storebrand care pwc

5 GENDER EQUALITY

Investing in gender equality

Summary

The report “Investing in gender equality”, prepared by PwC Norway and commissioned by Care and Storebrand, looks at the connection between gender diversity and corporate performance. At first, the report examines relevant literature concerning how gender diversity affects the macro and micro perspectives in a market. Next, the report introduces an analysis of the connection between gender equality and corporate performance in the Nordics, looking at gender diversity on the board, in the top management and the total workforce, and fair remuneration policies. Thirdly, the report presents key findings from interviews with investment professionals from Storebrand, the Skagen Funds and FSN Capital. The investment professionals point to two overarching approaches to investing in gender equality. Lastly the report presents recommendations for how investors and authorities can invest in gender equality.

The review of existing relevant literature finds that increasing female labour market participation can lead to many positive effects, such as increased economic growth, increased productivity and an increased economic resilience. The relevant literature on corporate performance shows that a more diverse corporate culture can lead to more innovation, creativity and critical thinking, as well as higher productivity. In addition, the literature finds that more diverse leadership can lead to increases in profitability. Gender equality in management and on the board is even more crucial as the workforce and markets become more diverse.

The analysis of Nordic companies echoes several of the findings from the literature review. It finds a correlation between companies with a higher share of females on the board of directors and higher growth, higher profit margins, higher return on equity and less volatility. Similarly, the analysis finds a correlation between companies with a higher share of women in top management and higher profit margins, higher return on equity and less volatile, but slower growth. The findings overall indicate that much of the international research may also be valid in the Nordics.

Based on the interviews with Norwegian investment professionals, the report identifies two main approaches to investing in gender diversity. The first approach revolves around screening companies based on internal measures of gender equality, while the second approach entails companies that provide products or services that promote gender equality. This chapter also outlines a host of indicators of gender equality for each approach, before the report ends with a set of recommendations, primarily to investors, but also authorities, on how to invest in gender equality.

Contents

1. Preface

Storebrand and CARE are different. We belong to different sectors and work in different markets, but we share a strong belief in the importance of gender equality and diversity. Gender equality is a question of fundamental human rights, and a desirable goal in and of itself, but also a driver of corporate performance. Therefore, we share the belief that empowering women is both the right thing and the smart thing to do.

The cooperation between CARE and Storebrand was triggered when Storebrand launched "Bølge Likestilling" (Wave Equality) – a portfolio that only invests in the best gender equality-performing companies. Being a humanitarian and development organization that focuses on women's rights, CARE saw a unique opportunity to learn from Storebrand about their investment approach to gender equality. This inspired us to develop this report together.

We hope that "Investing in equality" will inspire more investors and businesses to invest UN Sustainable Development Goal 5; Gender euality. We know that businesses and investors are key to fulfilling the UN Sustainable Development Goal.

This report - prepared by PwC Norway - demonstrates that gender equality is associated with improved corporate performance. Furthermore, gender equality, along with the other SDGs, also represents sizeable investment opportunities. Companies that understand, adapt and offer solutions to our global challenges, will be future financial winners. Performance on gender equality may offer an indication of a company's future growth and profitability, as well as market opportunities.

In this report, we have gathered previous research on the link between gender equality and economic growth and corporate performance, along with a fresh analysis of 65 publicly traded companies in the Nordics. We have also interviewed several Norwegian investors about the extent to which, and how, they consider gender equality in their investment process and portfolio management. The findings strengthen Storebrand's conviction for several years: investors should take gender equality into consideration in order not to miss out.

The report also demonstrates how investing in gender equality in developing countries can create interesting market opportunities, which reflects one of CARE's central insights: investments in women's economic participation change the lives of the women, their families and their communities.

The financial industry plays a vital role in shaping the future of gender equality. The financial industry should and can do more. We hope this report will serve as a motivation to do better, because it not only is the right thing to do, but also the smart thing to do.

Oslo, June 5th, 2019

Gry Larsen, Secretary General, CARE Norway
Jan Erik Saugestad, CEO, Storebrand Asset Management
Hanne Løvstad, Director Sustainability, PwC Norway

2. Why invest in gender equality?

Gender equality drives economic growth

The world cannot afford to ignore the economic gap between women and men.[1] Despite considerable progress towards closing the gap between male and female education levels in most countries, gender gaps in economic and political participation remain across developed and developing countries. These gender gaps undermine both higher income and faster economic growth.[2] It is particularly clear that female employment growth and increasing women's labor force participation are positively associated with GDP growth.

> Every 1 per cent of female employment growth is associated with, on average, annual GDP growth of 0.16 per cent.[3]

Since 1991, the share of women's participation in the labour force has increased globally, but with regional differences.[4] The case of Norway is illustrative. In 1972, one in four Norwegian women listed domestic work as their main occupation, compared to one in 100, in 2018.[5] As a result of this change, women now comprise almost 50 per cent of the Norwegian workforce, which in turn has benefited the economy and Norwegian companies.

