Industry Update

08 March 2024

In focus

ESG

In focus: Improving returns by improving equality

Research has found that companies with greater diversity in their executive teams tend to have higher profits and longer-term value. Companies with the greatest proportion of women on executive committees earned a 47% higher rate of return on equity than companies with no women executives, according to 10 years of research by McKinsey and LeanIn.org. Inclusive teams make better decisions. By ignoring these statistics and not being diverse, the global economy misses out on USD12trn–28trn of growth yearly. In a world focused on growth and shareholder value, why is diversity not pushed more actively?

We find that the share of women on the board of directors and in senior leadership is increasing, but from in some cases appallingly low levels just a few years ago. As women have a strong performance in higher education, we believe the positive trend will continue, but at a slow pace. The 'broken rung', the phenomenon whereby women are unable to break through entry-level management roles and get promoted to higher levels, often caused by bias, needs to be fixed to improve the workforce's ability to compete on equal terms.

Obstacles include unconscious bias and discrimination, fewer opportunities to show leadership skills, lack of support from immediate supervisors, less opportunity to network, and lack of advice on career advancement. This is a serious issue, since companies in the top 25% for gender diversity are 27% more likely to outperform in terms of profitability.

Carnegie's review of the financial performance in global companies split by gender balance in their board of directors in many ways echoes a Harvard study, 'Why Gender Equity in the Workplace is Good for Business' (March 2020). We found that companies with a high gender balance on their board tend to achieve a better return on equity. Companies with very few (<10%) or no women on the board tend to have a higher sales growth but worse return on equity, possibly reflecting that men tend to take a higher market risk.

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Amanda joined Carnegie in 2023. Before that she worked as Head of Investment Strategy at the Capital Markets team at and as Head of Research Nordics at CBRE, which included ESG research, macroeconomics and all kinds of commercial real estate. She holds an MSc in Business and Economics from Lund University with specialisation in Corporate Finance and French and has also studied Sustainable Real Estate at Cambridge Institute for Sustainability Leadership.

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Lena was appointed Global Head of Research in 2024. She also served as Head of Sustainability, Research and Strategy from January 2021. She joined Carnegie in 2009 and served as Head of Equity Research Sweden for six years. For several years, Lena Österberg has focused on integrating the sustainability perspective into Carnegie equity research. She has founded the Carnegie Sustainability Award and produced the Carnegie Sustainability Guide, a research study covering 350 companies from a sustainability perspective. She has also been ranked best overall individual analyst in Sweden for five consecutive years.

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Pontus joined Carnegie in 2013 and works as a Quant and Timing analyst. He has worked both on the buy-side and the sell-side. On the buy-side he worked as a hedge fund manager after launching his own hedge fund. He started to work in the financial industry in 1997, and on the sell-side he has also worked for ABG Sundal Collier, Handelsbanken and Straumur. He was ranked number one Swedish Quant analyst in Prospera in 2017–22.

Contents

Leaving women out is leaving money on the table

In this report, we argue – backed up by extensive research on the subject which we cite as we examine the arguments in more detail – that companies with greater diversity in their executive teams tend to have higher profits and longer-term value. Gender discrimination leaves a lot of money on the table. Inclusive teams make better business decisions up to 87% of the time, according to Forbes. Companies with greater diversity in their executive teams tend to have higher profits and longer-term value. Conversely, companies with low rates of gender and racial diversity are 29% more likely to make less money.[1] Furthermore, companies with the greatest proportion of women on executive committees earned a 47% higher rate of return on equity than companies with no women executives.[2] According to McKinsey, closing the gender gap could add USD12trn–28trn to the global GDP.

