

Silicon Labs:

engagement commentary

Federated Hermes SDG Engagement Equity
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ENGAGEMENT COMMENTARY:

Silicon Labs

In a nutshell

Texas-headquartered Silicon Labs is a pioneer in wireless innovation, simplifying the complexity of radio frequency from silicon to cloud. The company's Internet of Things (IoT) platform helps customers quickly create secure and intelligent connected devices. The technology assists customers to build connected devices that measurably solve development challenges, including energy efficiency, and enable applications that support better healthcare, innovative infrastructure and sustainable cities.

At a glance:

US\$3bn

Market capitalisation (October 2023)



1,964

employees (of which 22% are female)



US\$1bn

Revenue (FY22)



Investment case

- The company is well-positioned to capture a large share of the strong secular growth in IoT as the industry's leading and only pure-play IoT silicon supplier.
- Silicon Labs' diverse portfolio of highly integrated, patented solutions is developed by a world-class engineering team. The business offers a complete IoT hardware, software and security platform alongside a broad connectivity offering.
- The company's security credentials are supported by becoming the industry's first Platform Security Architecture (PSA) Certified Level 3¹ microchip vendor.

Theory of change

Fewer women than men undertake advanced Science, Technology, Engineering and Mathematics (STEM) education, and those that graduate and enter related industries are more likely to have shorter careers than their male colleagues.

As a result, there is a clear need for leading companies in these industries to help expand the pipeline of female talent while also retaining, developing and promoting the skills of women already working in the sector.



¹ Substantial IoT Security Assurance | PSA Certified Level 3 | PSA Certified.

Such initiatives would create a better gender balance and support the progression of talented women into executive and board roles. A number of studies show that companies that have more women in senior positions can be more profitable and make better decisions².

- As a leader in the semiconductor industry, Silicon Labs has the ability to demonstrate what can be achieved through its own levels of representation.
- Such efforts would encourage similar initiatives across the wider industry and in the process encourage more women to consider studying in related fields, which could help improve levels of gender diversity in the sector in future.

The scope of the challenge

The World Economic Forum estimates that 84% of Internet of Things (IoT) deployments are currently addressing, or have the potential to support the attainment of the SDGs³.

According to the organisation, the range of potential IoT applications is "limited only by the human imagination".

If the main constraint on the potential positive impact of this technology is human, then it's imperative that we deploy the full diversity of human capital towards its development.

Women account for just over

30% of university students in STEM courses worldwide.

In the United States, women make up only one-third of the workforce in STEM fields and are vastly outnumbered in related college courses⁴ – indeed women account for just over 30% of university students in STEM courses worldwide⁵.

Despite the steady progress achieved over the past years to increase female representation in STEM roles, recent data suggests this trend has reversed⁶. Moreover, the proportion of female students in STEM fields has begun to decline exacerbating the pre-existing lower prevalence of female STEM graduates transitioning into STEM careers. As a result, **the underutilisation of female talent in the sector is getting worse.**

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It is critical to increase access to STEM education to groups underrepresented in the field such as girls, people of colour, and economically-disadvantaged students. Such demographic changes will not only increase innovation in the industry but will also enable companies to better meet the demands of the marketplace.

At the same time, it is vital that women already working in the sector are retained, supported and promoted. Many companies with which we engage on this subject cite the limited graduate pipeline as a reason for the low levels of gender diversity in technical roles.

However, companies should avoid viewing the problem as systemic and unsolvable. Instead, we believe they should acknowledge the issue and commit to playing a meaningful role in redressing it.

Bridging the diversity gap is not just good for the industry and society at large it is also good for the individual company.

Bridging the diversity gap is not just good for the industry and society at large it is also good for the individual company⁷. Research suggests diverse leadership teams boost innovation, partly due to their superior ability to understand changing customer needs but also because they are better placed to identify optimised solutions to a wide range of different problems⁸. For technology companies in particular these are a useful set of capabilities.

² Research: Adding Women to the C-Suite Changes How Companies Think (hbr.org).

³ What is the Internet of Things - an explainer | World Economic Forum (weforum.org).

⁴ The STEM Gap: Women and Girls in Science, Technology, Engineering and Mathematics – AAUW : Empowering Women Since 1881.