According to the ILO, the average global labour force participation rate of women in 2018 was 48.5 per cent, while that of men was 75 per cent.[7] The World Economic Forum (WEF) predicts that closing the global gender gap in labour market participation by 25 per cent by 2025 would add an additional USD 5.3 trillion to global GDP.[8] PwC also finds that if the OECD countries increased their female labour market participation to 80 per cent, the level of Sweden, it would boost OECD GDP by USD 6 trillion.[9]

Closing the gender gap in labour market participation has many positive outcomes. Female empowerment creates economic growth by increasing the total output of an economy, as the total workforce grows. In parallel, the gender gap restricts the pool of talent available. Closing the gender gap can therefore increase productivity, as talent is allocated more efficiently across the economy. Finally, reducing the gender gap can strengthen economic resilience, as it creates greater diversification in the economy.[11]

> Giving women and girls the opportunity to succeed is not only the right thing to do but can also transform societies and economies. The economic facts speak for themselves: raising women's labour force participation to that of men can boost GDP (...) by as much as 9% in Japan and 27% in India. (...) [I]t simply means making the most of everybody's talents. This is a challenge for any country; a task from which every country would benefit. It is a universal mission.[10]
>
> \- Erna Solberg and Christine Lagarde

Three beneficial economic outcomes of closing the gender gap:

1. Increased total output of the economy
2. Increased productivity
3. Strengthened economic resilience

Greater gender equality will cause further economic growth and increase productivity regardless of how well-developed the economy is.[12] However, evidence suggests that the positive economic impact from increasing female labour market participation will be especially pronounced where the gender gap in labour market participation is high.[13]

The economic effect of closing the gender in the labour market on GDP.[14]

Geographical region	Average long term total income loss due to gender inequality (%)
Central Asia	10.12
East Asia and Pacific	15.95
Europe	10.82
Latin America and Caribbean	17.28
Middle East and North Africa	37.83
South Asia	24.91
Sub-Saharan Africa	11.95

Although gender inequality is an economic issue everywhere, gender gaps in terms of education, health and personal autonomy are systematically greater in poor countries than in rich countries.[15] Poverty and lack of opportunity are shown to breed gender inequality. Similarly, gender inequality declines as poverty declines. In other words, the conditions of women can improve more than those of men with economic development.[16] Economic development is however not enough to bring about equality; policy and targeted action are also needed. In the same way, while it is argued that women's empowerment may accelerate development by introducing new perspectives to decision making processes both at the household and political levels, we cannot think of it as a silver bullet.[17] It is clear, however, that women empowerment and economic development are closely related and influence each other.[18]

> If Norwegian women's participation in the workforce were reduced to the OECD average, the value of the resultant production loss would amount to our entire oil wealth, including that which is still underground.[6]
>
> - Jens Stoltenberg, former Prime Minister of Norway.

Gender equality can improve corporate performance

Closing this gender gap will have positive macroeconomic outcomes, but are there reasons why corporations should address gender gaps out of self-interest? The answer is that gender equality can improve corporate performance.[19] In a recent report by the International Labour Organization (ILO), which surveyed nearly 13 000 enterprises in 70 countries, 57 per cent of the company respondents agree that gender diversity initiatives improve business outcomes. 60 per cent of these respondents report higher profitability and productivity, 57 per cent report increased ability to attract and retain talent, and 54 per cent report greater creativity and innovation.[20]

Higher productivity and more critical thinking

Gender equality can make a workplace more innovative, enjoyable and motivating. These are all elements of a strong culture, and have been shown to affect a company's long term performance.[21] A more diverse workforce ensures both diversification and complementarities in knowledge and skills, which lay the foundation for greater knowledge spillovers between employees.[22] As the number of different values, attitudes and beliefs increase, the workplace will also stimulate more critical and creative thinking.[23] Companies with diverse company cultures are shown to be more productive and perform better in terms of productivity and performance.[24] For instance, the ILO report form 2019 finds that when companies have gender inclusive business cultures and inclusive policies, they are 63 per cent more likely to achieve increased productivity and profitability.[25] The Thomson Reuters Diversity & Inclusion (D&I) Index discovered similar findings when they benchmarked companies based on 24 indicators, including gender balance at different organizational levels, work life and career development, against the Thomson Reuters Global Developed Index. They found that the top 100 D&I companies had better return on equity over five years.

