

# A Time to Shine

ESG Drives Gender Equity in Leadership





## The Rise of ESG

The world is experiencing a major societal shift towards “sustainability” and “responsibility”, and increased expectation of accountability, in business coupled with a significant legislative and regulatory push to reflect these changing attitudes. This shift is manifested by the recent rise of “ESG” which covers a broad array of issues and considerations but generally refers to three central factors – environmental, social and governance principles – which are applied to gauge the sustainability and ethical behavior of asset owners, investors and businesses.

This move towards a more responsible approach has previously been led by institutional investors, such as development finance institutions, pension funds and investment foundations. As wider society has become much more conscious of ESG issues, other corporate stakeholders including shareholders, customers, suppliers, employees and the broader community in which a business operates are also engaging. The acceptance and spread of the sustainability concept globally has led to the development of new laws, regulations, industry standards and policies, and has even prompted the creation of new investment products such as green bonds and loans, as well as ESG-focused funds.

### ESG By the Numbers

33% OF THE TOTAL \$51.4 TRILLION IN TOTAL ASSETS UNDER PROFESSIONAL MANAGEMENT IN THE US WERE IN SUSTAINABLE INVESTING STRATEGIES

INVESTORS CONTRIBUTED \$51.1 BILLION OF NET NEW MONEY INTO FUNDS INCORPORATING ESG PRINCIPLES, AN INCREASE OF OVER 100% FROM 2019

BY  
2018

MORE THAN US\$30 TRILLION  
MANAGED PER RESPONSIBLE  
INVESTING CRITERIA

BY  
2020

BY MAY  
2020

OVER 1,500 CASES OF  
CLIMATE LITIGATION  
IDENTIFIED GLOBALLY

IN  
2020

Gender diversity is one of many ESG factors that has recently attracted increased attention from lawmakers and investors. We should all be familiar with this important concept in other contexts, but how can we best think about gender diversity in the ESG paradigm, and what are its benefits?



## Diversity and Leadership

Diversity covers a range of characteristics and qualities: learned skills and experience, cognitive skills, thinking styles and personality traits, as well as factors which shape our identity such as race, age, gender, sexual orientation, religion, cultural background and national origin. Gender is perhaps one of the most visible types of diversity and we have seen the promotion of gender equity for some time among politicians, regulators, corporate boards and entrepreneurs. Of course, it's not just about gender—the participation of ethnic minorities and individuals from different cultures can be important for the same reasons as it introduces different perspectives, experiences and thinking into a discussion or decision making process.

Public companies have been facing growing investor and regulatory pressure to improve diversity among their director ranks for some time. Investors are also focusing on diversity in the governance and senior leadership of the private businesses they invest in either directly or through asset managers. In the case of gender diversity, investors are assessing the gender equity of a business in connection with a range of issues, including the ability of a business to identify, address and respond to ESG risks and opportunities more broadly. It is not just regulators and investors, as pressure is coming from activist

shareholders, customers, existing and potential employees and other stakeholders to increase the representation of women on corporate boards and in senior management.

There is ample and growing evidence that diverse leadership bodies, in particular gender diverse boards and senior management, make better decisions.<sup>1</sup> In addition, diverse leadership can promote innovation and resiliency in a business, and can help attract and retain talent.

Notwithstanding this growing body of evidence supporting the merits of gender diversity within corporate leadership, progress towards gender balance at the board and senior management level remains slow, indicating that affirmative action is still required by corporations and the communities they serve to bring about change at pace.

The Asian University for Women (AUW) is a noteworthy supporter of this journey for women from Asia. AUW is an independent, regional institution dedicated to excellence, women's education and leadership development – global in outlook, but rooted in the contexts and aspirations of the people of Asia. Its mission of providing a platform to educate women of uncommon ability and leadership potential together with a network business and political leaders will help drive the shift to a more sustainable world and more equitable society.



<sup>1</sup> A 2019 study by S&P Global Market Intelligence ("*When Women Lead, Firms Win*", available [here](#)), showed that businesses with female CFOs were more profitable and produced better share price performance when compared to the market average. The research also showed that firms with greater gender diversity on their board of directors have been more profitable and larger than firms with less gender diversity.