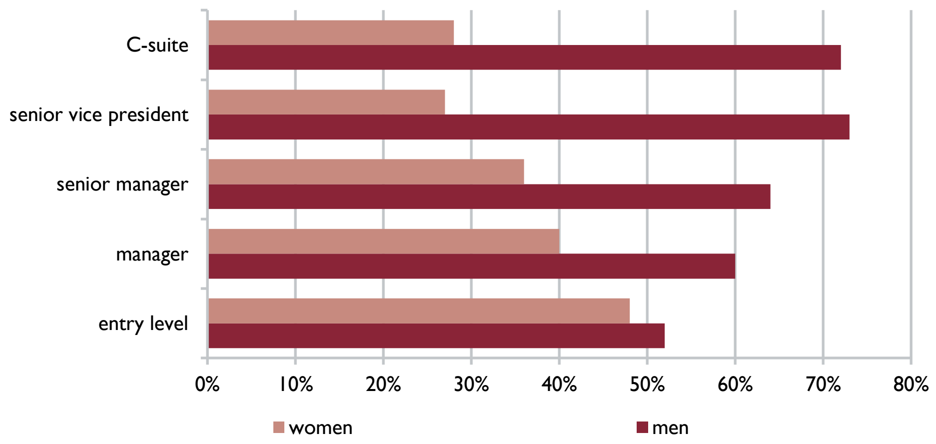
Why is progress so slow?

Studies show that women are not getting promoted to managerial positions, the first step to senior leadership. Obstacles include unconscious bias and discrimination, fewer opportunities to showcase leadership skills, lack of support from immediate supervisors, less opportunity to network, and lack of advice on career advancement. This is a serious issue, since companies in the top 25% for gender diversity are 27% more likely to outperform their national industry average in terms of profitability.

The broken rung: women do not get promoted as often as men

According to a study of women in corporations in America and Canada made by leanin.org and McKinsey, women accounted for 48% of employees at entry level, 40% of managers, 36% of senior managers, and only 27% of SVPs and 28% in the C-suite. The phenomenon is called 'he 'broken rung' and highlights the difficulties women face in the workplace. For every 100 men promoted to manager, 87 women get promoted, according to McKinsey and leaning.org.

The broken rung - share of women in workplace by seniority



Source: leanin.org

Besides these obstacles, women tend to be evaluated based on past performance, while men are evaluated on future potential. Women also face more microaggressions in the workplace: demeaning or dismissive comments or actions, meant to signal disrespect and cause stress to the recipient. The women being targeted feel less safe, are less likely to propose new ideas or take risks, are 3.3x times as likely to quit their jobs, and 4.2x times more likely to be burned out.[3]

[1] Why Gender Equality Matters in Business Success, Forbes 2020

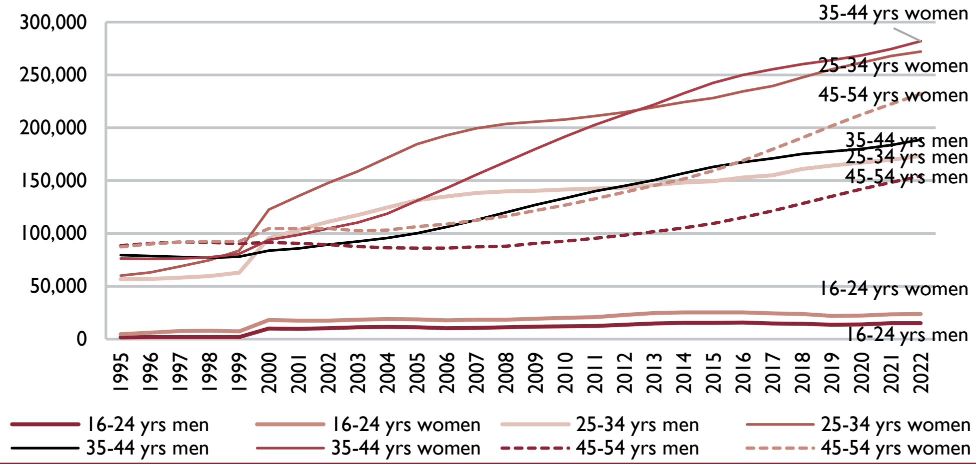
[2] Why Gender Equity in the Workplace is Good for Business – Professional & Executive Development | Harvard DCE, Mary Sharp Emerson, Harvard, 2020

[3] Women in the Workplace 2023 report, McKinsey 2023

"There are no women out there"

An often-repeated reason for gender inequality is a lack of competent women from whom to recruit. That would give the general idea that a competence gap appears as early as during education. Looking at statistics, however, this has been incorrect for roughly 25 years in Sweden, where women of all ages are better educated than the men in the same age group.

