

THE LONG VIEW

Diversity Matters

'Our factory is so automated even a woman could work there.'

This remark which we heard on a recent research trip to India demonstrates that significant work remains for the value of gender diversity to be clearly recognised. Notwithstanding benefits to societal fairness, in purely economic terms the IMF estimates that if India were to achieve parity in male and female participation in the workforce, the country would be 27% richer. This is a result of another 235 million workers entering the economy – more than the total working population of Europe¹.

DIVERSITY MATTERS

On a more micro scale, research reviewed by McKinsey and others shows that a better gender balance is associated with better financial performance² – and although correlation and causation are two different things, this does imply that companies with higher female participation may have a cultural edge over others.

Our view has always been that sustainability initiatives that help deliver shareholder returns should themselves be sustainable. Much of the conversation about ESG seems to miss the point that, if done well, changes in companies to address diversity issues can result in better returns for shareholders. Here the evidence seems compelling.

Nonetheless a recent survey by McKinsey of more than 1,000 companies in 15 countries found 31% of respondents don't believe diversity is important³. This suggests a significant contingent don't yet understand the potential benefits of change – or feel threatened by it.

Although diversity by its nature covers many different attributes, we chose on a recent trip to India to focus specifically on gender. Women's participation in the workforce in India fell from 35% in 2005 to 23% in 2021², the lowest in the G20 with the exception of Saudi Arabia⁴. This figure probably understates the work that women do in the informal sector, including in small businesses, domestic help or agriculture. Still the fact remains that formal participation is low and has declined over time. In China women's participation is closer to 60% as of 2020⁵, so it does seem that something is amiss in India.

There are, however, a number of significant challenges in trying to increase participation even if companies are willing. The first is cultural. In India as wealth rises women's participation in the workforce actually drops. City-dwelling women are half as likely as their rural counterparts to have a job. This is thought to be because in urban areas where the man is the primary earner women are discouraged from working, in part because of social standing⁵.

Second is a lack of jobs. Where women have been displaced from agricultural jobs because of mechanisation, there is a lack of alternatives because India doesn't have the huge factories of Bangladesh, Vietnam and China.

Third are the threats that women feel to their personal safety. A Thomson-Reuters Foundation survey in 2018 found that India was the most dangerous country globally for women⁶. Not only did this cause women to leave the workforce, but those who did work were inclined to avoid evening events and opt for private transport because of concerns around harassment.

The creation of jobs for women and women-friendly workplace policies are key in addressing this imbalance and IT services are at the forefront of this initiative.

Quarter ended 30 June 2023 For professional investors onl

GENDER BALANCE AT INFOSYS AND BAJAJ AUTO

In most countries, it is difficult to find suitably qualified female candidates for STEM (science, technology, engineering and mathematics) jobs because female participation in these subjects is very low. In the US, for example, women make up 34% of STEM students; in Germany, it's only 27%⁷. In India, however, it is 43% – one of the highest in the world. Despite this, in universities and research & development organisations women make up only 14% of the employees in STEM roles.

We recently visited the **Infosys** campus in Bangalore, where women make up 40% of the workforce in a company that employs over 300 thousand people⁸. Infosys therefore clearly stands out for having an employee gender balance almost in line with that among university students.

There is still room for progress. Given the company's overall gender mix, we asked why only two of the 10 highest-paid people in the company were women and only one of the eight designated as key management. What followed was an interesting conversation about the challenges of retaining women, particularly after they start a family. The company is very focused on convincing women to return to work and the return-to-work rate for women and men after parental leave is almost equal at around 90%. Women who return to work are assigned mentors and receive support in preparing and applying for promotions to make up for the time they were absent.

Infosys acknowledged that changing the gender make-up of senior management was a challenge but at lower levels the numbers were improving, which should lead to more balance over time.

On the same trip we also went to visit **Bajaj Auto**, a maker of two- and three-wheelers, including the ubiquitous tuk-tuks that cruise the streets of Indian cities. We asked Bajaj what they were doing to encourage more women into work, and they pointed out to us that their new EV factory was staffed entirely by women. Though there is still a way to go, Bajaj have increased the number of women working in their business by four times since 2014 and 64% of those work in either manufacturing or engineering⁹.

DOING WELL BY DOING GOOD

It seems self-evident that a company that broadens the pool of talent it can attract and retain should have an advantage over those that don't. Like many other sustainability initiatives, building diversity in a firm isn't just a question of doing the right thing – it is good for business. We are pleased to see some of the best companies in India continuing to improve in this regard and figuring out ways to adapt to get the best from their people.

Quarter ended 30 June 2023 For professional investors onl

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- 4 The Economist. (5 July 2018). Why India needs women to work. www.economist.com/leaders/2018/07/05/why-india-needs-women-to-work
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- 8 Infosys Annual Report 2022.
- 9 Bajaj Auto Annual Report 2022.

Quarter ended 30 June 2023 For professional investor

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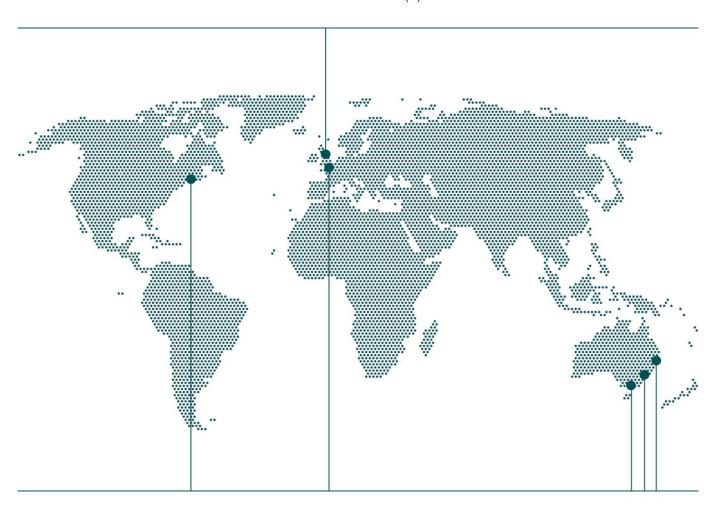
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