reducing this gap has slowed down in the recent years – despite partial recovery in labour force participation post-pandemic, women still face higher unemployment (4.5% global unemployment rate for women vs 4.3% for men¹⁹⁷) and are more likely to take up informal jobs.

According to the 2023 World Economic Forum Global Gender Gap Index (measuring gender parity across Economic Participation and Opportunity, Educational Attainment, Health and Survival, and Political Empowerment) at the current rate, the gender parity will be reached in 131 years. Notably, no country has achieved full parity yet, with Ireland gaining the highest place in 2023 for closing 91% of its gender gap¹⁹⁸.

Figure 34. Gender pay gap in G20 countries, 2018 – 2022 (Y = gender age gap in percentage points)



Source: OECD (2023), Gender wage gap (indicator). doi: 10.1787/7cee77aa-en (Accessed on 01 November 2023)

Partially, the differences in pay between men and women can be attributed to sectoral and occupational gender segregation (concentration of one gender in particular sectors and occupations) - women tend to be predominantly employed in lower-pay sectors and occupations than men (e.g. segments of retail, healthcare, and education)¹⁹⁹.

While women accounted for 41.9% of the global workforce in 2023, they took only 32.2% of senior leadership positions and 25% of executive positions; however, some industries (including consumer services, retail and education) demonstrated a more equal split²⁰⁰.

196. <https://data.oecd.org/earnwage/gender-wage-gap.htm>

197. World Economic Forum, Global Gender Gap Report 2023 https://www3.weforum.org/docs/WEF_GGGR_2023.pdf

198. See above

199. Denis Leythienne, Marina Perez-Julian, Gender pay gaps in the European Union – a statistical analysis, 2021 edition, European Union, 2022 <https://op.europa.eu/en/publication-detail/-/publication/1fd90e-227d-11ec-bd8e-01aa75ed71a1>

200. World Economic Forum, Global Gender Gap Report 2023 https://www3.weforum.org/docs/WEF_GGGR_2023.pdf

At the same time, the trend in relation to employment of women in higher-paying sectors and occupations is positive: according to the US data, the employment of women in managerial occupations reached 40% in 2022, from 26% in 1982²⁰¹; while, the proportion of women in some lower-paid sectors such as administrative support and food preparation decreased (and the high proportion of women employed in education, healthcare and personal services remained at similar levels)²⁰².

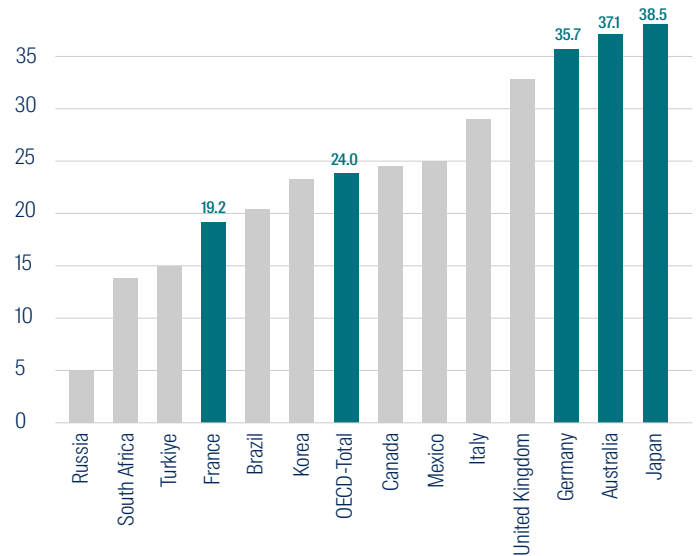
Family choices can be a significant driver of the wage difference – pay gaps for younger women can be insignificant even in countries with high gender pay gaps overall, but in many cases it increases for women with age, particularly with children. For example, in the UK, the gender pay gap for workers under 40 is between 3-4%, but for the over-40 age group, it rises to 10.3% or over²⁰³.

Overall, the proportion of women in the higher-paid professional and managerial positions, as well as directors and senior officials, is below 50% across all ages. Notably, the proportion of women working full-time as managers, directors or senior officials decreases for the 40-49 and 50-59 age groups. In comparison to the 30-39 age group, women aged 40-49 are mostly employed in the lower-paid positions, which tends to also apply to the 50-59 group (2023 UK data)²⁰⁴. According to the recent (2022) US data, the largest increase in gender pay gap occurs in the 35-44 age group: while women aged 25-34 earned around 92% as much as men of similar age, for women aged 35-44 that number dropped to 83%, and to 79% for women in the 55-64 age group, following a pattern evident over the last four decades²⁰⁵.

