

How company actions on equality must change post-covid

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When I started my job at Deutsche Bank in 2006, I was very green. I am referring to the inexperienced implication and not the eco-friendly one. Having just finished my MBA degree, I was concerned that the variable rate on my student loans (co-signed by my parents) seemed to perpetually move higher. The Great Recession would soon begin. It feels like a lifetime ago, but I do remember my computer screen consistently flashing like red Christmas tree lights. I probably should have been more concerned. Grown men were walking around the office in a curious dishevelled state. Had I lost my job, I would have lasted in New York for a few months before flying to my parent's home to hide in my childhood bedroom. For context, this room had been turned into a shrine of my marginal college soccer glory and failed high school volleyball effort.

I would have been miserable. Yet, having a safety net, I would have been one of the lucky ones.

Like most periods of financial instability, the Great Recession highlighted significant socioeconomic inequality. At that time, efforts to create a healthier economy focused on mortgage lending reform and financial sector regulation. This time, with covid, a spotlight shines on deeper and more problematic social issues. The pandemic also coincides with the elevation of the Black Lives Matter movement which has amplified our unnerving level of racial inequality.

Learnings from this should be part of the rebuilding conversation. Today, corporations should not ignore that they have the capability to drive change ahead of the next financial (and social) crisis.

The impact of inequality and the corporate response

The pandemic's impact provides tangible evidence for this generation that inequality can exacerbate and prolong a financial crisis. The statistics and estimates below show a fraction of the problem:

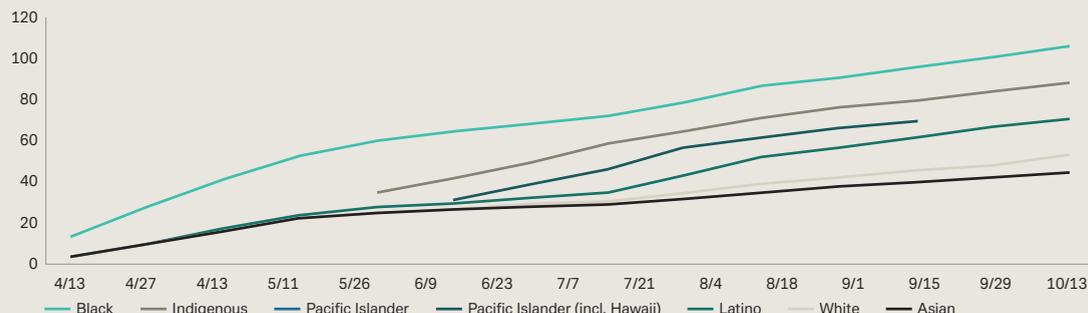
- *Women are 19 per cent more likely to lose their job.* Women represent more than half of the total job losses resulting from the pandemic, despite making up about two-fifths of the global labour force¹.
- *Job losses during the pandemic are disproportionately impacting the poor.*
- *Learning loss is highest among black and Hispanic students.* For grades K-12 in the US, learning loss is estimated to be ten per cent for white students compared with 40 per cent and 30 per cent for Black and Latino students, respectively².
- *Blacks and other minorities have experienced the highest death rates from the pandemic.* This has been attributed to black people (as well as other minorities) having higher representation among essential workers rather than in jobs where they could work from home. Additionally, they are more likely to live in multigenerational households and crowded housing conditions. Moreover, in the US, they have less access to healthcare. For context, the APM Research Lab claims there have been 108 deaths per 100,000 for Blacks double the rate for white Americans.

These growing concerns over racial disparity are a key reason why the "S" factor in ESG has been raised as a result of this pandemic.

¹ McKinsey & Co.

² McKinsey & Co.

Black & Indigenous Americans experience highest death tolls from covid-19



Source: APM Research Lab

Note: All intervals are 14 days apart, except for 5/11-5/26, which is a 15-day period. 9/1 and 9/29 data has been interpolated. Pacific Islander data prior to 10/13 did not include Hawaii, as it was not releasing data; its inclusion resulted in an overall drop in the Pacific Islander rate, which begins a new series at 10/13.

Corporations cannot be expected to solve issues like inequality alone. But, they have levers to drive improvement. What can they do? In addition to setting targets for change, companies need to be accountable. The best way to do this is to link their goals and commitments to managerial and executive compensation. This includes (but is not limited to) initiatives to improve diversity & inclusion, pay parity, health & wellness, safety, and community outreach. Management teams willing to address relevant social issues will not only support a healthier economy, they will also create stronger and more resilient companies.

As companies take more responsibility for the world around them, it is likely their stocks will become more attractive to investors. That

is because the number of purpose-driven investors is growing quickly. Inflows into sustainable retail funds have increased at a record setting pace in 2020. This comes after a record setting 2019. Moreover, amongst all actively managed retail funds, only branded ESG funds are growing, while non-ESG funds have seen outflows.

First and foremost, there is a problem with disclosure

In order for companies to improve on social metrics, they must first collect the relevant data and feedback from employees to create a baseline. Aggregated statistics should be disclosed and measurable targets introduced. Unfortunately, many publicly traded companies currently do not disclose social data, especially

ESG-related definitions of terms used in this report

Fund Category Definition	Actively Managed ESG US Equity Mutual Funds		Non ESG
	Sustainable	Exclusionary	
AuM (as of 2Q20, \$bn)	89.5	150.6	6,391.8
Average Quarterly Performance from 4Q18 to 2Q20			
Quarterly Average	2.3%	1.4%	1.7%
S&P 500	1.8%	1.8%	1.8%
Organic AuM Growth	6.2%	-0.7%	-5.0%

Source: Morningstar, Deutsche Bank

at the employee level. If it does exist, it can be difficult to find or compare.

