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Fidelity International
China Gender Diversity Report

A woman walks to work, China. (Credit: Stringer / Stringer, Getty Images)

The smaller half of China's sky

The evolving state of gender diversity at Chinese corporates

Foreword

Zeng Bin,
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Xiangmihu Female
Board Members
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Board diversity as a key ESG focus has a profound impact on corporate governance and women's rights. The Xiangmihu Female Board Members Initiative represents one of China's first campaigns to promote board diversity involving A-share companies and large institutional investors. Founders of the initiative, which started in late 2020, include Shenzhen's Financial Regulatory Bureau and the Shenzhen Research Association of Corporate Governance.

We have set target ratios for female board membership for the companies that have voluntarily joined the initiative, as well as for the investees of our institutional members. Currently, 50 listed companies and a number of top-rated domestic and foreign asset managers have become our members.

As an early joiner in the initiative, Fidelity International started using the female board ratio as a key consideration for voting for or against director appointments in 2021. The asset manager leveraged its influence on investees to push for their board diversity.

The aim of this report is to shed light on the progress of large Chinese firms in boosting gender diversity, as well as to suggest possible focuses for their future endeavours. We believe it provides a valuable reference on how to enhance diversity for companies and investors alike.

Flora Wang,
Director,
Sustainable Investing,
Fidelity International

Culture is set at the top. We believe a diverse leadership team can better steer a company on a sustainable path. This belief underpins Fidelity's efforts to promote gender diversity both internally and at our investee companies. As an investor, one way to effect change at our investees is through voting. In 2021, we updated our global voting policy while raising our expectations on board gender diversity. Under the new policy, we no longer support the re-election of relevant directors if the board fails to meet our minimum diversity threshold.

To better guide our work with Chinese investees on gender diversity, we have taken a close look at the policies and measures of China's top 50 companies and presented key findings in this report. We have also examined companies that are further ahead in their diversity journeys and studied the measures that have worked well for them, which could offer good examples for those looking to catch up.

While we were preparing this report, the Chinese government announced its new 10-year national plan on the development of women and children, setting out some 200 objectives and measures for advancing women's rights in areas such as employment, healthcare and education for the decade ahead. Against this favourable policy backdrop, we are confident that corporate gender diversity will keep improving in China, as we stay committed to the great cause alongside our investee companies.

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About Fidelity International

Fidelity International offers investment solutions and services and retirement expertise to more than 2.7 million customers globally. As a privately held, purpose-driven company with a 50-year heritage, we think generationally and invest for the long term. Operating in more than 25 locations and with $812.8 billion in total assets, our clients range from central banks, sovereign wealth funds, large corporates, financial institutions, insurers and wealth managers, to private individuals.

Our Workplace & Personal Financial Health business provides individuals, advisers and employers with access to world-class investment choices, third-party solutions, administration services and pension guidance. Together with our Investment Solutions & Services business, we invest $610.5 billion on behalf of our clients. By combining our asset management expertise with our solutions for workplace and personal investing, we work together to build better financial futures. Data as at 31 December 2021. Read more at fidelityinternational.com

Introduction

Late Chinese leader Mao Zedong famously proclaimed that women "hold up half the sky", but such equality has yet to materialise in corporate China. The country's steps towards greater gender diversity have lagged its remarkable economic growth of recent decades, and women today remain on the periphery of company boards and top managements. However, there are signs of progress, as reflected in recently improving gender ratios. Moreover, a new generation of female executives is rising slowly through corporate ranks, while gender equality in education is improving and public acceptance of female leadership is growing. In Fidelity International's first China gender diversity report, we examine the status quo in corporate China and offer some suggestions on how companies and investors can do better. This includes a proprietary analysis of the FTSE China A50 Index of the largest firms listed in Shanghai and Shenzhen, which seeks to both plot the current gender diversity landscape and identify paths to greater female representation.

