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ICGN Seoul Conference – Best Practice Approaches to Diversity, Equity and Inclusion
6th October 2022

- **Lauren Compere, Managing Director & Director of Shareowner Engagement, Boston Common Asset Management**
- **Nana Li, Head of ESG & Sustainability, Asia Pacific, Impax Asset Management**
- **Kathlyn Collins, Vice President and Head of ESG, Matthews Asia**
- **Kim Jo Seol, Independent Director, Shinhan Financial Group & Professor Economics, Osaka University of Commerce**
- **Chaired by: Dan Konigsburg, Senior Managing Director, Deloitte Touche Tohmatsu Limited & Board Member, ICGN**

Lauren Compare:

There's regulatory pressure on the gender pay gap, ratios of women in managerial positions and male workers taking childcare leave. This is our basis for engaging companies. We asked all five Japanese companies to share new human capital efforts currently undertaken to increase female management across value chains, specifically recruitment, retention, mentorship, sponsorship and promotion and explicitly explored their challenge assessment and solutions. We requested significant challenges and opportunities. Many Japanese companies provide parental leave for males, but we asked how companies actively promote the benefit, without penalisation from Supervisors for taking it.

In one small company we saw examples of informal/formal affinity groups for women to collectively talk about promotional challenges and opportunities, but not the other four. When engaging global Asian companies, they have US and European operations. Internally, innovation can be sparked by considering ways, with HR leadership, of formally/informally sharing global challenges and opportunities for female promotion, or other DEI efforts, sharing best practice examples around affinity groups, roundtables and Supervisor training to change corporate culture. I dig deep.

Don Konigsburg:

Do different markets have different approaches?

Kathlyn Collins:

As specialists in emerging Asian markets, we consider country differences and nuances, especially with engagement and proxy voting. Of those companies in the MSCI Emerging Market Index, 26% have no females on boards. Within countries, it's very different. Malaysia has quotas in place for some time, with over 30% of females on boards, but Korea has less than 10%. The two lowest countries are Korea and Japan and here we've focused most on D&I, especially for Executives and boards. We've observed demographic change and fertility rates have lowered. Government policy plays a big role. In Japan Abenomics focused on raising female labour participation rates. Korean fertility is below 1%, there's a huge gender gap in labour

participation, despite almost equal gender educational levels. The changing demographics could exacerbate valuation discount if there is low economic growth. It's an economic necessity governmental policy must address.

In corporate, we want change with Executives and boards. Globally we focus on any efforts undertaken here, discussing with companies response to government efforts and quotas. The Capital Markets Act this year changed that companies with assets of two trillion won must have include female. Matthews invest in many small and mid-cap companies who feel it doesn't apply because they don't meet the threshold. We urge them to consider it now, if they want to grow, as recruitment of female Directors will intensify and the ones you want will be taken. It works to mention the local context.

India introduced a female quota in 2013, with only 5% of female board members. After the quota it increased to 11% and today it's 17%. Without real change, quotas are, in some countries, the best thing. It helps investors engage, because it's not just the investor stating the importance. Global consideration is needed with market nuances, but for some you need some expectation around diverse boards.

Don Konigsburg:

It sounds like there's a policy angle here. Is anyone on the panel engaging with governments and stating your position, and if so, how?

Nana Li:

Regulatory engagement is important. We have a global strategy. The value add of diversity is to treat everybody the same, theoretically. In practice, market situations are very different, we must adapt locally. EU wants 40% gender diversity on boards by 2026. The proxy voting policy of voting against companies without 30% female board members cannot work in Asia, with 15%. It won't get to 30% overnight.

Asian companies are top-down driven in corporate governance issues. Engaging with regulators is important. In Japan we spoke to regulators last week to raise the issue. Japan and Korea are low in the region. Regulators need education here. We've spoken with Northern Asian regulators for many years. Some are not fully convinced of female board members creating value. A key regulator asked for evidence of this, but we couldn't give this because there was too small a sample to draw a conclusion. We provided examples of why it currently isn't working: financial scandals, low ROE, poor share performance. They went away to consider this. Over the last decade, the progress has been very slow.

Don Konigsburg:

It seems so customised by regions and companies, contrary to companies complaining about investor box-ticking, or a universal approach. Jo, what is Shinhan doing on diversity, equity and inclusion?

Kim Jo Seol:

Shinhan has a leading role in Korea in establishing DEI policies and goals, internal value levels and monitoring progress. Shinhan conducted GAP analysis with global financial groups, like BNP Paribas. The company decided fostering female Managers, improving culture, would better embrace DEI as a core task. The Korean financial sector was previously male dominated. Female management levels have continuously increased, but still remain less than domestic company average.

Shinhan's ESG Strategy Committee resolved to meet the long-term goal to increase female management proportions. It disclosed targets and a roadmap to solidify its plan to empower female stakeholders. A target was established of 15% female Executive

and 25% Department Heads by 2030, very challenging when in 2021, this was 8%. Various programmes, including training and evaluation of Executives in all subsidiaries, are planned. In 2018, Shinhan Sheroes, a female leadership fostering programme, totalling 221 female Department Heads and above, across all subsidiaries was selected, receiving training, mentoring, networking opportunities, to strengthen leadership competence. We run a programme creating work environment for diverse talented people to grow their capabilities without discrimination.

