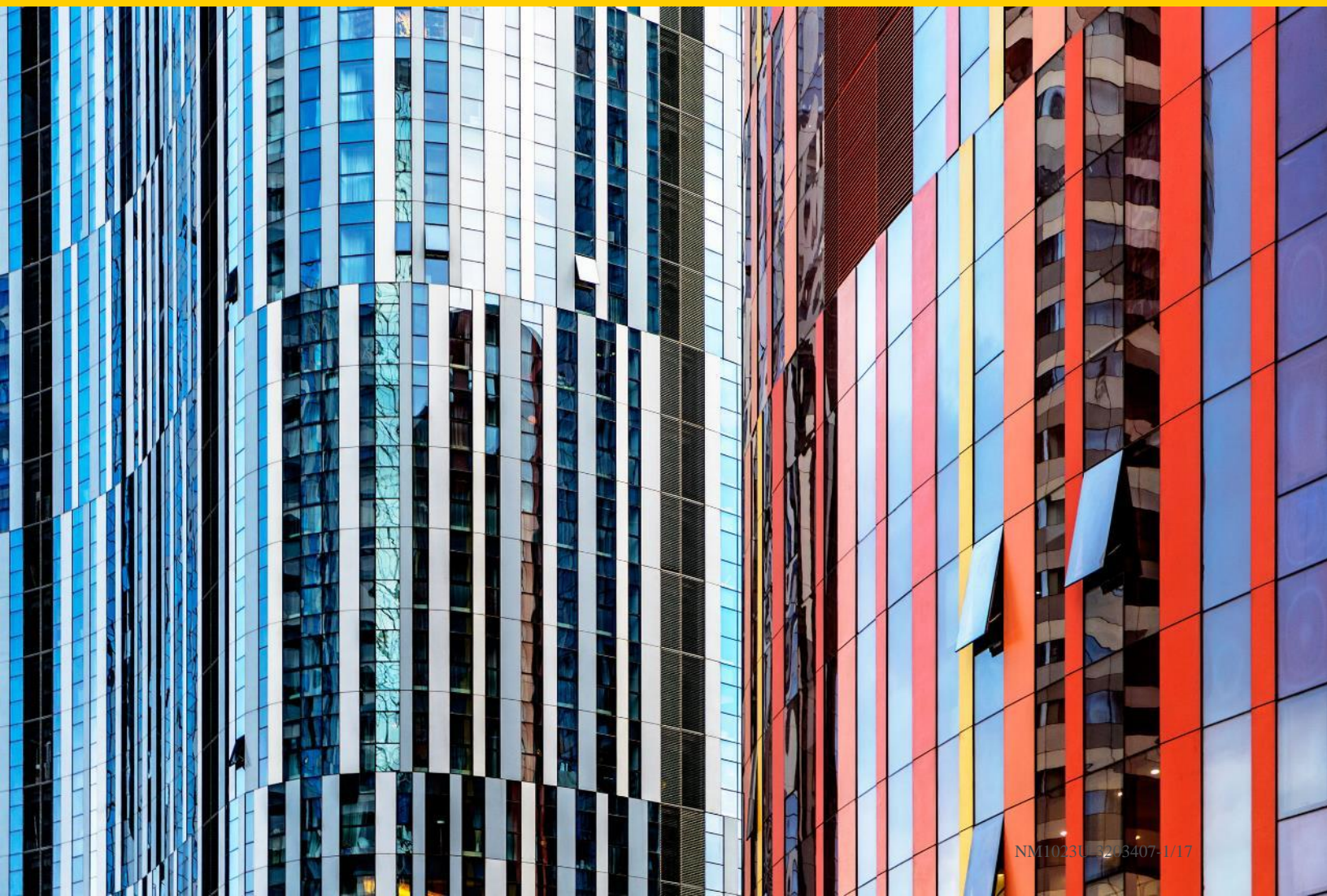


BlackRock.

Lifting financial performance by investing in women

Long-term capitalism at BlackRock

November 2023



Contents

02

Key takeaways

03

Workforce diversity and financial performance

06

Women across the corporate ranks and financial materiality

10

Box 1: Women in leadership and financial performance: the female CEO

12

Women in specialized roles

14

Box 2: Regulation and the evolution of disclosure

15

Box 3: Improvement in women's representation over recent decades

15

Diversity beyond gender

Key takeaways

Investing in women to increase their participation in the labor force leads to economic gains, as we show in our paper 'Lifting Global Growth by Investing in Women.' The benefits go beyond higher economic output resulting from an outright increase in labor. Greater workforce diversity can boost economic output by tapping into underutilized talents and bringing different experiences and perspectives to the table.