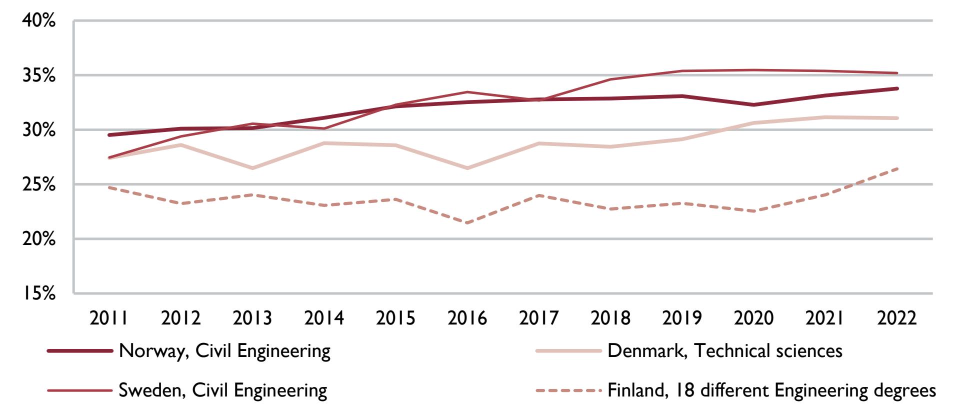
Sweden, # of ppl, 3+ yrs post-high school education, by gender & age



Source: SCB

In Sweden, women are overrepresented as share of students finishing an education in e.g. law, medicine, and business. This implies that the candidate base should, at least in theory, be a 50/50 line-up. But there is a higher share of men achieving engineering degrees than there are women. The trend is also clear in this profession: in 1995, the share of women finishing an engineering degree was only 20%. In 2022, the share was 35%.[4]

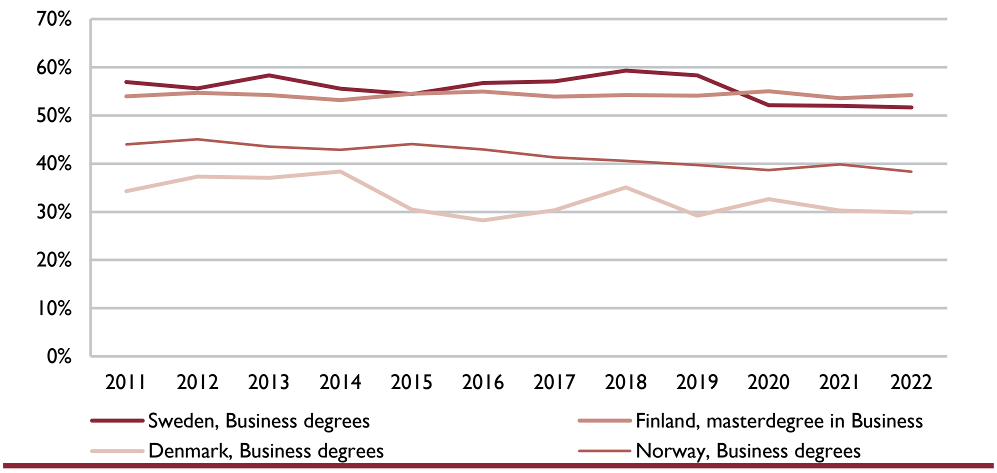
% women with Engineering degrees



Source: SSB, Statistics Denmark, Tilastokeskus, SCB

[4] SCB (Statistics Sweden)

% women with Business degrees



Source: SSB, Statistics Denmark, Tilastokeskus, SCB

Labour participation and working hours

In the Nordics, three in four working-age women are in paid employment, and the gender employment gap is among the smallest in the OECD. In Denmark, Iceland, Norway, and Sweden, the growing number of women in employment is estimated to account for about 10–20% of the GDP per capita growth of the past 40–50 years.

The largest potential for the Nordic countries is therefore not in closing the gender gap in the labour market participation, which is still a huge potential in many other countries, but in closing the gaps in working hours. Achieving gender equality in both participation rate and in working hours by 2040 could boost projected GDP growth by roughly 15–30%.[5]

Other gender discrimination issues are foreign-born women being underrepresented in paid work; occupational sex segregation is falling but is still high; and many women still find it too hard to progress to managerial positions.