As in most parts of Asia, public awareness in China over the importance of gender diversity has generally lagged the West - although China in many respects still fares better than neighbours like Japan, South Korea and Indonesia. Our findings suggest a slow but steady rise in gender inclusivity at listed Chinese firms, with the improvements more notable as younger generations including Millennials and Generation Z rise through the ranks. On average, women accounted for 12.6 per cent of board directors among listed Chinese firms in 2020, up from 8.6 per cent in 2011, according to a study by Tianjin-based Nankai University. But this leaves plenty of scope to improve on the status quo.

Part one: Where China stands today

Female directorship, a key gauge of corporate gender diversity, has been slowly climbing in China over the last decade. However, despite lagging global peers, China's largest public companies are displaying a general lack of urgency towards promoting gender diversity, according to a Fidelity analysis of FTSE A50 constituents. We chose this index because it consists of China's top 50 onshore stocks by market cap, whose combined market value represents nearly one third of the entire A-share universe.

The results paint a clear picture of where China's leading domestic companies still fall short. For example, in terms of disclosure, only one of the A50 firms has disclosed a formal gender diversity policy, while 19 others have issued general statements acknowledging the importance of female representation, with no measures to boost diversity. Out of the 19 firms that have issued general statements, 17 are dual-listed in Hong Kong, where they are required by regulators to do so (there is no such regulatory requirement onshore). As part of our analysis, we reviewed annual reports, sustainability reports, and the websites of the A50 companies to distill what if any policies or measures they have put in place to promote gender diversity.

Though companies are dragging their heels, policymakers are taking action. The government announced a raft of new measures for supporting female employees in September 2021, part of a new 10-year national plan on the development of women and children. China's ageing problem has amplified the need for female workers to take a bigger role in the economy. The new plan endorsed by the State Council, China's cabinet, features some 200 objectives and measures for advancing women's rights in areas such as employment, health care and education. There is a strong emphasis on the importance of reducing gender pay gaps and sex discrimination at work, with guidelines addressing specific issues like pregnancy-related pay cuts and dismissals.

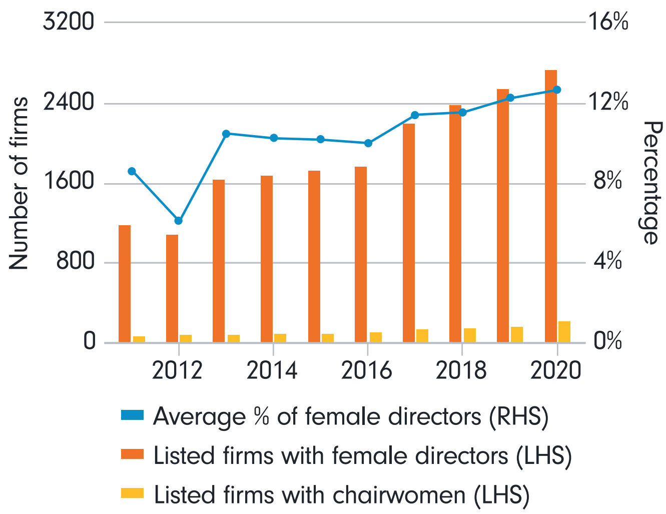
Clear numeric targets in the plan include a minimum 40 per cent female ratio for companies in urban areas and a minimum 40 per cent of senior technicians being women, while other goals include raising female representation in company boards and managements. There is also a requirement to keep the female ratio of China's general workforce above 45 per cent.

This is China's third national 10-year scheme for women and children since 2001 and marks a major upgrade from previous ones, with higher targets and a wider range of measures. For example, boosting female representation in the economy has been made a key objective, in addition to previous goals like protecting women's employment rights. The new target of a 40 per cent female ratio among senior technicians represents a notably higher bar than the 35 per cent target in the 2011-2020 scheme, and no such goal in the 2001-2010 plan. We think most objectives set in the new scheme look realistic and reasonably achievable.

Incremental progress

Policy support and rising feminist awareness have contributed to recent small steps towards greater gender equality in corporate China. Companies with at least one female board director accounted for 73 per cent of listed Chinese firms in 2020, up from 60 per cent in 2011, according to a study by Nankai University published in November 2020 and covering more than 3,700 listed firms. Overall, the study showed that women accounted for 12.6 per cent of Chinese board directors in 2020, with an average of 1.3 female directors per board. That is still well below most major developed markets but marks an improvement from 8.6 per cent of directors being female and less than one woman per board on average in 2011. Meanwhile, the ratio of listed companies with a chairwoman rose to 5.8 per cent in 2020 from 3.2 per cent in 2011.