Shinhan aims to embed DEI within its corporate culture, with creativity and innovation flourishing. We re-established a corporate value system in 2021, redefining core values, setting a guideline for all employees to be bright, nimble and different. To embed DEI in the corporate culture early, leadership is vital. We've redefined the Shinhan Leadership Code, in line with new core values, to disseminate to the new value through leaders. We use the Shinhan Culture Index to diagnose and analyse organisational culture. Activities promoted further spread of DEI values. A quarterly culture report reports CEO evaluation of progress and feedback.

Shinhan established Diversity and Inclusion Principles in 2021, promoting compliance with the DEI global framework, which is promoted internally and externally, to "Do the fair thing for our wonderful world." We continually promote DEI values with stakeholders, to create a respectful world with fair opportunities.

Don Konigsburg:

It seems large institutions have a value-based business, informed by the board. There are many types of diversity, workplace standards, human capital, disability, LGBT, racial inclusion. When investing, is this considered and are particular markets harder?

Lauren Compare:

We prioritise particular DEI groups we focus on in certain markets. In the US, not just US corporations, but others conducting business there. After George Floyd, there was a push to tackle systemic racism, looking at racial equity at work and company roles in promoting it. There are different expectations and approaches. Companies may have a comprehensive DEI policy highlighting anti-discrimination, but it wasn't actively happening. There was a thoughtful approach of many companies stepping back and considering their approach, training and awareness, evaluating real challenges to true racial equity. Instead of having a token Black person heading DEI strategy, it gained the bottom-up/top-down perspective, addressing challenges. There is much more work done in disability, with a global best practice.

Kim Jo Seol:

We've looked extensively at ethnicity. Some Japanese and companies, over recent years, have made progress on gender diversity, but international companies with large overseas operations have local board. We encourage more racial and ethnic diversity on boards, to understand regional contexts, especially geopolitically.

Kathlyn Collins:

Gender diversity is our main focus but having boards and management with the ethnicity of its customers and stakeholders is important. A mining company in Brazil lost its operation licence. Considering the community backlash, we felt the board could be more reflective of them, to show more sensitivity. Depending where companies operate, their markets and consumers, nationality is key to understanding the business and create success. D&I focus is still mainly gender diversity, because there's so much work.

Don Konigsburg:

Many recognise the Brazilian company. It's also a question of economic diversity. It's extracting from the indigenous community, as well as the ground. Boards are visible and adding members is vital.

Paul Schneider:

We also need to ask what value men add over women, not simply how women add value. Do Asian boards have a pass, being below global expectations? Ontario Teachers have discussed this since 2013. It's now time for action.

Lauren Compare:

In all markets, we explain our voting and use it for engagement. In Korea, Japan, developed Asian markets, we've considered moving to at least two women on boards, with prior notice. Some companies feel proxy voting is a blunt tool. Investors must engage on gender diversity in Asia with regulators, to establish an expectation and a pathway.

Kathlyn Collins:

For three years, in all markets, in specific strategies, we've voted against Non-Gov Committee Chairs and new Directors for re-election, with no female board members. With approval from the Responsible Investment and Stewardship Sub-Committee from next year, this will be strategy wide. It won't be a quota, but for female-less companies. We've compiled letters for companies detailing our voting policy, to expect a no vote on Directors with boards without one diverse member.

Nana Li:

We don't give Asian companies a lower pass. The target is 30% for all companies, we vote against Nomination Committees or Board Chairs when quotas aren't achieved. When voting against companies, we understand the reality that the expectation is lower on gender diversity. It's one step at a time. There has been regional progress here. Many didn't initially accept the idea. A regulator five years ago stated women voluntarily leave senior positions to return to their families. Now, they want females on boards, moving towards more qualified female Directors in future.

Woochan Kim:

After many years, we must move past quotas. Are there cases where female Directors showed leadership by attempting to rid discrimination from companies? Do you particularly engage against female Directors, persuading her if she's doing nothing for the company?

Lauren Compare:

We've engaged with female Directors, but not in Asia. They want to show they're qualified, but aren't given liberty. Senior Executives should be ambassadors for female advancement and should be supported.

Kathlyn Collins:

We engaged with an independent female Director at a large Japanese automaker, asking for examples of challenging management. We find two people are more likely to speak than one, but at three, diverse groups feel more empowered to speak freely. We don't see this often in Korea, maybe in new economies, but internal board function is difficult to understand.

Don Konigsburg:

Jo, in 2022, how do you see Korea's DEI work evolving?

Kim Jo Seol:

It's challenging, because there are gender differences. Japan and Korea have more significant gender gaps than elsewhere. Confucianism culture is very strong, but here we have seen improvements, but further efforts are needed. Empowerment of female Directors can drive corporate culture, based on social consensus. At Shinhan, with diversity of nationality, race and ethnicities, we are just starting. We must tackle challenges of social action. We must try first, to eventually seek solutions.

Don Konigsburg:

There are global differences and it will take time, but investors and organisations like Shinhan will push for improvements.