⁵ Cracking the code: girls' and women's education in science, technology, engineering and mathematics," published by UNESCO in 2017.

⁶ Is the Talent Pipeline for Women in STEM Broken? - Revelio Labs.

⁷ How diversity, equity, and inclusion (DE&I) matter | McKinsey.

⁸ How Diverse Leadership Teams Boost Innovation (bcg.com).

Practice of change

We have engaged with Silicon Labs more than 20 times since 2018.

During our engagements we have encouraged the company to create and implement a clear human capital strategy, aligned to its business strategy, which captures the importance of diversity and includes targets and metrics that would enable investors to evaluate its performance.

During 2018 and 2019 the company was in the early stages of its sustainability journey. It had not yet published a sustainability report nor undertaken any form of materiality assessment. Nonetheless, the company’s responsiveness to engagement was encouraging. While Silicon Labs was beginning to look at improving the gender diversity of its workforce through its graduate pipeline, we encouraged it to consider how it might ensure the promotion and retention of more women. We also asked it to articulate a plan to increase representation of underrepresented ethnic groups in its workforce.

On diversity specifically, we were pleased to see the company make progress during Q4 2020 by increasing the number of women in its executive and senior management teams.

We have continued to engage with the company and have been encouraged to see it make incremental progress each year with corporate social responsibility (CSR) reports published from 2021 onwards. The company’s 2022 CSR report (published Q1 2023) was a big step forward in its transparency levels. It provided considered responses to many of the issues related to diversity that we had previously raised.

On diversity specifically, we were pleased to see the company make progress during Q4 2020 by increasing the number of women in its executive and senior management teams. During 2021, we encouraged the adoption of incentive targets within senior executive compensation to convey a strong message from the board and CEO of the importance of this agenda and to build further momentum. DEI goals were subsequently incorporated into executive bonus plans earlier than most peers.

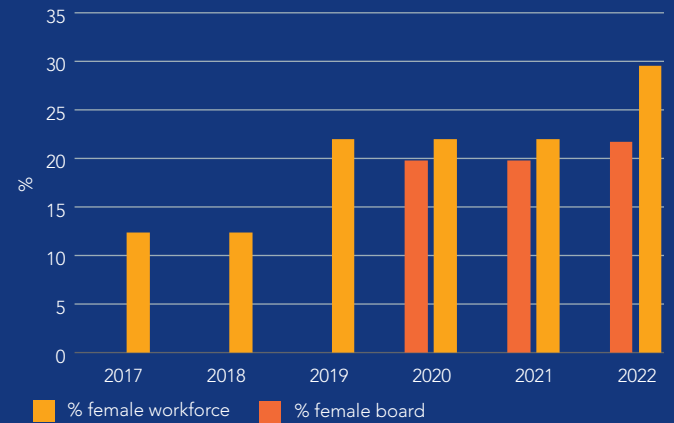
Silicon Labs has been certified as a Great Place to Work⁹ since 2019 and is targeting an extremely high (and if achieved, very impressive)