While diversity comes in many forms, this paper focuses on women's representation in the workforce due to greater data availability, showing its linkages to corporate financial performance and how it can be leveraged to enhance investment decisions. Our key takeaways are:

1. There is an intermediate 'sweet spot' on the women's representation spectrum that matters for performance. In other words, it is diversity that counts, rather than the dominance of women or men. Neither under-representation nor over-representation of women – or men, for that matter – is optimal.

- Companies with the most diverse workforces outperformed their country and industry group peers with the least-diverse workforces in terms of return on assets (RoA) by 1.6 p.p. (29%) per year, on average, over the 2013-2022 period.
- Companies closest to parity across key roles, including revenue-producing, engineering and top-paying roles, have outperformed the companies that are furthest away from parity in these roles in terms of RoA over recent years.



2. Women's representation tends to deteriorate with seniority, to the detriment of performance.

Various aspects of diversity across the corporate ranks show financial materiality:

- Companies where middle management best mirrors the women's representation in the overall workforce generated 36 basis points higher risk-adjusted monthly returns compared to peers where this diversity metric is poor, over 2016-2022. We find that the presence of a gap in women's representation between middle management and the overall workforce is also predictive of lower future RoA.
- We find that overweighting companies that promote more women into senior roles would have enhanced a portfolio's performance by 72 basis points per year over the benchmark (MSCI World Index), over the past four years.

3. There may be a persistent glass ceiling, making it difficult for women to reach the very top ranks. We find that the MSCI World Index companies with female CEOs have outperformed companies run by men by 1.0 p.p. on average on the RoA measure over the 2014- 2022 period; nevertheless, the drivers' seats of the biggest corporations are heavily dominated by men, with women making up only 6% of CEOs as of 2022.

- The same phenomena may be at play in the investment and start-up world. Women-owned or managed hedge funds have outperformed an average hedge fund by 10.5% over the last 16 years, while a survey of more than 350 startups showed that women-owned startups delivered twice as much per dollar invested compared to those founded by men.

4. Investing in companies with more women-friendly culture may help boost performance. Allowing for portfolio tilts towards companies with higher average maternity leaves taken would have improved the portfolio's performance by 1.07 p.p. per year over the benchmark (Russell 1000 Index) over the past four years.

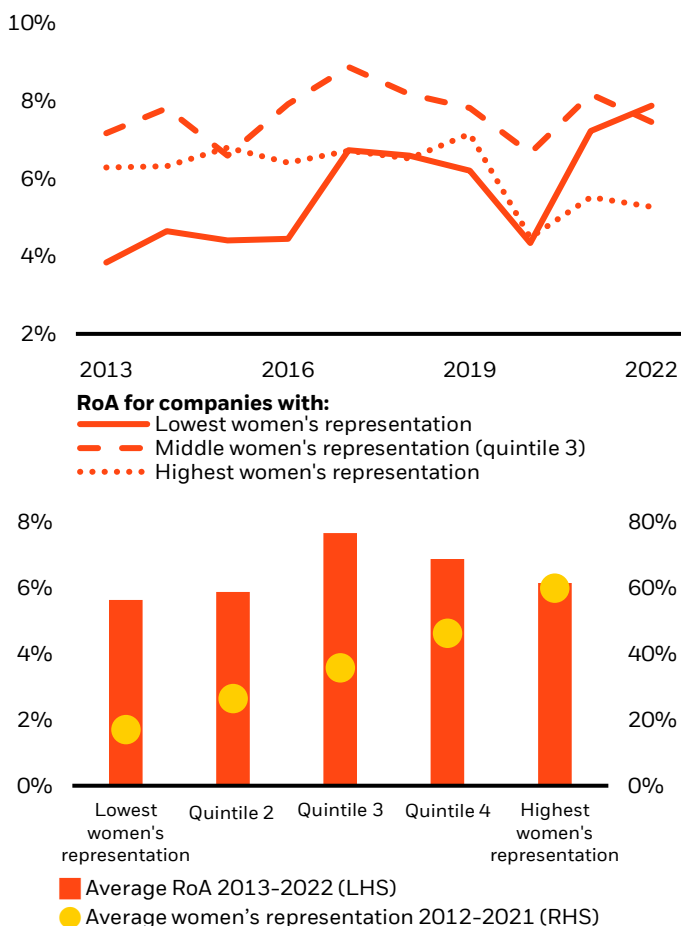
5. Better disclosure and more standardization of metrics will help improve understanding of the financial linkages. Understanding the human capital aspect of corporate assets is increasingly relevant from an investment perspective. We expect disclosures to improve as human capital and diversity metrics become more established as drivers of financial performance and investment decisions.