Diverse leadership is key

In order to fully reap the benefits of a gender-inclusive corporate culture and organization, gender diversity in leadership is crucial. Studies find that a gender-inclusive culture requires a critical mass of 30 per cent women in management, senior leadership and on boards of directors.[26] However, even in high-income countries, which have the highest average rates of women in total management between 1991 and 2018, women only make up 31 per cent of management, despite a positive trend in most geographic regions.[27]

Demographic differences between subordinates and leadership, typically represented by male-dominated management over a female-dominated workforce, can have negative effects on company performance.[28] In addition, the benefits of a gender diverse environment increase, as the share of women in the workforce increases. In other words, the utility of a woman joining a company, both as part of the general workplace or as part of the leadership, increases with the number of women already in that company's workforce.[29] When senior and leadership positions are more gender diverse, a wide range of additional effects can materialize. Female leaders are more likely to serve as role models and represent different career opportunities for other female employees in the organization.[30] In addition, a more gender diverse leadership is also more likely to support and propose family-friendly changes and policies.[31] Giving female workers role models and better suited organizational policies have many positive effects, most noticeable boosting the morale and productivity of female workers.[32]

Moreover, with a more diverse leadership, the managerial style in the whole company will improve. Behaviors like participation in decision making, people development, and setting rewards and expectations are for example traits more often seen amongst female leaders.[33] Female leaders are also better equipped to serve female markets.[34] By better understanding the female customer and their situation, female leaders can stimulate demand and improve profitability by being more in touch with female dominated markets.

Of the 13 000 companies surveyed by the ILO that track the quantitative impact of gender diversity initiatives around promoting women in management, 74 per cent report a profit increase between 5 to 20 per cent as a result of the initiatives.[35] These findings are underscored by a 2016 report by the Petersen Institute that analyzed more than 21 000 companies in 91 countries. The report found that a company with at least 30 per cent female leaders is expected to increase its net profit margin by at least 6 percentage points compared to similar firms without the same female leadership.[36] Importantly, there

Possible positive effects of gender diversity in business

- A stronger culture
- A better managerial style
- Higher productivity
- Access to new markets
- Improved corporate performance
- Increased ability to attract and retain talent

may also be a downside to having less diverse leadership, as a 2015 study by McKinsey found. Their study discovered that the 25 per cent lowest ranked companies, in terms of ethnic and gender diversity on executive levels, underperformed compared to other companies in the study.[37]

Much of the previous research on the link between gender equality and corporate performance has focused on the impact of gender diversity at the board level. Studies from MSCI and Credit Suisse find that the financial performance of companies with women on the board outperform companies without female directors. Catalyst (2007) and McKinsey (2009) suggest a strong and positive correlation between corporate performance and female board representation, based on analyses of Fortune 500 companies.[38] This is echoed by the ILO report from 2019, which finds that companies with gender-balanced boards, have the largest positive effects on enhanced business outcomes, compared to non-balanced boards.

Greatest effect in companies characterized by innovation, creativity and complex tasks

Since gender equality, both in the organization and on a leadership level, has positive effects on knowledge spillovers, creativity and critical thinking,[39] especially industries characterized by innovation, creativity and complex tasks will benefit from gender equality and the increased number of ideas and solutions that accompanies it.[40] For instance, one additional woman at a senior level in a knowledge-intensive service industry or high-tech manufacturing sector can increase the company's return on assets by as much as 0.3 per cent points.[41] This argument becomes even more important when considering that the knowledge-intensive service industry and the high-tech manufacturing sector represents 40 percent of the European GDP.

Each additional woman in a senior position or to the board, could yield a 3% - 8% increase in profitability.

(IMF: Gender Diversity and Firm Performance: Evidence from Europe)

U.S. companies with at least three women on the board had median gains in return on equity 11% higher, and earnings per share 45% higher, than companies with no women directors over the 2011-2016 time period.

(MSCI: The Tipping Point: Women On Boards And Financial Performance)

Companies with the most women directors outperform those with the least on return on invested capital by 26%.

(Catalyst: The Bottom Line: Connecting Corporate Performance and Gender Diversity)

3. Gender and corporate performance in the Nordics

While the existing research provides ample evidence of a connection between gender equality and corporate performance in larger capital markets, there have been few structured analyses of companies in the Nordics. The Nordics are among the best performing countries in terms of gender equality on a national level, with Iceland, Norway and Finland ranked first, second and third, globally. However, women's share of employment in Nordic companies' management positions is actually lower than in Eastern Europe, Central Asia, North America, Latin America and the Caribbean.[42]

Research on gender equality in Nordic companies has tended to focus on how to achieve gender equality within the companies, rather than whether gender equality can drive financial performance and value creation. International research, however, has shown that a diverse top management, gender-inclusive business environment and equal opportunities enhance productivity and profitability.[43]