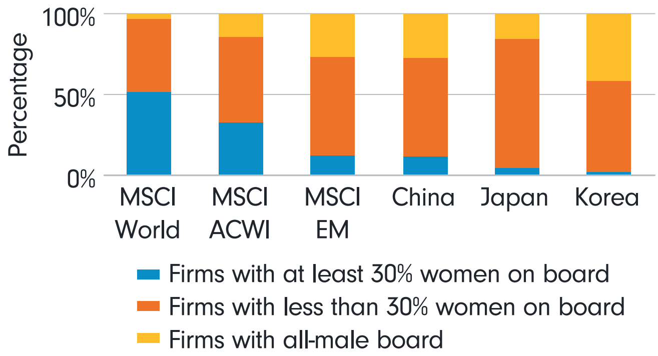
Chart 1: Female directors and chairwomen in China



Source: Nankai University, Fidelity International, Dec. 2021.

Still, China's gender diversity pales in comparison with the global average. According to data from MSCI's annual Women on Boards report, the average female directorship stood at 13.8 per cent for Chinese firms in 2021, compared with 22.6 per cent for the MSCI All Country World Index and 14.5 per cent for the MSCI Emerging Markets Index. China scored better than Japan and South Korea, where women accounted for 12.6 per cent and 8.7 per cent of board directors, respectively.

Chart 2: Female board representation by region



Source: MSCI ESG Research, Fidelity International, Dec. 2021.

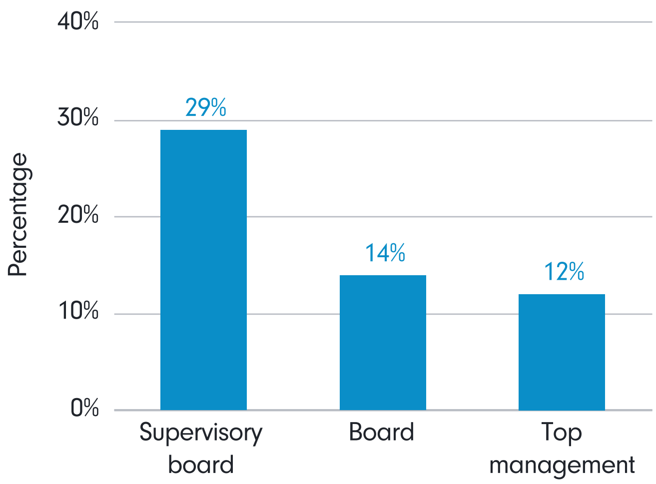
In other parts of the world, gender quotas have been widely seen as an effective booster for female representation, especially in boardrooms. Germany, for example, has been enforcing a minimum 30 per cent female ratio for supervisory boards since 2015 and is planning to enact a new law that will require most public companies to have at least one female director. France has taken a step further to void board appointments for companies that fall short of a 40 per cent female directorship, while the UK has set a voluntary target of 33 per cent women on boards for listed firms. In Asia, both India and South Korea require companies to have at least one woman on a board, while Singapore has set a voluntary target of 25 per cent female directorship by 2025.

With stricter gender quotas, developed-market firms have generally led their emerging-market peers in the gender diversity race. More than half of the MSCI World Index members have reached a critical mass of having their boards consist of at least 30 per cent women in 2021, compared with just 12 per cent of MSCI EM Index members attaining this key level. Both equity gauges have seen improvement from a year earlier.

Part two: Gender diversity & China Inc

The Fidelity analysis of A50 stocks has found a 14 per cent female directorship rate, in line with broader-market averages identified in both the MSCI report and the Nankai research. At the supervisory-board level, female ratios average 29 per cent for the 50 firms. In China, the supervisory board's main function is offering an extra layer of oversight on company directors and executives. Under China's Companies Law, at least one third of supervisory board seats must be held by ordinary workers, whose more balanced gender divide often helps boost the board's female representation.