Workforce diversity and financial performance

There is an intermediate ‘sweet spot’ in women’s representation that matters for performance. A first look at the relationship between women’s representation and company performance suggests that it is diversity that counts, rather than the prevalence of women or men. Among quintile portfolio sorts of the companies in our sample,¹ neither

companies with the lowest (16% on average) nor companies with the highest (60% on average) women’s representation in the workforce yielded top performance over the last decade. Instead, the companies that sit along the middle of the spectrum outperformed their peers, across time and on a long-term average (see Chart 1).

Chart 1: Neither under- nor over-representation of women in the workforce is optimal



Source: Worldscope, Bloomberg, MSCI and BlackRock’s calculations This chart shows average return on assets (RoA) for the current year (t) for companies in the MSCI World Index split into quintiles by women’s representation in workforce a year prior, as of April 2023. The right panel shows 2013-2022 averages of annual values for RoA and 2012-2021 averages of annual values for women’s representation.

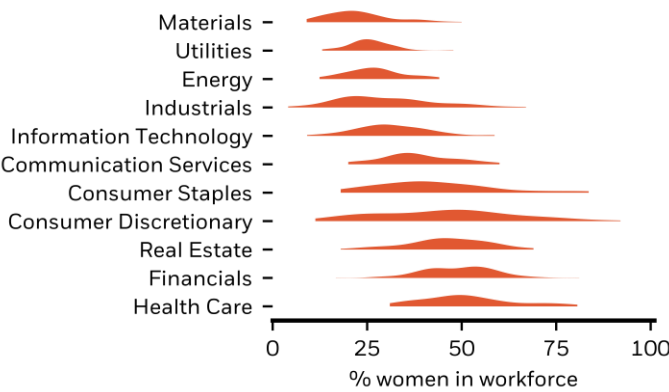


¹ Unless otherwise specified, our analysis is based on companies in the MSCI World Index as of April 2022, for which data was available.

Sectoral and industry differences account for a sizable part (45%²) of the variation in women’s representation in workforce in our sample. On average, women tend to be heavily represented in the Health Care (52%) and Financials (49%) sectors, and much less so in Materials (23%) or Utilities (26%). Also, importantly, there remains a large variation in women’s representation across companies within the same sector (see Chart 2) or within even more narrowly defined industry groupings. This large variation in women’s representation also demonstrates that women are not always underrepresented. In fact, there are numerous companies, especially in the Consumer Discretionary, Consumer Staples, Health Care or even Financials sectors, where women are over-represented, at least when looking at the total workforce.

Geographical differences in women’s representation across workforces are less striking and explain only 2% of the variation in our sample.³ In fact, when aggregated, women’s representation in the labor force globally is not too far from parity – the vast majority of countries have achieved at least 40% female labor force participation. However, there are significant disparities across regions and countries, with very low women’s participation in some