To be fair, in certain European countries, restrictions on obtaining and processing of employee information make collection of the data difficult. In contrast, US regulators require most companies to track health and safety data and employee demographic statistics including those regarding diversity. Results are aggregated by industry and available on the US Bureau of Labor Statistics. Today, the SEC does not deem these metrics to be material to financial reporting so they often are not made available by the company.

Overall, the extent of reporting is poor. Indeed, almost three quarters of Russell 1000 companies choose not to disclose diversity data while 61 per cent do not publicly disclose gender data³. European companies may be slightly better in disclosure practices, but in the UK, the Financial Reporting Council states that only 14 per cent of FTSE 100 companies and 2 per cent of FTSE 250 companies have measurable ethnicity targets.

Let's move to some good news

Some companies are taking action. This is especially true of consumer facing firms attempting to address social inequality highlighted by both the pandemic and BLM. Many are providing diversity training and mentorship programs, emphasising community outreach efforts, changing hiring practices, and setting clear diversity and inclusion targets for employees and boards.

One example is Starbucks. After receiving backlash regarding its diversity, the coffee chain operator announced a goal of achieving black, indigenous and non-white representation of at least 30 per cent at all corporate levels, and at least 40 per cent at all retail and manufacturing levels by 2025. With these new targets comes a commitment by the company to link its broader goals to executive pay in order to increase accountability. Note that Starbucks reports one-hundred per cent pay parity.

Another example is Under Armour. In May this year, the apparel brand announced that in addition to an existing commitment to have 30

per cent of director and above positions filled by black, indigenous and non-white members, the company has now committed to a more specific target of filling 12 per cent of those roles with black talent by 2023. Those percentages also now apply to members of the Executive team. The company has also linked the enhanced goals to annual incentive pay for executives and some prior goals were already linked.

A third example is Lululemon. In October, it announced targeted diversity goals and revealed it will invest \$75m in equity well-being programs. It also expanded gender pay equity to full pay equity for all employees.

Companies will need to prove they are a strong social partner

A simple Google search will provide a plethora of data available prior to the pandemic that supports the benefits of diversity within an organisation. McKinsey showed in a study that companies in the bottom quartile for gender, ethnicity, and race are statistically less likely to achieve above-average financial returns than average companies. The bottom line is that potential for less diverse companies is constrained. Businesses that are diverse are likely to be better.

Coming out of covid, there will be additional hurdles for organisations that do not make an effort to address social inequality. In October, Yale's veteran endowment chief, David Swensen, told investment firms that they will be measured on progress towards increasing the diversity of their investment staff. The message was that they need to hire more women and minorities or they may be excluded from managing the university's money.

In an interview, Mr. Swenson said that he had previously held off on efforts to encourage more diversity at asset managers in part because of a belief that there was an insufficient pipeline of diverse candidates. The Black Lives Matter movement has changed his view and approach. He is not the first nor will he be the last person to come to this conclusion. Indeed, any company, regardless of industry, could soon find themselves in a position where a key customer, partner or stakeholder will make a similar demand.

³ Bloomberg Finance L.P.

The infrastructure for customers to place demands on their suppliers already exists. One would think increasing pressure on manufacturing companies to be sustainable is coming from sustainability-minded investors. In my experience, if you speak to companies about this, they will tell you that the real pressure is coming from customers. If environmental objectives are important to a consumer company, it becomes important to their supplier. As “S” objectives are becoming more important for consumer-facing companies, suppliers and partners will also be expected to show improvement.

Increasing representation takes time; it is best to start now

Among the 15+ financial analysts at the various research firms that cover paper and packaging stocks, I am the only female. It has been this way for most of my career. I do not often notice when I am the only women in the room at industry events and more. I did when I was younger and then again after I had a child. Again, I was one of the lucky ones. I had strong female (and male) mentors and supportive colleagues along the way.

I have noticed that organisations with a more inclusive and supporting culture, have made a commitment to their diversity efforts for some time. The companies also typically disclose social metrics annually and they set thresholds and targets for improvement.

During my career I have seen more women move into managerial and executive roles, but the pace has been slow. Diversity in the boardroom has moved at a faster pace. Unlike other social metrics, this number of women on the board is typically disclosed by publicly-traded companies. Thus, companies have been more accountable to show progress. That said, most firms, including paper and packaging companies, do not meet the 25-30 per cent threshold advocated for by investors, such as BlackRock.

Progress on the ethnic diversity of boards and management has been minimal. This is true of most sectors. Companies can make a consistent effort to hire employees that contribute to diversity, but in order to retain talent they need to create an inclusive organisation. This includes having a diverse set of leaders to the

top of the organisation. Attracting and fostering those leaders can take time.

Coming out of this financial recession, if a stakeholder asks a company to show its commitment to improving an element of social inequality, the management team will not be able to wait until the next financial crisis to show change. Organisations that are not inclusive are likely to experience negative outcomes. Moreover, penalties imposed by stakeholders could be more severe in three, five and ten years’ time compared with what they are today. More resilient companies are aware of their social contribution and address deficiencies, which is also part of their role in making economies stronger.

Corporations should not ignore that they have the capability to drive change ahead of the next financial (and social) crisis. ➤