Deutsche Bank
Research

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The case against US infrastructure mega-spending

October 2016

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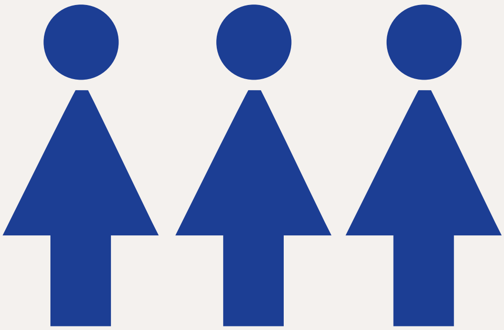
This is an extract from the Konzept Research magazine published October 2016. The entire document can be accessed here.

Data and diversity— strength in numbers



Despite having a long way to go, female representation in American businesses has advanced some distance over the past two decades. In 1995, women made up 45 per cent of the total workforce and held just 40 per cent of mid-level managerial and professional roles[1]. Today jobs are split almost fifty-fifty while women occupy 52 per cent[2] of middle management, professional and related positions. That's right – more than half!

Likewise there has been movement at the very top. Twenty years ago less than a tenth of Fortune 500 board seats were held by women and there were no female chief executives. Now there are twice as many females to be found in boardrooms and 22 Fortune 500 companies are run by women. Such inroads are to be applauded but equality remains miles away and progress has slowed.

For example in financial services, an Oliver Wyman study projects that at current rates of growth it would take until 2048 for the sector globally to reach even 30 per cent female representation on executive committees, from half that level now. The higher figure is important because it represents the supposed tipping point after which minorities experience less pressure to conform to a dominant group and can finally express their voices[3].

But the impulse for a reacceleration in diversity may be forthcoming from an unlikely quarter: investors. This is not simply because companies with more women perform better – we have known this to be true for ages. A McKinsey report five years ago analyzing 441 companies from six European countries revealed a 40 per cent higher average return on equity for firms with the highest proportion of women versus those with none in top management. Profit margins were also higher[4]. An MSCI study[5] showed a similar boost to returns on equity from having at least three women on a company's board. Faster growing companies also seem to be more focused on supporting women, EY has found[6].

What is new is the sheer quantity and quality of data, supported by a heightened interest in socially responsible investing[7], has unleashed a new crop of investment products that hope to capitalise on the money making potential of gender inclusiveness. Two early vehicles were the Pax Ellevate Global Women's Index Fund and the Barclay's Women in Leadership ETN, which debuted in 2014. The latter tracks an index of US stocks issued by companies with women as chief executives or board members. WIL has $30m in assets and is outperforming the S&P 500 by three per cent year to date.

The Pax Ellevate Global Women's Index Fund has $100m in assets and holds shares in more than 400 global firms[8] showing a commitment to advancing gender diversity. Even the biggest players in the industry are getting involved. One of the newest additions is State Street Global Advisors' SPDR Gender Diversity Index ETF, which launched in March. SHE has attracted over a quarter of a billion dollars in assets and is also beating the index so far this year.

Elen Callahan

What is more, an infrastructure of services and analytics soon builds up around any new pot of money. This is good for diversity as it puts more pressure on companies thanks to better data. For example, inspired by investor demands to understand the gender-related performance, Bloomberg has recently launched a Financial Services Gender Equality Index. This provides a tool to evaluate a company based on gender data across four major categories: internal company statistics, employee policies, product offerings, and external community support and engagement.

Being able to quantify such qualitative factors and "bring transparency to gender-equal policies and practices" is a real step forward. The Bloomberg index places 35 per cent weight on employment data, defined as the number of women in management and senior positions, and another 35 per cent on policies which promote a diverse working environment, including gender-neutral family support. Gender-conscious products, which include promoting financial opportunities for female clients as well as products that benefit the company's own employees, receive a 20 per cent weighting. A company's public support of women accounts for the rest of its score. The inaugural 2016 index is made up of the 26 global financial companies that rank best on this basis[9].

In addition, more data can correct ongoing misconceptions surrounding female career paths. For example, one myth is women are not as ambitious as men. But the numbers show they enter finance with the same ambition, it is maintained in their early years, and then it declines midway through their careers. However, female ambition resurges again[10]. Understanding such trends matters because the probability of women reaching mid-level jobs is almost the same as for men (87 per cent), yet the probability of becoming a senior manager is just 45 per cent[11]. This mid-career female talent drain is an urgent problem for the industry.

Five years into my career, I started my family and had three children in four years. I shifted through full-time, flex-time, part-time, and gradually transitioned to consultancy work. As my home life stabilised again, I moved back to full-time employment. Data show that women are nearly three times more likely to stay with a firm when supported effectively via flexibility[12]. Staying home full-time is not an option for many breadwinning women. Nor do their aspirations disappear when starting a family – often they became stronger. By providing me with the opportunity to navigate my professional and personal goals, my manager kept me engaged and productive.

With more and better data on diversity and women's career paths companies can put into place more effective practices and policies. A surge of interest as well as money under management into funds specifically targeting best-practice companies is now driving this change. The end result should be improved profitability thanks to a more innovative, engaged and diverse work force. ●

1 US Census, "Women in the workforce"
2 US Bureau of Labor Services
3 Oliver Wyman, "Women in Financial Services", Dec 2014
4 McKinsey & Company, "Women Matter 2010"
5 MSCI, "Women on Boards", Nov 2015
6 Ten per cent of the companies surveyed were considered high-performers
7 According to the US SIF Foundation's 2014 report, US assets managed using strategies that consider environmental, social and governance issues grew 76 per cent between 2012 and 2014, to $6.6tn. Global assets rose 61 per cent, to $21.4tn during this period.
8 Deutsche Bank is included in the Pax Ellevate Global Women's Index Fund.
9 http://www.bbhub.io/professional/sites/4/BFGEI_Overview.pdf
10 Oliver Wyman, "Women in Financial Services", 2016
11 Oliver Wyman, "Women in Financial Services", Dec 2014
12 CEB Corporate Leadership Council – Four Imperatives to Increase the Representation of Women in Leadership Positions, Nov 2014

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