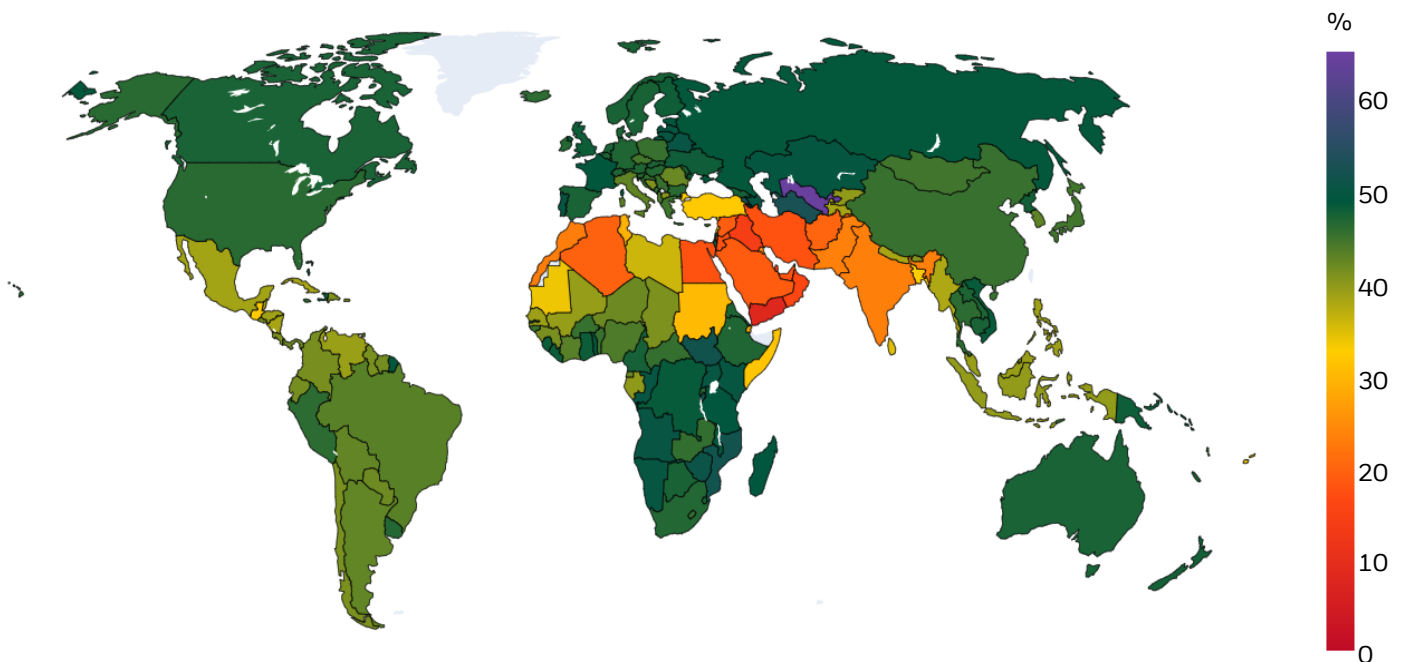
Chart 2: Differences in women’s representation in work are observed across and within sectors



Source: Bloomberg, MSCI, BlackRock’s calculations. Kernel density plots for % of women in workforce for 2021 FY, for companies in MSCI World index, as of April 2023.

large emerging markets, especially in the Middle East, North Africa, South Asia and Latin America (see Chart 3). For example, in India women constitute only 23% of the total labor force, according to the official data.

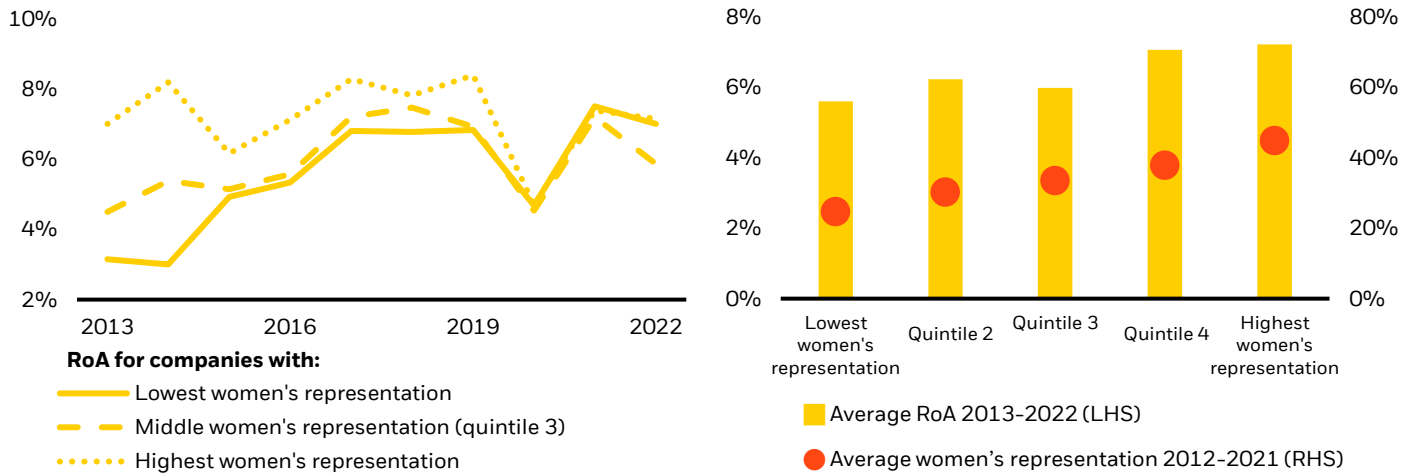
Chart 3: The global workforce is not too far from parity at the aggregate level, but the Middle East and South Asia continue to lag



Source: WorldBank, women in labor force as % of total labor force, latest available as of April 2023.

