Want to support companies that support women? Look at your investments through a 'gender lens'—here's how

March 8 2023, by Ayesha Scott, Aaron Gilbert and Candice Harris

Credit: Pixabay/CC0 Public Domain

Gender equity continues to be a significant problem in business globally. We all know the story: the gender pay gap is a persistent issue and female-dominated industries tend to be lower paid.

Female representation in senior leadership and board positions remains low in many countries, particularly in Aotearoa New Zealand. Women comprise only 28.5% of director positions across all NZX-listed companies and just 23.7% at companies outside of the NZX's top 50.

Change is slow despite the well-established evidence showing the merits of improving gender equity for businesses—including better firm performance—and excellent initiatives such as Mind The Gap.

But there is a way to support companies that have made the change towards greater gender equity—and encourage others to do the same: we can invest with a "gender lens".

The aim of investing with a gender lens is not only to make a financial return but also to improve the lives of women by providing capital to those companies doing well on gender issues.

Gender lens investing goes beyond counting female representation at board level. It encompasses the number of female managers, leaders and employees as well as the existence of policies or products provided by a company to address the gender pay gap and other inequities faced by their female employees. It also encourages investing in women-owned enterprises.

In essence, investing with a gender lens means identifying and investing in those companies that are empowering their female employees and embracing diversity. This might seem simple. But there are no investment portfolios or funds investing in companies that do right by women.

One explanation for this gap is that identifying gender-friendly companies is not easy. And this is where rating agencies have a role to play.

The role and power of rating agencies

Over the past three decades there has been a fundamental shift towards investing for not only financial returns but also for social outcomes—so called Responsible Investing (RI).

The growth in RI has spawned an industry dedicated to defining and measuring a company's non-financial contributions across a range of areas, specifically across the environmental, social and governance (ESG) pillars.

The rating agencies build scores by collecting data on issues within each of the ESG pillars—for instance, the environmental pillar comprises data on carbon emissions, land use and water, among other measures—and then converts this into an overall score.

Fund managers, especially those managing RI funds, use these scores to inform investment decisions. What, then, are the comparable measures for gender lens investing?

While some rating agencies have created measures to identify companies suitable for a gender lens portfolio—for example, Sustainalytics has a gender equality index—others have very little on gender at all. Some rating agencies seem to base gender equity performance on the number of women on a company's board or its in-house policies on diversity and discrimination.

In short, there is little-to-no substantive information available to allow investing with a gender lens. And why is that?

Well, rating agency MSCI states it collects information on "financially relevant ESG risks and opportunities". Sustainalytics requires an issue to have a "substantial impact on the economic value of a company". These agencies require an issue to affect financial performance.

Under its "social" pillar, for example, MSCI considers water usage, arguing companies in high-water-use industries face operation disruptions, higher regulation and higher costs for water, which can reduce returns and increase risk.

The absence of data related to gender implies women-friendly policies are not viewed as affecting the performance or risk of companies.

A gender lens to the rescue?

But with a bit of a push, rating agencies can help make gender equity transparent. They have the research capability and access to company data that everyday investors do not. This can help investors make informed decisions about what to invest in.

Pressure from investors can also force companies to address equity issues. When that happens, the public metrics of company performance on gender issues become a lever around which companies can be encouraged to change.

Investors themselves may also find great personal satisfaction in being able to make gender-aware decisions if they could easily apply a gender lens when deciding where to invest.

It is time for potential investors to start demanding data be collected. Once that happens, rating agencies will send a message to companies that gender equity matters. As long as investors stay silent, progress will remain slow.

Provided by The Conversation