The gender pay gap

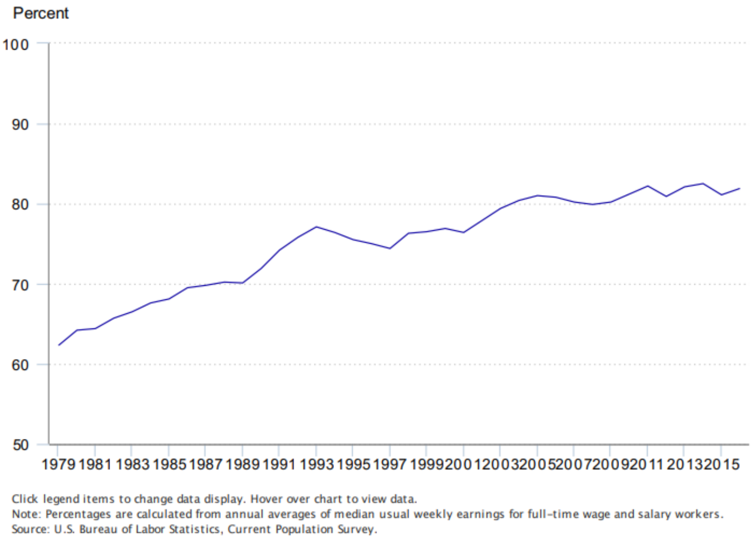
The gender pay gap is persistent and costs the global economy a lot, as the underutilisation of women's skills and time causes economic losses in productivity and economic output. According to Moody's, closing the gender gap in labour force participation and the gender gap in management in OECD countries alone would raise the global economic activity by 7% or roughly USD7trn.[6] In the OECD, the average gender pay gap in 2021 was 12%, or 88 cents on the dollar for women vs men. This was not much better than in 2010, when the gender wage gap stood at 14%. In the US, the gap has flattened out at 20%. The World Bank Group finds that if women had the same lifetime earnings as men, global wealth would increase by USD23,620 per person, on average, in the 141 countries studied, for a total of USD160trn[7].

[5] Is the Last Mile the Longest?, OECD, 2018

[6] Close the Gender Gap to Unlock Productivity Gains, Moody's Analytics, 2023

[7] This is the global price of gender inequality | World Economic Forum (weforum.org), 2018

Women's earnings as % of men's for full time workers



Source: The Parental Gender Earnings Gap in the United States, Chung et al., Centre of Economic Studies

There are several reasons for the existence of the gender pay gap. Women often work in lower-paid sectors, in lower-paid positions, bear an unequal share of unpaid domestic and care work, and outright pay discrimination (getting paid less for the exact same job).[8] There is a sectoral segregation, where around 24% of the gender pay gap is due to women being overrepresented in low-paying sectors. Women work more hours per week than men, but spend more hours on unpaid work.

The gender pay gap in 2020 was 16.7% in Finland, 13.9% in Denmark and 11.2% in Sweden. The EU average was 13%, meaning women would need to work 1.5 extra months to make up the difference.[9] This is slightly but not overwhelmingly better than the global norm, where women earned 83 US cents for every dollar earned by men (Statista).

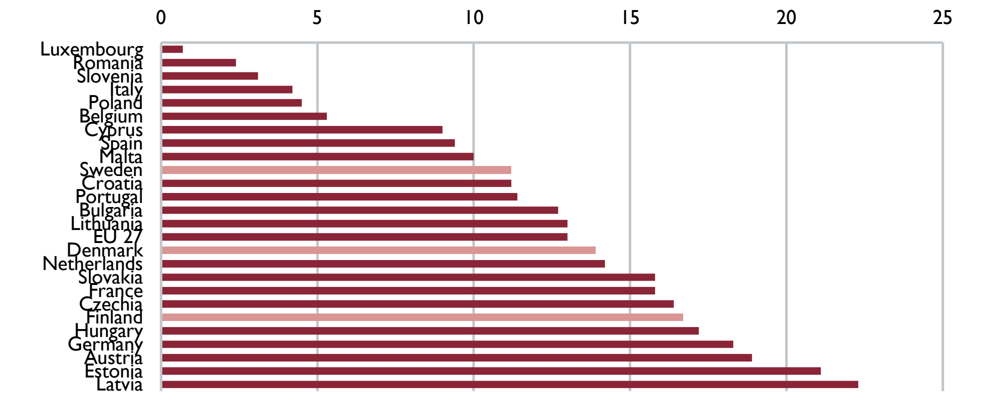
An OECD analysis concluded that three-quarters of the gap between similarly skilled women and men were due to disparities in tasks and responsibilities at the same firms (and, to a lesser extent, differences in pay for equal work). One-quarter of the gap refers to the occupational sex segregation, i.e., that the concentration of women is higher in low-wage industries. The first can be referred to as vertical segregation and the second as horizontal segregation. [10]