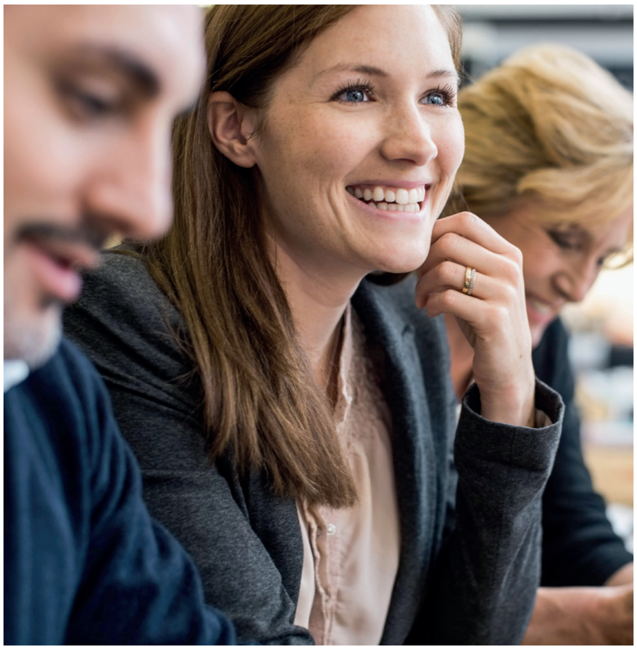
Building on the international research, we analyzed the gender equality and financial performance of 65 of the largest publicly traded companies in the Nordics, represented by the OBX Index, consisting of the 25 most traded securities on Oslo Børs, and the OMX NORDIC 40 Index, comprising the 40 most-traded stocks from across Copenhagen, Helsinki, Reykjavík and Stockholm stock markets. Our analysis is a simple correlation of gender equality indicators against the different financial indicators. As such, it can neither prove nor disprove whether gender equality drives financial performance - or the other way around. The analysis is also sensitive to outliers, since the number of companies is small. The analysis is intended to examine the extent to which Nordic companies exhibit similar characteristics to what has been found in other markets. Further analyses, with a larger sample size and longer time series, should in particular focus on sector-specific analyses and attempt to extract business cycle effects from the correlations observed in our analyses.

Revenue, operating profit, net profit and equity price data for the years 2014-2018 was collected from the companies' annual reports and analyzed against common indicators of gender equality: female representation on company boards and in leadership positions, gender balance in the total workforce, as well as whether the company has policies in place for fair remuneration and equal pay. Other indicators that may represent the company culture and gender equality, such as quantified pay gap, equal treatment and equal career development opportunities, were not readily available from a sufficiently large number of companies, and were therefore excluded from the analysis.

Overall, we do not find a correlation between the gender balance in the total workforce of a company and company performance in terms of revenue growth, operating profit, net profit and equity price growth. This may indicate that overall gender balance does not reflect the actual corporate culture. For example, the indicator does not say anything about gender distribution across divisions within a company. Nor does it say anything about women's actual opportunities for advancement and decision making. However, our analysis does indicate that having more women on company boards and in top management tends to coincide with better company performance.

Female board representation

Our analysis shows similar trends to the international research: Between 2014-2018, Nordic companies with more women on their boards outperform their peers; they grow faster in terms of both revenues and equity, have higher profit margins and higher returns on equity, and have less volatile equity prices. Our simple correlation analysis does not show that women on the board is what causes the strong financial performance of certain companies. However, the fact that Nordic companies with more women on their boards outperform their peers on every financial indicator analyzed is surprisingly consistent. It indicates that the findings from international research - that women on the board can drive financial performance - might very well be true for Nordic companies, as well.



OBX25 and OMX Nordic 40 - average performance, 2014-2018

	Average annual revenue growth	Average annual equity growth	Average profit margin	Average annual return on equity	Average relative volatility
Companies with above average female board representation[i]	90.6%	31.9%	6.7%	9.5%	17.3%
Companies with below average female board representation	10.9%	8.7%	5.2%	8.2%	31.4%
All companies	42.8%	18.0%	5.8%	8.7%	25.8%

Nordic companies with more women on the board also have fewer years with negative profit or negative growth in equity between 2014-2018. This correlation is even stronger than the correlation with financial performance. We see a clear pattern that the stronger the female presence on company boards, the fewer years of negative results and negative growth.

OBX25 and OMX Nordic 40 - average performance, 2014-2018

	Share of companies with one or more years of negative profit	Share of companies with one or more years of negative equity growth
Less than 25% women on the board	36.4%	72.7%
More than 25% women on the board	30.8%	65.4%
More than 33% women on the board	29.8%	66.0%
More than 40% women on the board	11.8%	47.1%
All companies	32.3%	66.2%

The correlation between female board representation and financial performance indicates, primarily, that there could be a financial risk having low female representation on Nordic company boards. Companies with fewer women on their boards are less profitable and do not grow as fast as their peers - and, significantly, companies with poor gender equality on their boards more frequently post annual losses and negative growth. Drawing on the international research into the effects of diversity on company culture, our findings may be an indication that female representation on Nordic company boards influences and moderates the action of both male and female board members, leading to better performance and fewer negative results.