90% global employee engagement score by 2025

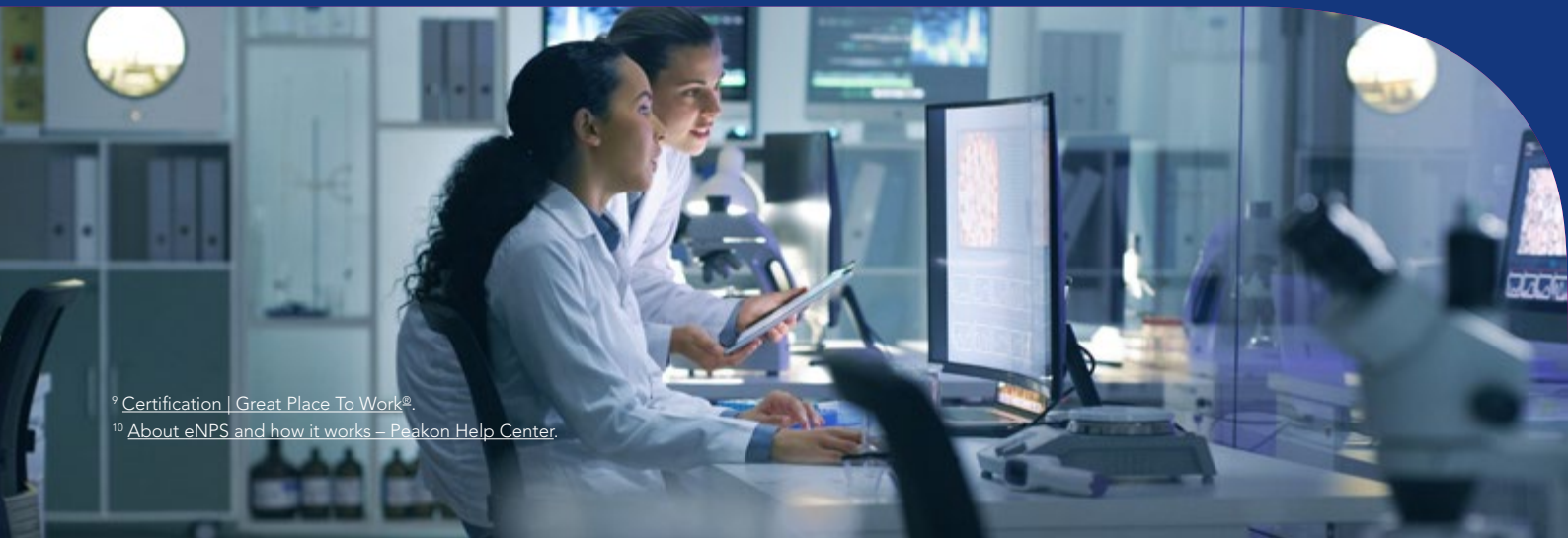
We met with management at its headquarters in Austin, Texas in early 2023 and took this opportunity to commend the company on its substantive CSR report which laid out robust plans, targets, and key performance indicators (KPIs) on a range of sustainability issues.

The company’s focus over time has pleasingly moved from setting up foundational structures towards interventions around retention and development. Silicon Labs has been certified as a Great Place to Work⁹ since 2019 and is targeting an extremely high (and if achieved, very impressive) 90% global employee engagement score by 2025 (87% as of 2022). The company has also identified increasing the number of women in the technology industry as an important goal. It shares our view that there should be more women on its board and elsewhere in the company – and has made evidential progress on both counts. Indeed, it has set diversity-related goals for new graduates and entry-level hires.

Figure 1: Gender diversity at the company



Source: Company reports.



⁹ Certification | Great Place To Work[®].

¹⁰ About eNPS and how it works – Peakon Help Center.



We applaud the company's use of the employee net promoter score (eNPS)¹⁰ to track employee engagement as it is a particularly effective indicator of future value creation.

Looking ahead, the company's diversity, equity, and inclusion (DEI) action plan includes two particularly positive areas of focus:

The company's board has also adopted a new framework where

10% of executive bonuses are tied to diversity, equity and inclusion metrics.

- i) Improving the retention and development of underrepresented talent through expanding development opportunities, including providing one-on-one mentoring and skills coaching with external experts.
- ii) Building pathways for underrepresented talent by partnering with universities and non-profit groups to provide financial and in-kind support for equity across STEM subjects. All hiring managers are required to participate in inclusive hiring, training and education and in 2022 Silicon Labs provided grants to 17 non-profits expanding access to STEM education.

Next Steps

The company has made meaningful progress and has indicated a clear desire to build on this momentum. Nonetheless, we will continue to encourage the company to raise its ambitions further. In that context:

- We will encourage the company to replicate the goals of other companies in the wider sector which are targeting 50% gender diversity among their workforces and people managers by 2030.
- We will encourage the company to build further on its STEM education initiatives and establish long-term commitments to increase its levels of economically-disadvantaged students and other underrepresented groups via pipeline initiatives, such as monetary donations, volunteering schemes and strategic partnerships.
- We welcome the inclusion of a DEI scorecard to help determine annual bonuses for management-level employees at the company, but will encourage more transparency around the metrics against which management are incentivised.
- Finally, we are encouraging the business to quantify its return on investment (ROI) in human capital and in particular on training and upskilling by measuring potential changes in employee engagement scores, including eNPS, for people from different socio-economic backgrounds, women and ethnic minorities.



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