[8] Pay Transparency – Time to see the gap!, the European Commission

[9] Equal Pay? Time to close the gap!, the European Commission, November 2022

[10] The Role of Firms in Wage Inequality: Policy Lessons from a Large Scale Cross-Country Study, OECD, 2021

The Gender Pay-Gap

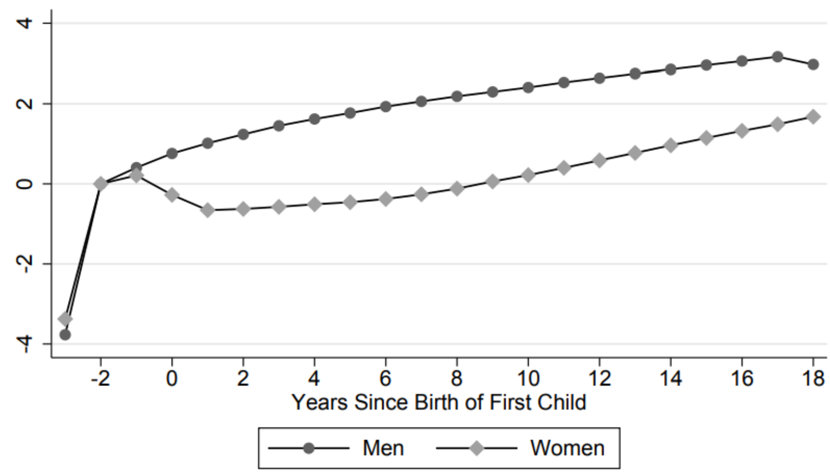


Source: The European Commission

The motherhood penalty

Though many countries have improved family support in recent years, the gender wage gap widens across a woman's lifetime. Chung et al (see graph below) found that the main shock that sets the gender pay gap comes at the time of the birth of a child. At that point, women's earnings fall and do not recover until the child is nine or 10 years old. Since the earnings of the male spouse do not undergo this shock, the wage gap between the two genders never recovers. The same report shows that having several children amplifies the shock.

Effects of birth on earnings over time by gender



Source: The Parental Gender Earnings Gap in the United States, Chung et al., Centre of Economic Studies

In addition to having a lower likelihood of being promoted, more often working part-time and being less likely to change jobs, women after having children tend to take longer leaves of absence than men and are more likely to work part-time. These shifts contribute to differences in wage growth between men and women – the so-called motherhood penalty.

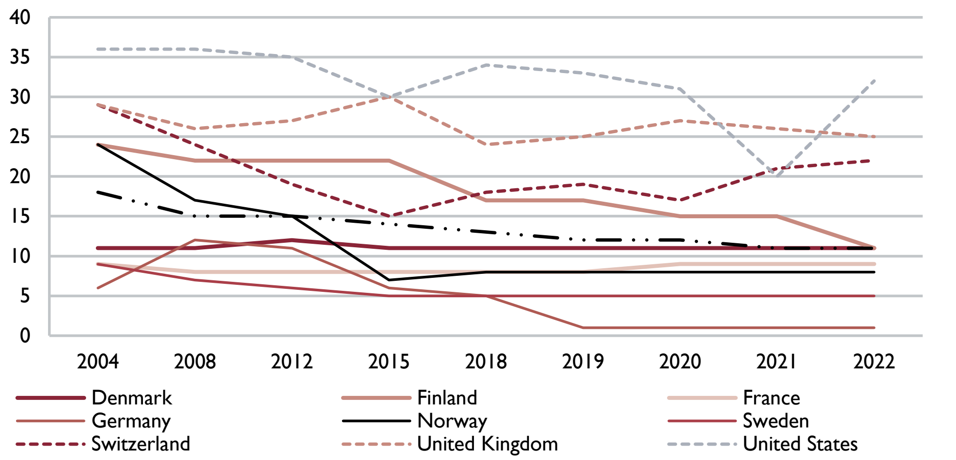
Parental leave for men in Iceland soared from 3% in 2000 to 45% today through the introduction of non-transferable paid leave