Another interesting aspect of female board representation, is the topic of gender quotas. Norway, famously, introduced a mandated quota to increase female directors for publicly listed companies in 2008. Some studies have found that while the requirement, obviously, increased female board representation, it did not have the intended effect on increasing women's career opportunities in the companies - or increase female representation in top management.[44]

Our analysis shows that, within the Nordics, Norwegian companies have a slightly higher share of women on their boards, but essentially the same share of women in their top management as their Nordic peers. This indicates two things: Firstly, the gender quotas may only have had an effect on company boards' gender balance, and not the intended effect on company culture and overall progress towards equal opportunities. Secondly, if the gender balance on company boards is largely independent of equal opportunities and gender equality in the company, analyzing female board representation will not be adequate for investors seeking to invest in equality.

[i] *The average female board representation is 36 per cent.*

OBX25 and OMX Nordic 40, female representation, year end 2018

	Norwegian companies	Other Nordic companies	All Nordic companies
Women's re-presentation on company boards	37.1%	34.5%	35.5%
Women's representa-tion in top management	22.9%	21.6%	22.1%

Female representation in top management

Looking at female representation in Nordic companies' leaders-hip positions, we find that Nordic companies with a high share of female leaders are more profitable than their peers. Compa-nies with more women in top management have higher profit margins and higher returns on equity.

Unlike female board representation, women in top manage-ment is not associated with more rapid growth. Companies with more women leaders exhibit slower growth in both equity and revenues than their peers. However, their growth is less volatile, with smaller fluctuations in equity prices than their less diverse peers. The correlation between female leadership and lower volatility is supported by a 2018 Nordea study, which found that Nordic blue chip companies with the most gender-diverse ma-nagement have 40 per cent lower volatility in return on capital.[45]

Companies with a high share of women in top management have also experienced fewer years with negative results and negative growth than companies lower share of women in top management. Less volatile growth and fewer negative incidents may be an indication that women leaders are more risk averse than their male peers, resulting in slower, but more stable growth than in male-dominated companies. Our analysis indicates that female representation leads to more responsible business practices, and that companies with more women in top management generate steady profits and financial returns with a lower risk of negative events that result in equity fluctuati-ons and financial losses.

OBX25 and OMX Nordic 40 - average performance, 2014-2018

	Share of companies with one or more years of negative profit	Share of compa-nies with one or more years of negative equity growth
Companies with above average female representation in top management	29.2%	58.3%
Companies with below average female representation in top management	34.1%	70.7%
All companies	32.3%	66.2%

OBX25 and OMX Nordic 40 - average performance, 2014-2018

	Average annual revenue growth	Average annual equity growth	Average profit margin	Average annual return on equity	Average relative volatility
Companies with above average female represen-tation in top management[ii]	14.4%	13.4%	8.5%	11.9%	16.4%
Companies with below average female represen-tation in top management	59.4%	20.7%	4.2%	6.9%	31.2%
All companies	42.8%	18.0%	5.8%	8.7%	25.8%

[ii] *The average female representation in top management is 22 per cent.*

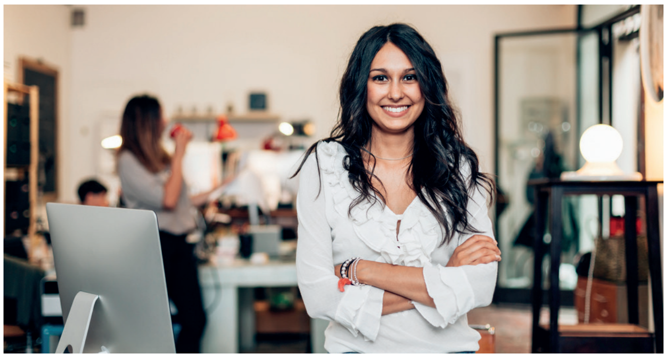
Most diverse companies

The companies that have above-average female representation both on their boards and in top management seem to have the least volatile growth, and the fewest negative results over the last five years among all the companies analyzed. In other words, while the most diverse companies may not grow as fast as their peers in terms of revenue and equity, these companies have more stable growth and fewer negative results.

OBX25 and OMX Nordic 40 - average performance, 2014-2018

	Average annual revenue growth	Average annual equity growth	Average profit margin	Average annual return on equity	Average relative volatility	Share of companies with one or more years of negative profit	Share of companies with one or more years of negative equity growth
Companies with above average female representation both on board and in top management	6.2%	6.9%	7.1%	6.7%	12.7%	11.1%	55.6%
Companies with below average female representation both on board and in top management	5.7%	3.3%	2.6%	4.0%	39.3%	37.5%	75.0%
All companies (n=65)	42.8%	18.0%	5.8%	8.7%	25.8%	32.3%	66.2%

Overall, our analysis suggests that promoting and achieving greater gender equality in Nordic companies can drive financial performance and value creation, especially in the long run. Our findings indicate that much of the international research may also be valid in the Nordics - that female board representation and women in top management can bring consistently higher profit margins and higher returns on equity, with more stable, less volatile growth, and fewer negative results.