² Number obtained from variance decomposition analysis for % of women in workforce among companies in MSCI World Index, for 2013-2021. ³ Number obtained from variance decomposition analysis for % of women in workforce among companies in MSCI World Index, for 2013-2021,

Chart 4: Returns are higher among more diverse companies, when looking within industry and country portfolio sorts



Source: Worldscope, Bloomberg, MSCI and BlackRock's calculations. This chart shows average RoA for the current year, for companies in the MSCI World Index split into quintiles by women representation in workforce a year prior. Sorts into quintile performed each fiscal year within each combination of country and GICS (Global Industry Classification Standard) industry group, with at least 5 companies in such a combination of country and GICS industry group, as of April 2023. The right panel shows 2013-2022 averages of annual values for RoA and 2012-2021 averages of annual values for women representation.

The linkages between workforce diversity and corporate performance remain robust, even when controlling for country- and industry-specific factors. To better isolate the effect of diversity and perform more of an 'apples-to-apples' comparison, we run a portfolio sort analysis by sorting companies based on their workforce diversity within each combination of country and industry group. As shown in Chart 4, the more balanced the company workforce, the higher its RoA. Among companies from the same industry group and the same country, the top quintile portfolio has outperformed the bottom quintile portfolio (as sorted by women's representation) by 1.6 p.p. (percentage points) on average over the 2013-2022 period.

During this period, women's representation slightly increased in the top quintile portfolio, from 42% in 2012 to 50% in 2021, as well as in the bottom quintile portfolio, from 23% to 25%.

The same is true when applying a more robust linear regression approach. Women's representation in the workforce has been shown to positively correlate with future RoA, especially when women's share is below 50%. In that case increasing women's representation by 1 p.p. is associated with 3.5 basis points higher RoA in the next fiscal year (see Table 1).

Table 1: Higher women's representation in the workforce is statistically positively linked to higher future performance, especially prior to reaching parity of 50%

	RoA _{t+1}	
	(I)	(II)
%womenWorkforce _t	0.013*	0.035***
%womenWorkforce _t * I(%womenWorkforce _t >50%)		-0.017***
RoA _t	0.56***	0.56***
log(Revenues) _t	-0.36***	-0.33***
Fixed Effects	Year, (Country*Sector)	Year, (Country*Sector)
N	8082	8082
R²	0.43	0.43

Source: Bloomberg, MSCI, Worldscope and BlackRock's calculations. Note: This table reports the linear regression estimation results using annual company-level data. Variable %womenWorkforce_t represents percentage of women in total workforce, I(%womenWorkforce_t>50%) is a dummy variable that takes value of 1 whenever %womenWorkforce_t is greater than 50%, RoA_t is expressed in p.p. Triple, double and single stars denote statistical significance at the 1%, 5% and 10% significance level when using standard errors clustered at the company level. Annual data for 2012-2022 for companies in the MSCI World Index as of April 2022.



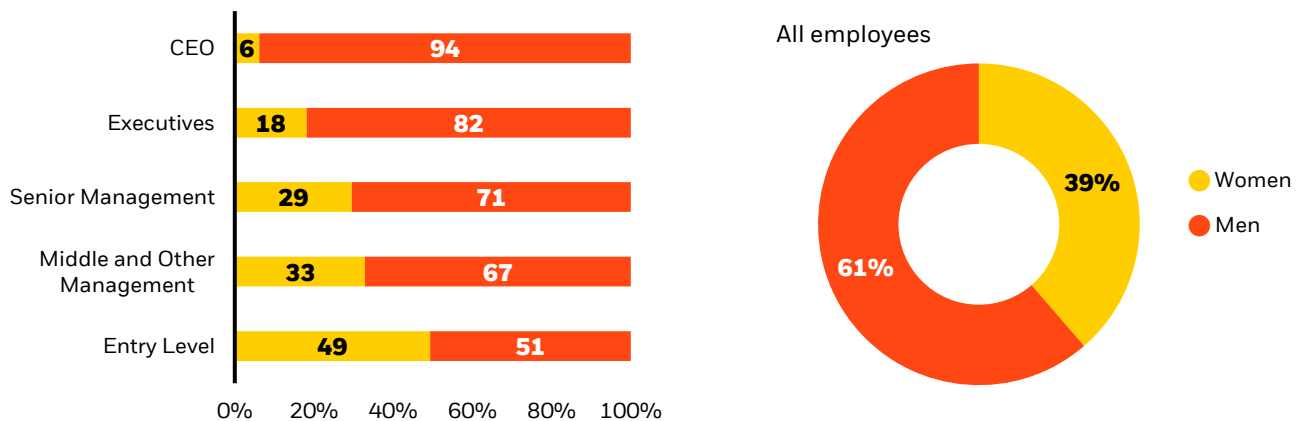
Women across the corporate ranks and financial materiality