Chart 3: Average female ratios for China's A50 firms

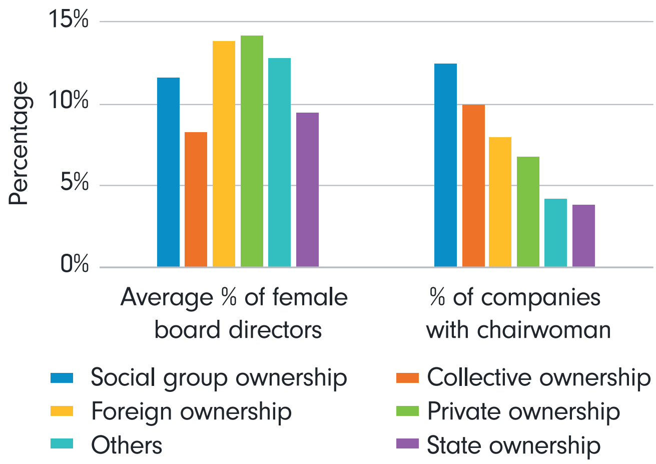


Source: Fidelity International, Dec. 2021.

State-owned enterprises, which account for about one third of China's economy, have lagged significantly behind the country's private and foreign-invested firms when it comes to gender diversity. Board seats and C-suite positions at SOEs are typically filled by government officials who are predominantly male. An average of 14.2 per cent of board directors were female at privately-owned Chinese companies as of 2020, compared with 13.9 per cent for foreign firms and 9.5 per cent for SOEs, according to the Nankai study.

Nearly one third of SOEs have no women on their boards, while about a quarter of private and foreign firms in China have all-male boards of directors, the Nankai study showed. In addition, only 3.8 per cent of SOEs have a chairwoman, compared with 6.8 per cent of private firms and 8 per cent of foreign companies.

Chart 4: Female representation by ownership type



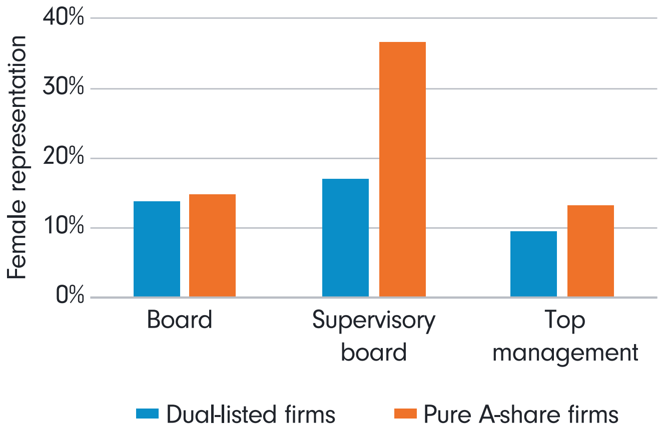
Source: Nankai University, Fidelity International, Dec. 2021.

At the same time, some evidence suggests company managements are less diverse than boards in China. Among A50 firms, women on average hold 12 per cent of senior management positions - and only two A50 chief executives are female - according to the Fidelity analysis. Women chief financial officers are somewhat more common, with 11 among the A50 companies.

A Credit Suisse report has put China's broader ratio of women in management at 14 per cent in 2021, in line with Asia's average but far behind, for example, Western Europe, where levels typically exceed 20 per cent.

Lastly, among the A50 firms, it's worth noting that companies cross-listed in mainland China and Hong Kong are usually less diverse than purely onshore firms. For example, firms listed only in Shanghai and Shenzhen averaged 13 per cent female senior managers in the first half of 2021, compared to 9 per cent for companies dual-listed in the mainland and Hong Kong, our research showed. One possible explanation for the gap is that dual-listed Chinese firms are often SOEs, which as discussed tend to have a higher degree of male dominance among senior management.

Chart 5: Pure A-share A50 firms outperform dual-listed ones on gender diversity



Source: Fidelity International, Dec. 2021.