Corporate culture - Total workforce and company policies

Today, the share of women in a company is largely driven by the industry sector. Our analysis is inconclusive on how to promote gender equality within companies and the extent to which companies can promote gender equality in society as a whole. Looking at corporate policies, we find no correlation between the existence of equal opportunities policies and gender balance within the company, neither at board level, in top management nor in the overall workforce. Furthermore, while greater female representation on boards and in top management may be profitable, there is little evidence to suggest that companies with better gender balance at the top have been better at promoting gender equality in a wider sense. Policies alone are not enough, and achieving gender balance at one level of the company may not spill over into other parts of the firm.
Our analysis also suggests that Nordic companies still have a way to go when it comes to acting on gender equality.

Building a gender diverse corporate culture and workforce requires targeted actions. We should not be content with the current share of women on company boards or in top management, neither in the Nordics nor globally. Yet, our analysis shows, there is a very strong business case for improving the gender equality and diversity in companies. We will now discuss how investors can act on this information, either to reduce the risks associated with poor gender equality performance, or exploit the business opportunities springing from female empowerment.

4. How do you invest in equality?

Acting on the research

The academic and corporate research indicating a positive link between gender equality and performance has not gone unnoticed in the investor community. In relation to this report, interviews were conducted with investment professionals from Storebrand, the Skagen Funds and FSN Capital. While all agree that gender equality is good in its own right, the motivation for considering diversity or gender equality in portfolio management is primarily driven by the pursuit of profit.

> Gender equality is relevant to my work because academic research and analysis from consultancy firms clearly conclude that return on capital, innovation and share prices are significantly higher when the gender balance is better.
>
> - Alexandra Morris, Investment Director, Skagen Funds

The question remains, how to invest in equality. The research literature tends to focus on the gender balance of company boards and top management, likely because this gender data is most readily available for large numbers of companies. Consequently, these factors are often used as indicators when investors consider gender equality within a company. Other investors look deeper into the organization to understand the extent to which gender equality is embedded in a company's strategy, culture and operations. Others again do not look at gender equality within companies at all, but emphasize whether the company provides products or services that advance the empowerment of women. Each investor has a different approach to investing in gender equality; nevertheless, there are two overarching approaches:

1. Screening companies based on gender equality within the company;
2. Screening based on the extent to which the company products and services promote gender equality and women empowerment.

There are also differences within the first approach. Some investors limit investments in companies that perform poorly on gender equality. More active owners with larger ownership shares may favor addressing gender inequality through active ownership.

The relative effect of the two approaches and related variations likely depends on what kind of investor you are and what markets you invest in. It is important to note that one approach does not exclude the other.

1. Company screening based on internal measures of gender equality

The first approach is most closely related to the academic research on gender equality and company performance. It involves analyzing the internal conditions and processes related to gender equality in a company, such as gender balance at different management levels, recruitment or diversity strategies, and policies for equal compensation.

In this approach, gender equality is often analyzed alongside other ESG indicators to give an overall picture of risk, as part of a comprehensive sustainability or ESG analysis. As Alexandra Morris, Investment Director in the Skagen Funds, points out:

> Our mandate is to invest in the companies that give the best possible risk-adjusted return on investments. We do not have a mandate to pick companies based on gender equality alone. However, in our analyses we look at all indicators that we believe will contribute to better returns.
>
> - Alexanadra Morris, Investment Director, Skagen Funds

The challenge is to determine which data is the best indicator for a company's gender equality. The most commonly used, and most readily available indicator, is the gender balance of the board of directors. However, board composition alone is an insufficient indicator of the overall culture and gender equality in the company. An analysis of the gender balance at different levels of the company may provide a better picture, especially given the importance of diversified leadership to company performance.

> It is a basic principle that a company needs management that reflects the workforce and the customers. As such, a focus on top management is far more interesting than the composition of the board of directors, which is a superficial indicator.
>
> - Philip Ripman, Fund Manager, Storebrand

This is not to say the board is irrelevant. It is still crucial that gender equality is on the board's agenda, and that the board has targets for equality in the company. If a board of directors is concerned with gender equality, they will challenge a company that performs poorly to do something about it. Consequently, the gender balance of the board itself, or at least the board members' awareness of the benefits of diversity, becomes important. Private equity firm FSN Capital recognizes this, and aims to recruit 50 per cent women among new board members in their portfolio companies.

> In an increasingly complex world, having teams with complementary skill sets and backgrounds is vital for success. Companies with a more diverse workforce perform better financially.
>
> - Erik Nelson, Partner & Head of ESG team, FSN Capital

The UK Women in Finance Charter could serve as a model for board KPIs on gender equality, for example that a company each year must report on the number of female employees, their salaries and professional development. Additionally, the board should have a designated person responsible for following up on gender equality.

It is also possible to use data from several organizational levels, which, taken together, arguably better reflect a company's culture on gender equality. Storebrand looks at the proportion of women at different seniority levels, from the board of directors, through executives and senior management, to the workforce as a whole. Promotion and career development are also highly important related indicators. In the same way, among FSN Capital's portfolio companies, those that have identified gender equality as material in their ESG strategy often measure the gender balance within different corporate divisions and levels.