As mentioned above, this pattern could be attributed to the career gaps and change in working hours many women experience when trying to balance work and family. While switching to part-time or fixed-term contracts may allow women greater flexibility, these modes of working can have negative impacts on pay, pensions, promotions and job security in the long term. Mothers are significantly more likely to choose part-time roles to reconcile work with family responsibilities, especially in environments lacking affordable child care – as demonstrated by the prevalence of part-time female workers in countries with high childcare costs, such as the Netherlands, Germany, the

United Kingdom and Belgium²⁰⁶. On the other hand, men with children can become more active at work – on average working more hours each week compared to men without children; fathers also tend to receive a ‘fatherhood wage premium’²⁰⁷.

Figure 35. Part-time employment rate - women, 2022



Source: OECD (2023), Part-time employment rate (indicator). doi: 10.1787/f2ad596c-en (Accessed on 01 November 2023)

Recent legislation trends

Legislation and policy is a key lever in ensuring equality of economic opportunity. Since the 1970s, over 2000 reforms focused on women’s legal rights have been introduced globally; however only 14 economies have achieved legal gender parity to date.

Currently, economic equality is the highest in OECD countries, while Middle East and North Africa are falling behind. At the same time, countries with lower levels of legal gender equality have been seeing increased pace of reforms in past two decades. According to the World Bank analysis, legal frameworks in 119 countries still have the room for improvement in terms to reducing the gender pay gap.

201. <https://data.oecd.org/earnwage/gender-wage-gap.htm>

202. See above

203. <https://www.economicsobservatory.com/what-do-the-latest-data-reveal-about-the-uks-gender-pay-gap>

204. Office for National Statistics, Gender pay gap in the UK: 2023 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2023#:~:text=The%20gender%20pay%20gap%20has,2023%20it%20stands%20at%207.7%25>

205. Rakesh Kochhar, The Enduring Grip of the Gender Pay Gap, Pew Research Center, 1 March 2023 <https://www.pewresearch.org/social-trends/2023/03/01/the-enduring-grip-of-the-gender-pay-gap/#:~:text=A%20good%20share%20of%20the,those%20ages%2055%20to%2064>

206. OECD, Closing the Gender Gap: Act Now, 2012, OECD Publishing https://www.oecd-ilibrary.org/deliver?redirecturl=http%3A%2F%2Fwww.keepeek.com%2FDigital-Asset-Management%2Foecd%2Fsocial-issues-migration-health%2Fclose-the-gender-gap-now_9789264179370-en&isPreview=true&itemId=%2Fcontent%2Fpublication%2F9789264179370-en

207. Rebecca Glauber, Trends in the Motherhood Wage Penalty and Fatherhood Wage Premium for Low, Middle, and High Earners, Demography, Vol. 55(5), October 2019 <https://www.jstor.org/stable/45048028>; Rakesh Kochhar, The Enduring Grip of the Gender Pay Gap, Pew Research Center, 1 March 2023 <https://www.pewresearch.org/social-trends/2023/03/01/the-enduring-grip-of-the-gender-pay-gap/#:~:text=A%20good%20share%20of%20the,those%20ages%2055%20to%2064>

As of 2022, 97 countries established the principle of equal pay for work of equal value for both genders. Another important consideration is occupational restrictions preventing women from employment in roles that are perceived as dangerous or potentially harmful – these restrictions still persist in 49 countries, hindering pay equality as well as innovation and productivity²⁰⁸.

In 2022, the pace of gender-related legal reforms slowed to a 20-year low; only 34 reforms were recorded, focusing on parental leave, equal pay, and removing occupation restrictions for women.

Good business practices in minimising pay disparity

Legislators and policymakers are key in establishing the existence of a legal framework which provides adequate protections and support to all segments of the population. Businesses can support development and enhancement of these frameworks by engaging in policy advocacy on topics linked to pay disparity. In addition, companies can play an important role in mitigating circumstances contributing to pay gaps through their recruitment and human capital policies.

For example, policies such as flexible working can improve employment prospects for women with children, employees with caring responsibilities, employees with disabilities and neurodivergent employees. Another approach could be allowing part-time working for senior roles – currently part-time work is mostly available for low-skilled and low-paid jobs, which contributes to pay disparity for several segments of the population.

To further minimise gender pay gap, businesses may facilitate a more equal split of domestic responsibilities between men and women by promoting the uptake of parental leave by both parents. Providing enhanced parental leave pay for genders would be one way for employers to support this.

