Slowly but surely: gradual progress towards gender equality
Gender diversity enhances corporate governance, talent attraction and human capital development which fosters superior value creation not only within companies, but also for stakeholders and society. Corporate policies promoting gender diversity are a reflection of a well-managed company that realizes the value of multiple perspectives in minimizing risk and driving long-term competitiveness. Token female appointments are not the goal, but rather effective leadership.

Gender diversity can only be achieved by promoting gender equality, not in terms of quotas or inaccurate measures of outcomes, but by addressing the social and cultural stereotypes that have limited women’s ability to maximize professional opportunities.
Why gender equality and diversity matter

For RobecoSAM gender equality means not only equal pay for equal work and equal gender ratios but also equal access and equal treatment for career-advancing opportunities. And that goes for senior management and company boards as well as for the men and women in the rank and file across the entire organization.

Corporate gender equality has important implications—not just for female employees but also their male colleagues, employers, current shareholders, future investors, and society. According to the IMF, gender inequality is linked to sub-optimal economic growth. Differences in the amount that men and women are paid don’t just lead to income inequality, they also result in unequal access to education, health services and financial markets.¹

Meanwhile, McKinsey suggests that achieving full gender equality in the workforce could boost global annual GDP by $28 trillion by 2025.² Unfortunately, according to the World Economic Forum, it will take 217 years to eliminate gender-based economic and health disparities.³

How does this affect companies? Firms with high gender diversity deliver better risk-adjusted stock returns than those with low gender diversity.⁴ The presence of women in the C-suite also correlates with profitability and diverse leadership teams boost innovation and improve financial performance.⁵

RobecoSAM asks companies a number of questions about their gender equality policies and practices in our Corporate Sustainability Assessment (CSA).

Gender inequality is linked to sub-optimal economic growth.

How the CSA measures gender diversity

Every year we collect data about companies’ gender practices, covering four main topics:

1. Gender diversity on a company’s board of directors—women are currently underrepresented on boards globally, despite evidence that shows diversity adds to effective governance and better performance. We measure the number of women on board as well as whether gender diversity is part of the nomination policy and process.

2. Gender diversity in the workforce—a balanced mix of men and women throughout a company boosts its performance potential. We also look at the percentage of women in management and companies’ ability to retain and attract women to senior positions.

3. Pay ratios—fair compensation is not only ethical, it is essential for maintaining morale and creating a thriving atmosphere where all employees feel valued. We capture pay data to determine whether remuneration is equal between the female and male workforce at different levels (non-management, management, executive).

4. Employees and family care—although parental responsibilities still fall disproportionately on women, childcare issues can affect both sexes and require a balanced approach. We evaluate whether employers offer benefits like on-site childcare facilities, help with care costs, parental leave and return to work policies, and flexible working possibilities.

¹ “Women, Work, and Economic Growth”, International Monetary Fund, February 2017

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Commitment to board diversity is growing

Albeit slowly, the needle is moving in the right direction. The proportion of firms in our survey that consider gender in their public board diversity policy has increased materially over the past year, to nearly 48% (2017) from 40% in 2016. Unsurprisingly, most of the improvement stems from Europe and North America. Here again, Latin American companies are lagging significantly behind with only 5% of companies explicitly mentioning gender in corporate diversity policies.

Sector differences in board gender diversity are also notable. Firms in financials and healthcare do best at 22%, whereas the IT, industrials and materials sectors lag at 18%. However, results at the overall sector level often mask noteworthy differences within underlying sub-sectors (i.e. industries). For instance, the IT sector’s poor performance overall is dragged down by a low share of women (13%) in the hardware industry while another IT sub-sector, software & services, performs relatively better (23%). Other lagging industries include automobiles & components, transportation, and semiconductors (all below 17%).

**Figure 1: Gender diversity on corporate boards has been increasing in most of the world (2013 – 2017)**

![Graph showing gender diversity on corporate boards](graph.png)

Source: RobecoSAM

Gender diversity on corporate boards

Although the pace has slowed over the past year, gender diversity on corporate boards has been increasing in most of the world over the past five years ending in 2017 (See Figure 1).