Furthermore, the share of women is only one form of gender equality. Equal compensation and work-life balance are probably even better indicators of the company culture for gender equality. But data is hard to come by; corporate policies and strategies, such as career development and recruitment strategies, give an indication of company priorities, but do not necessarily reflect company action on equality.

> The most important data sets, for example on equal compensation and work life, are still hard to find for many companies. Yet, even gender balance is very valuable if you look beyond the board level. It is a question of looking a little deeper into the company.
>
> - Tulia Machado-Helland, Senior legal adviser ESG, Storebrand

Screening and active ownership

There are different ways to weight gender equality in the investment analysis, and to act on a company's performance related to gender equality. The differences depend on whether investors emphasize screening or active ownership when it comes to effecting change.

An emphasis on screening involves scoring potential and current portfolio companies on measures of gender equality. Companies that perform well on gender equality indicators, commonly alongside other indicators as part of an overall sustainability score, are weighted more heavily in the investment portfolio. The higher the gender equality performance, the larger the investment. To the extent that Storebrand created a portfolio just based on those companies which score best on gender equality, "Bølge Likestilling" (Wave Equality). This is a reflection of the view that gender equality can drive potential return on investments. Conversely, a lower gender equality and sustainability score leads the asset managers to reduce their investments in a company, or potentially not selecting a company for a portfolio.

With a primary emphasis on active ownership, the gender equality of a company pre-investment does not necessarily influence the investment decision. The investor focuses instead on effecting positive change on gender equality through their ownership. Naturally, this approach is most effective for investors that hold large ownership interests, in particular Private Equity firms and investment funds with concentrated investment mandates.

There are several ways to improve gender equality through active ownership. Investors can use their voting rights. They can also cooperate with other shareholders on a particular issue, pooling their shareholdings to increase their influence on the policies for gender equality in a company. A third approach is to improve the gender balance of company boards or top management as part of the post-acquisition plan, as practiced by investors that hold large shares of individual companies. This can often be combined with investor demands that diversity and equality are fixed items on the board's agenda, annually.

> During the ownership period we focus on building resilient companies. We consider employee satisfaction to be a key success factor, and believe that diverse leadership teams give satisfied employees.
>
> - Erik Nelson, Partner & Head of ESG team, FSN Capital

Gender equality indicators	Ways to act on the information
Gender balance on different organizational levels: • Board of directors • Senior management • Management • Corporate divisions • Workforce	Screening: • Weight companies in the portfolio based on gender equality score • Choose to not select/limit/reduce investments in companies that perform poorly on gender equality
Equal compensation • Gender pay gap • Equal pay	Effecting change through active ownership: • Use of voting rights • Pool resources with other investors • Change the composition/gender balance of the board of directors or senior management • Demand board focus and KPIs on gender equality
Work-life balance • Flexible work options • Maternity / paternity leave	
Corporate strategies and policies • Promotion & Career Development Opportunities • Training & Career Development • Equal opportunity recruitment Strategy	

2. Investing in products and services that promote gender equality

A potential challenge to the first approach is that companies in many parts of the world will score poorly due to systemic gender gaps in their respective markets. Screening based on for example the share of women in management positions would exclude companies in large geographies, and a host of emerging economies. Not least because the availability of corporate data on gender equality indicators is low in many countries.[46] As such, if an investor wants to invest in particular emerging markets, the first approach might be ill-suited. Moreover, investing in gender equality within companies does not necessarily address the deep economic and social gender gaps in many societies.

In a global perspective, the discussion about gender equality in top management and the board of directors may indicate that the fight for gender equality has advanced beyond a concern for fundamental equal rights. By not selecting companies on the basis of internal gender equality indicators, investors run the risk of omitting companies that provide products and services that advance gender equality in less equal markets.

The second approach to investing in gender equality involves actively picking companies whose products and services contribute to empowering women and advancing gender equality. This approach is part of a broader trend within sustainable investments where the aim is to invest in companies that help solve the global challenges that form the basis for the UN Sustainable Development Goals (SDGs). The Storebrand fund, Global Solutions, follows this strategy.

The underlying logic is that the SDGs - agreed upon by 193 states - delineate future demand, and thereby indicate capital flows. Companies that work to solve a societal challenge therefore have significant growth potential, as well as higher returns in the long run. The global goals also have a set of sub-targets that more concretely point to problems that are to be solved, or from a commercial perspective, the products and services that can meet demand within the sustainable development agenda.

The UNCTAD World Investment Report estimates that achieving the SDGs by 2030 will require USD 5-7 trillion of annual investment across sectors and industries.[47] In other words, investing in solving global challenges is a market opportunity. All the more so because it is a relatively nascent investment field, with a limited amount of players.