A compliance-driven approach

Our findings point to the top Chinese companies taking a rather compliance-driven approach to the issue of gender diversity at the moment. As we mentioned in Part 1 of this paper, Hong Kong-listed firms are required to say in their annual reports whether they have a board diversity policy. Nineteen members of the A50 index have done so, albeit 17 of them are dual-listed in Hong Kong. The implication is that few companies seem to have taken a step beyond the minimum regulatory disclosure requirements.

Bank of China is the only A50 member that has made a standalone disclosure of its board diversity policy, while some others, such as Citic Securities and BYD, have merely tagged diversity information on to their nomination committee terms. Companies like China Railway and Agricultural Bank of China have not disclosed diversity information beyond the mandatory statement that they have a diversity policy.

Following years of robust growth, China's technology and consumer giants have joined the ranks of the world's top firms by market value, but they remain conspicuous laggards when it comes to gender diversity. Globally, three of the four biggest companies by market cap with no female directors came from China in 2021, the MSCI report showed. Those were liquor maker Kweichow Moutai, food delivery giant Meituan Dianping and electric-vehicle producer BYD. Among the global top 10 companies by market cap with all-male boards, Chinese names accounted for five.

Female leaders are not created in a vacuum. For companies to make progress on gender representation at senior management and board level, there needs to be a strong pipeline of female talent that starts from the recruitment stage. China has yet to have a dedicated law against gender discrimination, although the country's Labour Law and Employment Promotion Law both contain some general anti-discrimination language that can serve as a legal basis for female jobhunters seeking damages. It was not until 2013 when the country saw its first lawsuit against gender discrimination in hiring, with a Beijing graduate taking on a tutoring firm, according to labour-support group China Labour Bulletin. The matter was settled in court with the tutoring firm paying 30,000 renminbi (around $4,700) in damages and issuing an apology, and the case encouraged more Chinese women to fight unfair hiring practices.

Over the last few decades, China has had one of the highest labour force participation rates for women among Asian countries. But female worker participation has been trending down in recent years due to demographic changes, such as the rise of nuclear families as opposed to traditional multi-generational households. The workforce participation rate for women in China has dropped from above 70 per cent in the early 1990s to 59.8 per cent in 2020, while the ratio for men has seen milder declines over the same period and has stayed above 70 per cent. Researchers have cited shrinking family sizes as a possible driver for the trend: women in nuclear families typically face greater childcare burdens in the absence of grandparenting.

We reviewed public disclosures of the A50 companies in search of evidence of a systematic approach to cultivating female leadership, offering career support for women, and helping them with work-family balance. However, in general, our findings indicate that most companies are still at a nascent stage of addressing this issue. Although 41 out of the 50 firms have general statements on protecting women's rights, very few have formulated gender diversity policies covering their broader workforce. Corporate support for women is often limited to wellbeing measures, such as maternity leave and breastfeeding rooms.

Among the A50, only Midea Group has said that it offers a certain degree of career support for women under its German subsidiary. The Foshan-based home appliance maker has a German subsidiary with a decent track record of gender diversity. The Augsburg-based robotics company Kuka, which Midea acquired in late 2016, has a diversity charter on creating a no-discrimination work environment for women. With a purpose to promote gender equity at work, the subsidiary also established a female network which held multiple meetings in 2020 where female leaders could pass on their career experiences.

Another important issue is gender pay equality. There is often confusion about the terms. Staff of different levels of management receive different pay. The gender pay gap, which is the ratio of average pay by male and female, can be used as an indication of difference in managerial levels taken by men and women. Ping An is the only A50 company that has disclosed the average pay for female employees versus male employees.

At the same time, Chinese companies are bound by law to ensure gender equality in pay, i.e. equal pay for equal work in theory but very few firms have closed the gender pay gap in practice. Muyuan Foods is a standout here, in that it has disclosed cross-gender pay comparison for the same type of work. The reality is that for most of the A50 firms, transparency around the gender pay gap remains low.

In China, women in general earn 15 to 20 per cent less than men, according to surveys conducted in the last two years by organisations like the quasi-official All China Women's Federation and job websites such as Zhaopin and Zhipin.

