The attainment of leadership roles by women at public companies and in public office speaks to the professional progress they have made and the important roles they play in providing diversity in the workplace. Gaining equal employment and advancement opportunities have been goals of working women and women’s organizations for decades. While much progress has been made, more can be done on many fronts to improve diversity. For the companies we invest in at ClearBridge, promoting greater representation on corporate boards of directors and in the executive ranks are two important ways to gauge progress.

Strengthening female board representation promotes the development of a greater supply of female executive talent with the potential for future board appointments, creating a virtuous cycle. But it’s not enough for women to successfully rise through the ranks. Their accomplishments need to be communicated and their influence leveraged to encourage broader approaches to education and training that will lead to more qualified females entering industries where gender imbalances are particularly acute, such as technology and industrials.

Achieving gender balance in the workplace has been shown to have positive financial impacts on both societal and company levels. Gender diversity is critical to companies and economies remaining competitive. For example, the addition of women in the workforce can help counteract the negative demographic trends of aging populations. Within corporations, gender diversity leads to the best talent being put to use, increased productivity as well as better talent retention and risk management. Companies with more balanced workforces benefit from more diverse perspectives and skills, which can improve overall company performance. Equitable hiring practices and diverse workforces also lower the risk of legal actions or reputational damage due to gender discrimination.
More gender-diverse companies are associated with many of the same characteristics found in companies with high-quality fundamentals. In a survey of companies in the MSCI World Index, Morgan Stanley found that companies that ranked in the top third of the index based on percentage of female employees outperformed those in the bottom third by an average of 380 basis points per month from 2010 to 2015 (Exhibit 1). Morgan Stanley found similar advantages in company return on equity for firms with greater gender diversity than their peers. As with other ESG factors we consider, the impact of gender diversity varies by sector. In more public-facing industries such as financial services, business services, retail, leisure and travel, greater diversity is linked with higher employee morale. These increased levels of employee satisfaction can lead to better stock performance, according to work by Alex Edmans, a finance professor at London Business School.

Exhibit 1: Gender Diversity is Linked to Better Performance

![Graph showing performance of companies in MSCI World Index thirds based on female employees percentage]

Performance of companies in the MSCI World Index divided into thirds based on percentage of female employees. Source: Morgan Stanley Sustainable & Responsible Research.

ClearBridge advocates for gender and other types of diversity through our investments in companies with strong social and governance records, individual company engagements, proxy voting and communication of gender and diversity-related issues. Specific to gender diversity, we believe proxy voting does have an impact on improving transparency on inclusion and pay issues. Several technology companies, including Apple, Facebook, Intel and Microsoft, now release pay data, with Facebook and Microsoft disclosing that they pay men and women equally – all as a result of shareholder proposals. JP Morgan Chase seeks feedback from shareholders on its proxies in advance of voting and takes it seriously. As an engaged shareholder, ClearBridge actively provides feedback on such issues as gender pay, gender diversity on its board and in the pipeline.

Gender diversity is currently a key engagement topic for our industrials analysts. Management teams and executives in the industrials sector are among the least diverse in the U.S. from both a gender and racial standpoint. Women do hold leadership positions in the human resources division of industrials companies but are rarely involved in operational roles. In governance and general management meetings with such companies as 3M and Honeywell, we are bringing up these issues and specifically asking about what actions they are taking to foster a more diverse pipeline of talent and who is in line for these seats in the future. We have communicated to these companies that failing to consider a diverse pool of candidates for executive and other management positions causes them to overlook a huge pool of skills and perspectives and potentially better performance.