As with the first approach, gender equality can be one of several challenges that a portfolio is geared towards solving. There is, however, an independent case for investing in gender equality, i.e. SDG 5 "Gender equality and women empowerment", as it tends to contribute to solving other challenges, including economic growth. Notably, gender equality and women empowerment is both an SDG in its own right, and a sub-target of the other SDGs.

It is illustrative to look at two of the sub-themes that the Storebrand Global Solutions fund focus on when investing in women empowerment: digital and financial inclusion. The sub-themes are also intrinsically linked to a state's development.

> Investors essentially have two tools to promote the sustainability agenda: they can invest less or more. Up until today the investor focus has primarily been exclusion. It would be better to focus on qualifying companies in the portfolio based on the products and services they offer.
>
> - Philip Ripman, Fund Manager, Storebrand

Investment case: Digital and financial inclusion

In many countries, women's access to digital services is far lower than that of men. One of the best indicators of digital inclusion is mobile phones, which can give access to empowering services such as mobile money, education and employment opportunities. Over 1.7 billion females in low- and middle-income countries do not own mobile phones. Cost and service delivery are two of the main barriers to getting a phone.[48] The market opportunity in this field is enormous. A report by GSMA estimates that ensuring women own phones, and that all women who own phones in low- and middle-income countries increase their usage of phones, could unlock a USD 170 billion market opportunity for the mobile industry over five years.[49]

Digital inclusion also affects financial inclusion, such as account ownership, which, in the words of IMF Managing Director, Christine Lagarde, and Norwegian Prime Minister, Erna Solberg, is key to gender equality in many developing countries as it enables women "(...) to participate fully in the economy, including as businesswomen and entrepreneurs (...)." There is a persistent gender gap of 9 percentage points in account ownership in developing economies. Globally, 1.7 billion adults remain unbanked, 56 % of which are women. While the most common reason for not having an account is not having enough money, the other main barriers such as cost, distance and lack of trust in financial institutions are all barriers that can be addressed through digitizing payments and financial services.[50]

Even though an industry reflects a solid SDG investment case, the Storebrand Global Solutions fund also considers company-specific factors before making an investment. Whether a product or service advances gender equality, and actually meets the relevant demand, may for example depend on the company's corporate strategy, business priorities and market focus. Investors can examine whether the investment objective has integrated the Sustainable Development Goals or a societal purpose into the corporate strategy. This is important because it indicates that the company will employ its products or services where they have an actual impact. Furthermore, investors can look at where the company delivers its products and services, and the markets in which it operates. For example when investing in digital inclusion, it is key to pick the companies that build and expand infrastructure and services where it is lacking, and that have a strategic focus on solving for example the gender gap. Luckily, the markets where impact is greatest may often coincide with the greatest growth potential.


Photo: CARE

5. Recommendations for investing in gender equality

The aim of this report has been to establish the investment case for gender equality, adding new insights on the relevance of existing literature for Nordic companies. We find that gender equality contributes to a country's GDP, and notably can increase corporate performance significantly. Subsequently, we have demonstrated two different approaches to investing in gender equality: one that is based on the expectation that companies perform better when they are more diverse, and one that picks companies that provide products or services that empower women in light of the market potential.

Lastly, we present four recommendations to investors that want to include gender equality as an important risk factor and indicator of corporate performance in their investment process. We also include two recommendations to the authorities of how they can promote gender equality in business.

Authorities

As mentioned at the very beginning of this report, policy action is still required to promote gender equality in businesses. Here are three ways the authorities can promote investments in gender equality.

1. The state, municipalities and public sector enterprises can demand fulfillment of certain gender equality indicators from their suppliers.
2. Lead by example. In particular the state can promote transparency and good reporting on gender diversity issues by setting standards as an owner, that is for state-owned and partly-owned companies.
3. Make sure that Sustainable Development Goal 5: Gender Equality has top priority in foreign and development policies.

Investors

1. Consider which investment approach to gender equality best complements your current investment strategy.
2. Integrate relevant gender equality indicators into the investment process; or identify one or more barriers to women empowerment that fits with your current expertise or investment universe, and identify companies that provide products and services that help overcome this barrier.
3. Employ active ownership. Push your portfolio companies on gender issues, for example by demanding data on gender balance and gender pay gaps, or require policies and activities to improve the gender balance.
4. Cooperate with other financial actors and set collective standards for gender equality. One standard to start off with could be reporting requirements on gender balance in top management and general workforce, as well as paternity and maternity leave.

Examples of investment indicators

Indicators of gender equality within a company	Indicators of companies contributing to empower women
Gender balance	Present in markets with high gender gaps
Equal pay	Delivers products or services that resolve one or several barriers to gender equality and enhances female participation. The SDG targets can be a good place to start to identify relevant barriers, or challenges that need to be overcome to achieve gender equality
Corporate strategies and policies	Identifies its contribution to female empowerment or related SDGs as a strategic priority
Maternity / paternity leave	

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