All of the above suggests a tremendous opportunity exists for Chinese corporates to do more to identify and correct gender-based disparities. For example, companies can consider pay equity audits, which can be an effective tool for identifying pay gaps and analysing whether they are justified. The typical audit process involves data collection and analysis to gauge the fairness of a pay system. But there is much more that companies in China can and should consider doing to help promote greater gender diversity in the country, as we discuss in the next section.

Part three: Putting gender diversity into practice

This final section of the report focuses on practical recommendations for increasing diversity. The starting point for companies is to formulate strategies around cultivating female leadership, offering career support for women and helping them achieve work-family balance. These strategies can be written into a clear gender diversity policy with measurable targets for both recruitment and promotions.

A key focus should be placed on boosting female representation on the board of directors and among the top management, as well as in the broader workforce. We encourage companies to link gender ratio targets to the remuneration of senior executives.

We also recommend setting up a nomination committee for the board of directors, although it's not required by Chinese regulations. Such a committee, ideally chaired by a woman, can help promote diversity in the process of selecting board members. Large Hong Kong firms with nomination committees led by women have a much higher average female ratio for their boards than those without, according to a recent study by the Asian Corporate Governance Association.

In addition, there need to be long-term measures put in place to prevent against discrimination in promotion, pay and perks. And it's important to allow adequate maternity leave and provide childcare support.

Employees working in Shanghai. (Credit: VCG / Contributor, Getty Images)

Calvin Crosslin, Chief Diversity Officer, Lenovo

Case study: Lenovo Group

Companies with balanced gender settings tend to be more productive and resilient in the long term, based on various studies in recent years. In the following interview, we take a closer look at the gender policy of a Chinese company that we think has done well in promoting diversity: Lenovo Group, a global technology leader. Calvin Crosslin, Lenovo's Chief Diversity Officer based in Raleigh, North Carolina in the US, explains the company's gender practice by answering our questions below.

Q: Who looks after gender diversity at Lenovo?

We have a Diversity and Inclusion (D&I) board, with gender being its top focus. Members of the board are selected from all departments and geographical locations and are leaders of our business units and global corporate functions. This board influences group-level D&I decision making wherever possible to implement policies across all functions including supplier diversity and product design, not just talent development.

Q: What's your female leadership status and what targets do you have for the next few years?

Currently, women account for 21 per cent of our executives globally. In 2020, we fulfilled a 20 per cent goal which was set in 2017, when the ratio was 18.8 per cent. Now we are working toward a new target of 27 per cent female leaders by 2026. In setting goals, we review the diversity status of major competitors to make sure that we maintain the highest standards. We admire the aggressive 2030 targets many of our peers and competitors have set and have set our own shorter-term targets to drive near-term change and accountability.

Q: Do you have any goals for your China division?

Our corporate goals are global, and not business unit or geography specific. That said, looking at the numbers, our female representation in China has outperformed other markets and stayed on an improving trajectory.

Q: What programmes do you have in place for nurturing female leaders and helping working moms?

We have been running the Women's Leadership Development Programme (WLDP) since 2014, offering leadership exposure, training and preparing high-potential female colleagues to be promoted to executive roles. We partner with a professional development company specializing in nurturing future leaders to create an annual cohort of 20-25 participants from around the world. Each cohort undertakes a nine-month development series of assessments, workshops, coaching, and skill building that enhances leadership competencies. About 40 per cent of participants have become executives after graduating from the programme.

And we have the Women in Lenovo Leadership (WILL) employee resource group that's been running since 2008. It offers networking, development, and volunteering opportunities across 40 countries through panel discussions with female leaders and outside speakers.

For working moms, we have the New and Expectant Mothers Outreach (NEMO) programme, which started in 2017. It offers support and mentorship for new, expectant, and prospective mothers through a network of moms, helping to ensure a smooth transition into the world of balancing work and motherhood. And it helps to prevent negativity around maternity leave.