A successful way of closing the gap is to focus on men: in Iceland, only 3% of men took parental leave in the early 2000s. Fathers were given non-transferable rights to parental leave, which made their share of leave soar to one-third of total days used, a figure that now is about 45%.[11] Psychologically we see this as actually an excellent way of framing a message to induce a

[11] Gender equality and work, OECD

behavioural change. That is, it is generally much more efficient to focus on what people will lose out on (paid leave), than a potential gain when working to achieve a change in behaviour.[12]

Net childcare cost in % of parents' wages

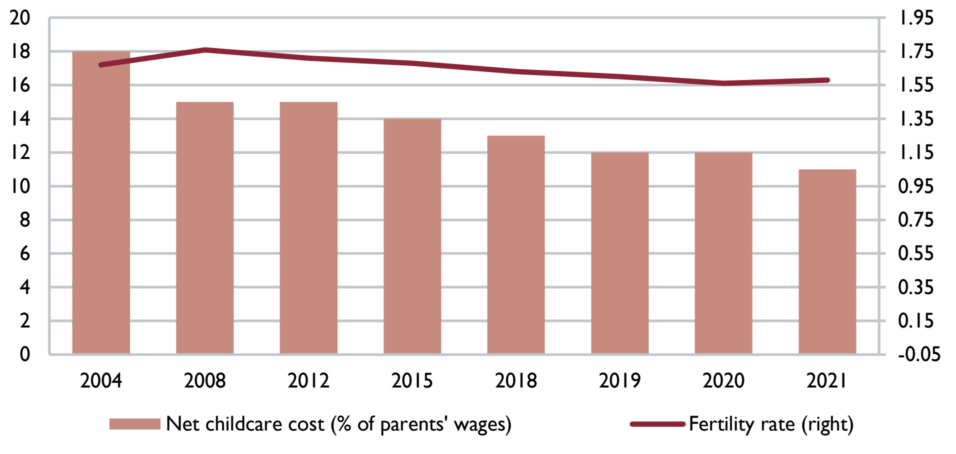


Source: OECD

It is likely that governments tend to reduce the cost of childcare in response to falling birthrates

Intuitively, the cost of childcare and fertility rates in different countries ought to be connected. But it is not that simple, likely because there are more reasons for having or not having children than just the cost of childcare, such as general economic development, affordable housing, and so on. Looking at data from the OECD, it also seems that fertility rates are the independent variable and not the other way round; that is, that governments tend to lower the cost of childcare in response to falling birthrates (and not vice versa, that women have more children when the cost decreases).

Childcare cost in relation to fertility rate in the OECD



Source: OECD

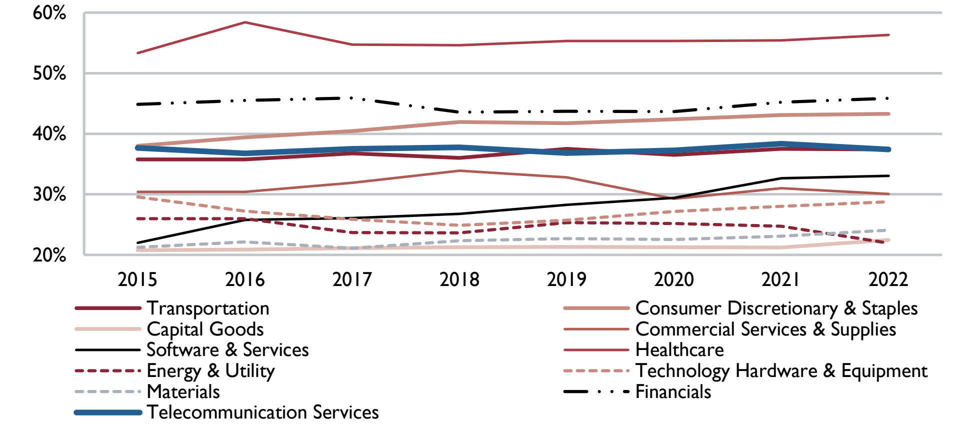
Gender balance – or a lack thereof – in the Nordic sectors