Finally, companies in sectors where certain demographics are particularly underrepresented can make sure their recruitment, promotion and employee wellbeing policies are inclusive towards the underrepresented groups. One example could be tech companies in the US increasingly focusing on racial diversity post-2020 and introducing remote working opportunities to ensure the wider geographical reach²⁰⁹.

Pay gaps drivers are further expanded in the ethnicity, socioeconomic background, sexual orientation and disability sections of this report.

Any future pay gap legislation applied beyond gender is likely to build on existing frameworks of gender pay gap disclosure

(which we have already seen on a voluntary basis as good practice). The ongoing reporting of intersectionality in pay gaps is a significant step in allowing investors to more fully assess DEI practices.

208. World Bank, Women, Business and the Law 2023, Washington, DC: World Bank, doi:10.1596/978-1-4648-1944-5

209. Gad Levanon, Frank Steemers, Laura Sabattini, Mind the Gap: Factors Driving the Growing Racial Wage Gaps and Solutions to Close Them, 14 June 2021 <https://www.conference-board.org/topics/civil-just-society/growing-racial-wage-gaps>

3. Summary Table: Engagement Questions & Context

DEI category	Challenges	Engagement focus
<p>Disability & Neurodiversity</p>	<p>People with disabilities continue to face employment and wage gaps; they are more likely to work part-time and underrepresented in senior positions</p> <p>Workers with disabilities face workplace discrimination driven by negative assumptions regarding their performance</p> <p>Neurodivergent employees can possess above-average skills in certain areas, however assumptions and stereotypical approaches carry risk</p> <p>Disability and neurodivergence is often under-diagnosed by medical professionals and under-disclosed by employees</p>	<p>Does the company website have accessibility features?</p> <p>What alternative application routes/adjustments are available to neurodivergent candidates?</p> <p>How is disability and neurodiversity inclusion integrated into the career progression pathways?</p> <p>What flexible working arrangements are available for the neurodivergent employees/ employees with disabilities and employees with neurodivergent children/children with disabilities?</p> <p>(for the full list of engagement questions, see page 21 of the main report)</p>
<p>LGBTQ+</p>	<p>Evidence provided by employee surveys shows continuing LGBTQ+ inclusion challenges linked to wellbeing and workplace discrimination</p> <p>LGBTQ+ employees face challenges across the employment cycle, including unfair dismissal, lack of promotions, exclusion and verbal abuse</p> <p>Fear of discrimination leads many LGBTQ+ to not disclose their identity to their employer and not report discriminatory behaviour</p>	<p>Does the company offer an inclusive benefits policy to employees in different- and same-sex marriages or partnerships?</p> <p>Does the company offer LGBTQ+ inclusive medical insurance coverage?</p> <p>(for the full list of engagement questions, see page 26 of the main report)</p>

DEI category	Challenges	Engagement focus
<p>Ethnicity & Race</p>	<p>Ethnicity composition disclosure is typically voluntary and based on self-identification, with some jurisdictions prohibiting the collection of ethnicity data (e.g. France)</p> <p>Race and ethnicity are linked to pay disparity as well as increasing gender pay gaps and the rate gender pay gaps close over time</p> <p>However the links between ethnicity and pay can be complex and should be analysed in the local context.</p>	<p>How does the proportion of ethnic minority employees compare against percentages within the local and other relevant contexts?</p> <p>How does board ethnic diversity compare to the industry peer average? Are there any goals/commitments to increase board diversity? How does the % of board members with either significant global experience and % foreign nationals compare against % of non-domestic global revenue?</p> <p>Does the company collect and disclose data on the number of nationalities employed globally? Does this meaningfully track against the geographical footprint of the company? i.e. number of employee nationalities represented globally vs number of countries of operation</p> <p>(for the full list of engagement questions, see page 32 of the main report)</p>
<p>Socioeconomic background</p>	<p>Employee surveys show that many companies are not yet taking active measures to integrate socioeconomic considerations in their recruitment practices</p> <p>Socioeconomic factors can exacerbate challenges facing individuals belonging to other diversity groups – e.g. an ethnic minority person from a disadvantaged socioeconomic background can face more barriers in the workplace compared to a person of a same ethnicity but higher socioeconomic status.</p>	<p>Is impact of intersectionality of socioeconomic background with other diversity characteristics measured over time?</p> <p>Do the company recruitment initiatives take into account socioeconomic considerations – for example, by adopting contextual recruitment or compensating travel expenses?</p> <p>Does the company offer paid internships/work experience schemes (eliminating unpaid schemes)?</p> <p>Are non-graduate career routes given the same potential opportunities for successful performance as graduate intake?</p> <p>(for the full list of engagement questions, see page 37 of the main report)</p>

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