Here, we can share some lessons and outcomes from Fidelity's own efforts to promote diversity and increase female leadership. In 2019, we reached our global target of having women account for 30 per cent of our senior executives - that was about one year ahead of time. In response, we set new goals for the end of 2023, including a 35 per cent female ratio for senior management, and a 45 per cent female ratio for our board of directors. In Asia, we have already achieved a 37 per cent female ratio among senior executives.

Fidelity's approach here is to encourage investees to develop gender-balanced boards and support female representation of key initiatives.

Fidelity offers paid parental leave and flexible working options to all employees, regardless of their gender identity or sexual orientation. We also implemented equal parental leave across genders globally in 2020 to increase gender balance and inclusive approaches. In addition, we have been running a programme to support employing people returning to work after extended career breaks, who disproportionately tend to be women who took time off to care for family.

Active stewardship

Alongside companies, policymakers and regulators, investors have a key role to play in promoting sustainable practices. This is particularly true for the development of gender diversity, where we favour an active stewardship approach which combines engaging dialogues with clear voting policies. Such a constructive approach should help accelerate China's nascent trend of diversity growth.

Institutional investors should actively engage companies in efforts to boost gender diversity. Through engagement, we can better communicate our expectations on diversity and inform companies of industry best practices. In return, we can gain more insight into companies' plans and actions. Investors may help companies set reasonable gender goals based on resources available to them.

Fidelity's approach here is to encourage investees to develop gender-balanced boards and support female representation of key initiatives. We ask investees to regularly review their hiring and promotion practices to remove gender biases. Managements of companies found to be falling short of sector best practices may be urged to adopt objectives for improvement and to demonstrate progress over time.

In addition to engagement, investors can and should use voting as a tool to drive improvement in gender diversity. Fidelity introduced a new voting policy in mid-2021 to oppose company boards that fall short of a minimum ratio of female directors, which is set at 30 per cent for most developed markets. For emerging markets including China, we are committed to voting against boards where women hold fewer than 15 per cent of seats.

Already in 2021, we voted against 54 resolutions proposed by 49 Chinese companies as of November 19, on the grounds of low female representation. In one case, in May 2021 we voted against the appointment of board directors at a large food and beverage company. An all-male board had been in place at the firm for years, although a significant portion of its customers are women. In early 2021, we highlighted the need to improve its female representation when engaging the company on board structure issues. Despite making a verbal commitment to bring women on board, the firm had taken no action by the end of May, when it held an annual general meeting with proposals of director appointments. We therefore voted against director re-election, citing the lack of progress on female representation, as well as the low board attendance by one director who had offered no satisfactory explanation for his absence.

However, we have been encouraged by more recent actions the company has taken. Since the annual shareholders' meeting, the firm for the first time in its 20-plus year history appointed a female director to its board in December 2021. While this is only one example, we believe it provides a fair indication of the changes that engaged and active investment stewardship can bring to help promote gender diversity in China.

Conclusion

China's publicly traded firms have made steady progress towards gender diversity over the last decade, but there remains huge room for improvement in the world's second-biggest economy. Global asset managers can work closely with their Chinese investees to narrow gender gaps, taking advantage of new government policies to protect women's rights.

The new 10-year national plan for supporting women has offered high-level guidance on gender diversity. Chinese companies should waste no time in developing systematic support measures for female workers. They should set specific gender targets for recruiting C-suite members as well as for appointing board directors. And they must commit themselves to no-discrimination practices for promotion and pay.

Institutional investors, on the other hand, should attach greater importance to gender diversity in their communication with Chinese investees. Asset managers must first have effective gender policies in place for their own operations. The tools at their disposal to help prod listed companies towards embracing greater female representation go far beyond just proxy votes.

The Xiangmihu initiative

Large collaborations between Chinese companies and investors on gender diversity are starting to take shape. One example is the Xiangmihu Female Board Members initiative, founded in 2020 and named after a neighbourhood in Shenzhen where gender diversity seminars have been held. Founding members of the Xiangmihu initiative include 12 institutions and 11 listed companies, with Fidelity International, Morgan Stanley Huaxin, Invesco Great Wall, China Vanke, Han's Laser Technology and SF Holding, among others.

Important Information