Below we have looked at the gender balance among Carnegie's coverage. We divide our companies into 11 sectors, ranging from capital goods (e.g. ABB, AlfaLaval, Lindab, Trelleborg) via healthcare (e.g. Addlife, AstraZeneca, BoArctic) to transportation (e.g. AP Møller-Maersk, DSV, Finnair). In terms of gender balance in the total companies, the sector averages have not

[12] Fostering Sustainable Behavior: An Introduction to Community-Based Social Marketing, Doug McKenzie-Mohr, New Society Publishers, 2011

moved very much since 2015, instead remaining quite flat. Healthcare employs the highest share of women, while capital goods and energy are at the bottom of the league.

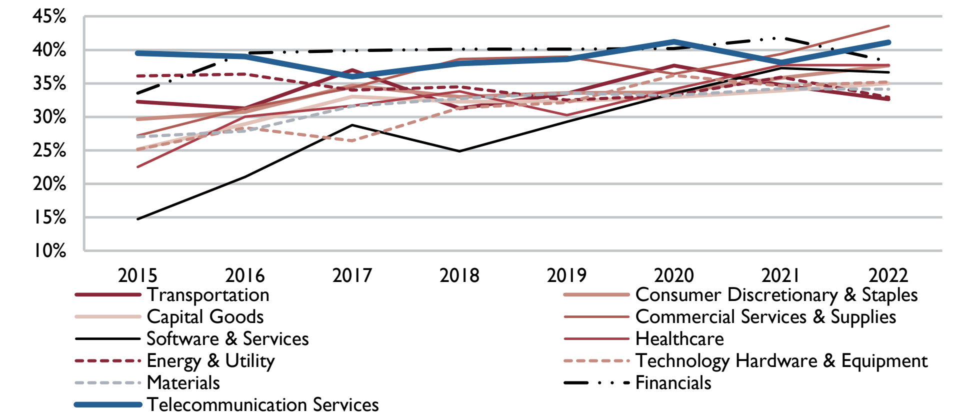
Total company, % women, average per sector



Source: Carnegie Research

At the Board of Directors level, we see an increasing trend in share of women of the boards of Nordic companies, which has been especially strong in the commercial services and supplies and software and services sectors, although admittedly from very low levels.

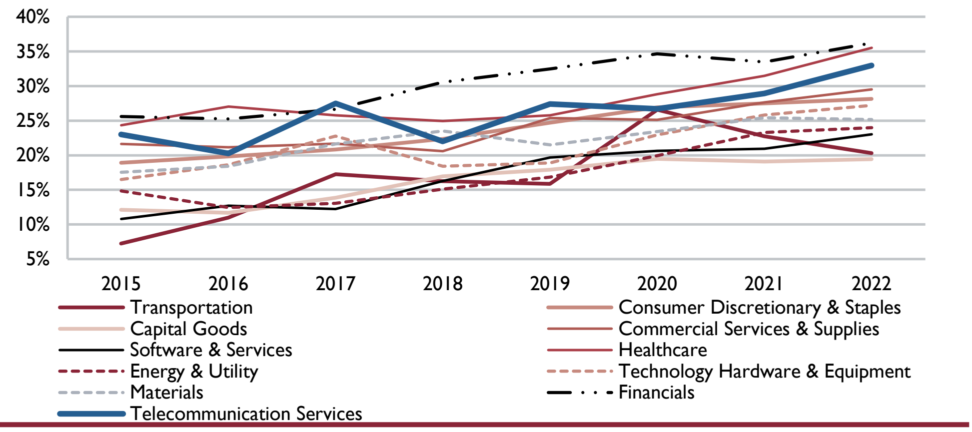
Board of Directors, % women, average per sector



Source: Carnegie Research

However, as board members are recruited from the C-suite positions, the share of women in senior executive positions needs to increase significantly to expand the candidate pool for the board. The share of women among senior executives certainly confirms that it is harder for women to advance within a company. The trend of women gaining senior executive roles has clearly increased from 2015 to 2022, but from appallingly low levels just eight years ago.