With 29% of female board members, Europe is the best-performing region – although its rate of progress has recently slipped. At the other end of the spectrum is Latin America where less than 7% of board members are women. While countries in the Asia Pacific perform better with 13% female board members, they still lag significantly behind other regions. On the country level, the worst-performing in our sample are Japan, Mexico, Chile, and South Korea where boards are overwhelmingly dominated by males – a male to female ratio of 93% to less than 7%. That’s equal to more than 9 males with one lone female participant.
Workforce participation

The proportion of women in the workforce globally fell slightly from 35.3% to 35.0% from 2016 to 2017, reversing an increasing trend that we’ve seen in recent years. Curiously, over the same time period, there was an increase in the proportion of women in management positions from 26.0% to 26.3%.

Regional disparities

For the female share of the total workforce at the regional level, North America is leading the way at nearly 39%. Japan and South Korea both score poorly at close to 25%, but India is the laggard in our sample at 13%. North America also leads in terms of women in management positions at just over 33%, demonstrating the typical decline we see when promotions to leadership positions are evaluated (e.g. there is almost always a lower percentage of women in management positions than in the total workforce). While we would rather see no differences in female representation percentages between management and the overall workforce, North America’s 6% difference (39% vs 33%) is small compared to lagging countries. In Japan, a developed country with a strong economy and long history of female workforce participation, the difference is 15% (24% vs 9%) — or 2.5 times greater. This is a significant loss of talent as companies fail to promote female leaders that could bring fresh perspectives, discover new opportunities, and create value for the company and shareholders.

Sector level data

At the sector level, the proportion of women in the workforce in IT has remained unchanged over the past three years despite a number of initiatives to promote tech as an attractive option for female workers. And while women make up over half of the total workforce in financial services sector, they account for less than a quarter of its senior managers. Looking deeper, interesting differences appear. For instance, insurance companies and banks have slightly more female workers than male, while diversified financials, which includes asset managers and investment banks, has slightly less (under 44%). Energy, utilities and materials sectors all have lower average proportions of women in their overall workforce with 25%, 23%, and 18%, respectively, with no major improvements since 2013 (See Figure 2).

Figure 2: Energy, utilities and materials sectors all have lower average proportions of women

![Figure 2: Energy, utilities and materials sectors all have lower average proportions of women](image-url)
Retaining Female Talent
We assess a company’s ability to attract and retain experienced women by looking at the retention of the female share from junior to senior management levels. The desirable rate is 100%, or a 1-to-1 ratio between junior management females and senior management females. Corporate reality is otherwise. On average only 19.9% of senior managers are women, meaning many women are leaving the corporate ranks far too soon. This underscores the importance of tracking female attrition within companies to find out why and create the right incentive structures to keep talent moving up the ladder rather than dropping off it.

Although far from optimal, the median retention rate overall is improving with time. There was a 5 percentage point (p.p.) rise between 2013 and 2017 from 58 to 63%. Rises like these suggest companies are beginning to recognize, reward and retain female talent as they professionally develop and ascend through the organizational ranks.²

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Rattling Ratios
During 2013 to 2016, North American firms were consistently better than their European counterparts at retaining female managers. North American firm retention rates fell in 2017, not because firms lost women at senior levels but because they were more successful at recruiting females for junior posts.
The proportion of females in junior roles increased 2 p.p. from 34% to 36% while the proportion in senior positions increased only slightly (from 24.0% to 24.6%). This had the ultimate effect of lowering retention ratios in North America overall (See, Figure 3).

Among the worst performing countries is South Korea, with just 11% median retention, meaning female talent is largely lost at management levels. Given South Korea’s economic power on the world stage, this represents an appreciable loss of female potential that could further boost Korean business overall and improve the opportunity set for women across Korean society.

Among sectors, the data suggest that financials is the poorest performing sector with only 55% of its junior female share retained at senior roles.

Figure 3: Lower retention ratios in North America because of more successful recruiting of females for junior posts

Due to a significant number of outliers, we use a median rather than an average to summarize retention rate data.
Differences in female to male pay ratios
We can see a substantial pay difference (as measured by pay ratios\(^1\)) between males and females across industries and at all organizational levels. In fact, data shows that the differences in pay for males and females at the executive level has not only stagnated but grown worse (See Figure 4). Lower in the ranks, the situation is better — pay ratios for employees classified as managers are higher than for executives. However, these ratios have remained stable over time with no recent improvements.