## Diversity and ESG Performance

There is also growing evidence that better decision making on ESG-related matters generates better corporate returns and performance. A comprehensive review and analysis of multiple studies of the interrelationship between ESG criteria and corporate financial performance supports this conclusion.<sup>2</sup> A recent research paper published by the IFC Corporate Governance Group supports a positive correlation between gender diversity in leadership functions and higher ESG standards. That research revealed that companies with higher ESG standards perform better on a critical set of metrics including: stronger internal controls and oversight, reduced risk of fraud and ethical violation, greater stakeholder engagement and positive impact on brand and reputations.<sup>3</sup> With ESG rising up the corporate agenda globally, and the increase in regulatory and stakeholder attention to ESG issues, it is important to emphasize and broadcast this connection between leadership, diversity and ESG performance.

ESG criteria create both opportunities and risks for businesses. This is why regulators, investors and other stakeholders are requiring ESG principles to be integrated into governance and risk management frameworks. For example, with respect to climate-related risk, as the connection between a board's action or inaction and exposure to climate-related risk becomes more evident and verifiable, companies and their directors face an increased risk of litigation, regulatory enforcement and reputational harm.

As a result, businesses are under pressure to build out capacity (knowledge, experience and resources) and governance structures to ensure appropriate oversight of climate-related issues and risks as well as other material ESG topics such as human rights violations within a supply chain. Directors and senior management are expected to have a solid competence and, while experts are important, the increasing importance of the role and influence of all directors and senior management is key. This is another area where diversity brings strength. The different perspectives and varied knowledge, experience and resources of a diverse board can help meet the myriad ESG-related expectations that regulators continue to develop for corporate management.

The gender, ethnic, cultural diversity and style of thought of AUW graduates makes them prime candidates to help business improve their corporate performance and enhance decision making critical to dealing with and achieving ESG-related risk and opportunities. One recent AUW graduate, Archana Somasekharan, who is from Kerala in Southern India, is currently working as an Environmental Consultant at Environmental Resources Management (ERM). Archana's main focus at ERM is Environmental Health and Safety Due Diligence (EHSDD). Archana notes "I was interested in ESG because of its elements including climate change and low carbon transition, the promotion of sustainable growth and the social aspects (such as gender equality). I studied each of these topics at AUW as an Environmental Sciences student and now it's my turn to help companies implement ESG principles while we are fostering a sustainable world."



- 2 A. Bassen, T. Busch and G. Friede, "ESG and financial performance: aggregated evidence from more than 2000 empirical studies", *Journal of Sustainable Finance and Investment* Vol. 5, 2015, Issue 4 (15 December 2015), available [here](#).
- 3 A. Di Miceli, A. Donaggio, "Women in Business Leadership Boost ESG Performance: Existing Body of Evidence Makes Compelling Case", *Private Sector Opinion*, IFC Corporate Knowledge Publication (2018), available [here](#).

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This situation presents an excellent opportunity for women to stand out. As ESG-related roles rise in prominence, so do the many women that have occupied these roles for years. This is linked to the view that women directors tend to prioritize ESG-related issues in their decision making and leadership roles. The increasing importance of ESG principles to a range of businesses also creates opportunities for women to move into more influential positions as these businesses seek to build out their ESG capacity as highlighted above, while at the same time enhancing their governance and decision making capabilities more generally by creating greater diversity among their leadership teams.

Archana also notes: “ESG has a great role in bringing women into diverse roles in a company, as gender equality is a crucial feature of ESG. This empowers women to contribute to decision making, financial strength, innovation and governance of a company. This is the time to make a difference, this is the time for women across the world to represent the leader in her”.

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### HOW CAN WE HELP?

*Mayer Brown has a strong track record in helping clients address ESG issues, and our legal experts are well-equipped to help our clients take the steps necessary to become more attractive to investors looking for socially responsible enterprises, and to address the increasing regulatory and litigation exposures arising from ESG factors. We routinely advise clients on matters relating to:*

- Business and Human Rights
- Sustainable and Green Finance
- Impact Investing
- Climate Change
- Corporate Governance
- ESG Disclosures

*Our integrated approach to ESG, involving attorneys from multiple practice groups and locations globally, allows us to seamlessly support clients around the world.*

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