Measuring Board Gender Diversity across S&P ESG Indices

Introduction

According to numerous studies,¹ having a gender-diverse board is a key indicator of good corporate governance.² The gender diversity of a board of an investee company is also one of the mandatory sustainability indicators³ that financial market participants are required to assess and report on under the EU’s Sustainable Finance Disclosure Regulation (SFDR).⁴ Using the S&P Global SFDR dataset,⁵ we examine this metric in the context of the S&P ESG Indices.

First, we observe how the proportion of women on boards varies across countries (see Exhibit 1). On average, French firms have the most gender-balanced boards. This is unsurprising, given that the French government enforces a minimum of 40% women on boards,⁶ a requirement that may follow across the EU.⁷ Meanwhile, all Qatari firms have an entirely male board.

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³ Please refer to Commission Delegated Regulation (EU) 2022/1288 for a complete list of principal adverse impacts of investment decisions on sustainability factors. Financial market participants are required to disclose how they consider principal adverse impacts of their investment decisions on sustainability factors. Assessing principal adverse impacts of investment decisions on sustainability factors is also linked to the principle of “Do no significant harm.”


⁵ Visit www.spglobal.com/ for more information.

⁶ French law proposal No.4000: https://www.assemblee-nationale.fr/dyn/15/textes/115p4000_proposition-loi

In terms of sectors, firms operating in Energy, Consumer Staples, Information Technology and Health Care have a greater-than-average number of women on their boards, while Materials has the lowest average (see Exhibit 2).
However, sector- and country-level metrics do not tell the full story, and the distribution within regional indices can vary dramatically. Exhibit 3 shows the range of values of board gender diversity across a selected set of investable universes.

Exhibit 3: Distribution of Board Gender Diversity across Firms

Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2022. Chart is provided for illustrative purposes. Violin plot indicates the distribution of firms’ board gender diversity within a selected group of indices. Height of the plot represents number of firms with a certain percentage of women on their board. Dotted lines within each violin plot represent the first, median and third quartile values within that index universe, going from left to right.

While most firms in our selected U.S. benchmarks have about 20%-40% women on the board, European firms tend to have between 30% and 50%, and firms in Korea and Mexico average far fewer women on the board. Canadian firms, meanwhile, have a comparatively tighter range of values than their developed counterparts, with all boards having at least one female member, but none exceeding 50%.
S&P ESG Indices

How could indices help those who are interested in companies with greater board gender diversity? Exhibit 4 illustrates the impact that the S&P DJI ESG Scores have within the S&P ESG Index Series to help improve the board gender diversity of constituents relative to the underlying index.

Exhibit 4: The S&P ESG Indices Generally Have Greater Board Gender Diversity Than Their Benchmarks

Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2022. Chart is provided for illustrative purposes.

On average, for the majority of the indices studied here, the ESG version exhibited a greater percentage of women on the board than its benchmark, with only the Mexico- and Brazil-based indices as the exceptions.

The S&P ESG Index Series does not have an objective of selecting constituents with greater gender board diversity. However, board gender diversity is a component of the ESG scoring assessment.
S&P DJI ESG Scores

Board Gender Diversity forms a part of the Corporate Governance Score, a component of the broader S&P Governance and Economic Dimension Score—the “G” in the S&P DJI ESG Score, as reflected in Exhibit 5.

Exhibit 5: How Board Gender Diversity Feeds into the S&P DJI ESG Score

Exhibit 6: Correlation Matrix of Women on the Board with ESG Components

<table>
<thead>
<tr>
<th>Correlation</th>
<th>S&amp;P DJI ESG Score</th>
<th>Governance &amp; Economic Dimension Score</th>
<th>Corporate Governance Score</th>
<th>Board Gender Diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P DJI ESG Score</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Governance &amp; Economic Dimension Score</td>
<td>0.94</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate Governance Score</td>
<td>0.54</td>
<td>0.66</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Board Gender Diversity</td>
<td>0.34</td>
<td>0.40</td>
<td>0.69</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2022. Table is provided for illustrative purposes.

Exhibit 6 demonstrates the influence that women on boards of directors can have on each dimension of a firm’s S&P DJI ESG Score. Even at the overall ESG score level, board gender diversity still plays a part in a company’s overall sustainability rating.

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