More encouraging are results from lower levels in the workforce. Women in non-management positions have seen incremental increases in pay ratios since 2013 (from 91% to over 92% in 2017). The increase in the global pay ratio for non-managers over the past year was driven primarily by North America, whereas in Europe and Asia-Pacific progress has stalled. Globally, we estimate that at the current pace, it would take 22 years to eliminate the gender pay gap between male and female non-managers — a considerable feat given this group represents the majority of the workforce worldwide.

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Potential explanations & causes
We can see a substantial pay gap across all employment levels. However, these figures represent raw observed pay ratios and do not control for important differences like job-specific responsibilities, education, skills and experience between female and male workers that would help explain pay disparities.

If firms could explain existing pay disparities via objective employment data like those listed above, a firm’s true pay ratio would be 100%, meaning men and women are paid equally for the same job. However, research has shown that, in reality, even when these factors are controlled for, there is a residual salary gap that is still left unexplained — pointing to outright discrimination against women.

In the near term, in order to eliminate this type of unwanted bias, companies should carefully examine pay structures to ensure they are clearly defined, fair and transparent. Firms that fail to take the necessary steps to rectify pay gaps, face significant risk from within via lost potential from under-appreciated and under-utilized female employees as well risk from without as it will become harder to attract and recruit future female talent. Greater still is the risk of legal action with subsequent financial costs as well as enduring reputational damages.

Bearing all that in mind, comparing regions, industries and companies on the raw observed pay ratios can still add value, as it helps understand the state of things, what is possible, and how their approaches to the issue diverge.

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\(^1\) A 99% pay ratio means that a female earns 99% of (or 1% less than) what male colleagues earn.

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**Figure 4:** Differences in pay for males and females at the executive level has grown worse

![Graph showing differences in pay for males and females at the executive level from 2013 to 2017.](source: RobecoSAM)
Flexible work and family care

Flexible work hours, flexible work locations (i.e. home office), paid time-off for new births, and other childcare options help relieve stress on working parents and should be standard features of any company’s personnel policy.

The CSA measures a number of working conditions and benefits offered by companies to support parents – not just working mothers but working fathers as well – in their child care responsibilities. Moreover, measures should not favour one gender over another but should support both with flexible work arrangements that extend beyond maternity leaves to include options like paternity leaves for fathers, home-office possibilities and flexible working arrangements.

Figure 5 displays recent CSA data compared to one year prior. We can see that more and more companies are offering child care packages to parent-employees. Among options available, flexible working hours and help with childcare are among the most popular. Regional results are described below in more detail.

The proportion of companies reporting on gender pay structures is slowly rising as public exposure and regulatory scrutiny intensify.

Pay ratios—Sector differences

Stark differences are also apparent between sectors. In IT, women non-managers receive on average just 86% of what their male counterparts earn; financials is only slightly better at 88%. The best performing sector is consumer staples with 97%.

Benefits for employees, parents and families

More and more companies are offering child care packages to parent-employees.

Reporting & Disclosure

The proportion of companies reporting on gender pay structures is slowly rising as public exposure and regulatory scrutiny intensify. Companies are slightly more willing to report on non-management positions where the share of companies reporting has been incrementally increasing since 2013. Company reporting for females in non-management positions rose by 1.3 p.p. in 2017.

Figure 5: Employee well-being – more companies offering child care packages

Source: RobecoSAM

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<thead>
<tr>
<th>% of companies offering employee benefits</th>
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<td>Child care</td>
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<td>Paid maternity leave*</td>
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(*in excess of legally required minimum)
Child care
European companies are out in front when it comes to providing child care to their employees – 55% offer either in-house childcare, or help with the cost of external care providers. At the country level, Australia and the US are the notable low performers with only 35% and 36% of companies offering childcare benefits, respectively, whereas in Japan childcare benefits are widespread (71% of companies).

Europe and Japan are top performers in offering childcare benefits while the US and Australia perform relatively poorly.

Paid maternity and paternity leave
European companies are most likely to provide paid maternity leave in excess of the legally required minimum (29% of companies), followed by firms in Asia Pacific and Latin America (both with 21%). Just 15% of North American firms do so.

From a sustainability perspective, we believe it is important for firms to go beyond legally-binding requirements for parental leaves. Legal mandates are intentionally designed to provide minimum baselines across the entire economy; yet the workforce characteristics of each sector are unique and parental leave policies should be customized in order to optimize the benefits for both employees and employers.