Senior executives, % women, average per sector



Source: Carnegie Research

Financial performance in businesses with/out gender balance

Only 13% of the companies included in our global study had 40–60% women on their boards

Carnegie has conducted a global screening of the gender balance on the boards of directors, encompassing a total of 7,186 companies across the world. In a 3-year review starting in 2019, 95.6% of the companies had less than 50% women on their board of directors. Some 902 companies, or 12.6% of the total, had no women on the board of directors at all. When looking at the share of companies with 10% women or less on the board, the figure rises to 17.9%. Only 910 companies, 12.7%, had a board comprising of 40–60% women.

We find that companies with balanced boards have had the highest ROE

When looking at these three categories of companies in terms of return on equity, the 3-year average return on equity was clearly the highest for the companies with 40–60% women, with 13.7%. For companies with 10% women on the board or less, the return on equity was 10%. The best performance was among the 2.6% of the companies that had exactly 50% on their boards, with 19.4%.

% Women on board %	3 Year Average ROE	# obs	Share of total observations
0%	10.2%	902	12.6%
10% or less	10.0%	1,288	17.9%
40-60%	13.7%	910	12.7%
More than 60%	18.8%	25	0.3%
More than 50%	12.6%	126	1.8%
Less than 50%	12.0%	6,872	95.6%
Exactly 50%	19.4%	188	2.6%
All observations	12.2%	7,186	100.0%

Source: Carnegie Research

Expanding the analysis to a 5-year review, the number of companies drops to 5,456, as fewer companies reported on ESG metrics at the time. The return on equity rises for the companies with a board of directors with 10% women or less to 11.5%, while boards with 40–60% women increase the return on equity drastically to 17.5%. The best performance was again in companies with exactly 50% on their boards, at 25.3%.

% Women on board %	5 Year average ROE	# obs	Share of total observations
0%	11.9%	964	17.7%
10% or less	11.5%	1,430	26.2%
40-60%	17.5%	467	8.6%
More than 60%	11.2%	12	0.2%
More than 50%	12.3%	52	1.0%
Less than 50%	14.0%	5,305	97.2%
Exactly 50%	25.3%	99	1.8%
All observations	14.2%	5,456	100.0%

Source: Carnegie Research

On the other hand, sales growth turned higher the lower the share of women on the board. Sales growth for the companies in the 3-year review with 40–60% women was 10.7%. For boards of directors with 10% women or less, the sales growth was 13.6%. For companies with exactly 50% women, the sales growth was 11.8%. However, the average sales growth in our sample is very high as it includes many global tech companies, which also tend to have very few women on their boards.

% Women on board %	3 Year average fwd sales	#obs	Share of total observations
0%	15.1%	902	12.6%
10% or less	13.6%	1,288	17.9%
40-60%	10.7%	910	12.7%
More than 60%	12.8%	25	0.3%
More than 50%	9.6%	126	1.8%
Less than 50%	13.8%	6,872	95.6%
Exactly 50%	11.8%	188	2.6%
All observations	13.7%	7,186	100.0%

Source: Carnegie Research

Also in the 5-year review, the sales growth was much higher for boards with 0% women, at 15.5%, less than 10% women, at 13.8%, compared to boards with 40–60% women, where sales growth was 9.3%.

% Women on board %	5 year average fwd sales	#obs	Share of total observations
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40-60%	9.3%	467	8.6%
More than 60%	5.3%	12	0.2%
More than 50%	7.4%	52	1.0%
Less than 50%	13.1%	5,305	97.2%
Exactly 50%	8.1%	99	1.8%
All observations	12.9%	5,456	100.0%

Source: Carnegie Research

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Stock rating distribution in the previous 12 months

Ratings	Carnegie coverage universe % of total	Investment banking services* % of total
Buy	59	69
Hold	37	31
Sell	4	0

**Investment banking services provided by Carnegie in the previous 12 months*

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