The proportion of firms paying paternity leave in excess of the legally required minimum is growing overall – North America gained 5 p.p. while Europe and Africa etched up another 2 p.p.

Interesting anomalies exist that run against intuition. Sweden, for example, has very few firms that exceed the legal limit for paternity leave. A likely explanation may be because the legal minimum in Scandinavian countries is already so generous that companies feel additional benefits are unnecessary.

Flexible working hours
European companies are in the lead in terms of providing their employees with flexible working hours: 61% of European firms did so in 2017, compared with just 37% in North America. Germany led the way at the country level, with 92% of firms allowing flexible working hours compared to just 3% of Chinese companies within the CSA.

Sector data reveals the banking industry is most willing to provide flexible working hours to staff, with 62% of companies allowing such arrangements.

Home office
With 51% of firms in our survey providing their employees with home-working opportunities, Europe is again the leader of the pack. Companies in other regions are lagging behind: in Asia Pacific only 30% of companies offer this flexibility and in North America the share is only 26.

European companies are in the lead in terms of providing their employees with flexible working hours.
Legislation could drive further gender equality improvements

The data from our 2018 CSA show that there is still a sizeable gender gap in the workplace in all industries and in all regions of the world. In general, European companies are leading the way in terms of employee gender equality, although there is considerable variation between European countries. Countries in emerging markets – which have the most to gain from increasing gender equality in terms of economy-boosting potential – lag far behind.

While gender inequality within companies is persistent, there is cause for optimism. It’s clear from our findings that equality is slowly increasing overall (notwithstanding issues such as executive pay, which seems to be moving in reverse of general trends).

What’s more, gender equality’s increased public attention and momentum, could help push lawmakers in legislating more transparency from firms on gender statistics. Moreover, lawmakers could also use regulations to incentivize companies to design and implement processes that eliminate gender imbalances. In fact, this is already happening. For example, in January 2018 a law came into effect in Germany that gave women and men the right to know what co-workers performing the same function are earning.9 The same month, companies in Iceland were required by law to pay women the same as men.9

In the UK, a government-backed review in November 2018 urged FTSE 350 companies to do more to meet the target of a third of women in senior leadership positions by 2020; this on top of legislation in May that required companies with 250 employees or more to disclose information on pay gaps in their organization.

Across the Atlantic, the Canadian government is launching national pay equity legislation and a new Department for Women and Gender Equality,10 while California recently became the first state in the US to pass a law requiring the presence of women on corporate boards.11

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8 https://www.ft.com/content/e9f618c0-f210-11e7-ac08-07c3086a2625
11 https://www.theguardian.com/us-news/2018/oct/01/max-benwell-maxbenwellguardiancouk-california-women-board-directors-companies-law-jerry-brown-
Conclusion

Gender inequality is still present in every industry, even despite significant efforts to promote greater diversity and close the pay gap. Gender equality is vital for companies for many reasons. A positive reputation for fair play and equal pay across employees helps maximize access to a bigger talent pool of skilled workers; increases the ability to retain top talent once hired; contributes to positive morale and keeps employees motivated. RobecoSAM’s Gender measurement framework supports this view and suggests that companies with a more diverse and equal workforce are indeed better positioned to outperform.

At RobecoSAM, we’re proud to be playing a role in promoting gender equality in the workplace. Over the 15 years we’ve been assessing companies’ sustainability characteristics, our process of competitive benchmarking provides an incentive for many companies to improve their performance on factors that long-term investors consider important. By levelling the playing field for men and women in the workplace, firms can also help promote gender equality in wider society as well as enhance their performance.

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A balanced workforce overall is not enough. Firms should ensure that women are well represented in revenue-generating and core business functions, not just in support and administrative roles.

Finally, gender diversity is only one piece of the equality puzzle. Diversity and equality in hiring practices and employee treatment should extend not just to gender but to race, ethnicity, nationality, and other aspects of background and culture. As supply chains globalize, geopolitics polarize, and social media channels demonize, companies should by now realize the strategic advantages of building an employee base that is not only talented but also diverse.

Talent and diversity taken together can build into a powerful force that help companies promote collective thinking, improve decision-making, enhance end-customer focus and satisfaction as well as reduce risk-taking. As the saying goes, what’s good for the goose is good for the gander… and, in fact, for all of us in the global pond.
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