Diversity tends to deteriorate in line with seniority

The women’s representation is closest to parity in entry-level jobs (see Chart 5). But this balance deteriorates with seniority. Among the companies in the MSCI World Index, only 18% of executive seats in fiscal 2021 were held by women, and only 6% of CEO seats in fiscal 2022.

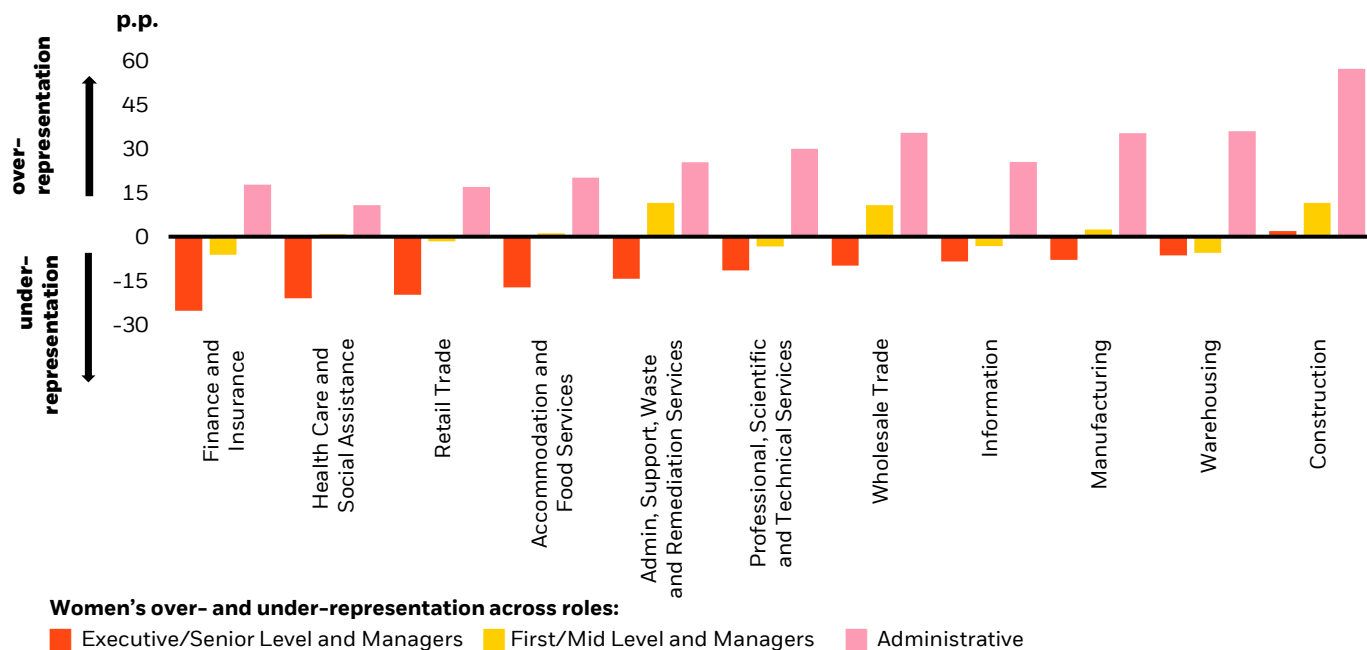
Recent US data show that women’s underrepresentation at senior levels is prevalent across almost all sectors (see Chart 6). The Financials and Health Care sectors show the highest gap in women’s representation at the executive and senior management level compared to the overall workforce. Women also tend to be strongly represented among lower level and less specialized roles, for example in administrative work.

Chart 5: Women’s representation deteriorates with seniority in the corporate world



Source: Bloomberg, MSCI, FY 2022 for CEO data and FY 2021 for remaining measures. Companies in MSCI World index. As of April 2023.

Chart 6: Women tend to be underrepresented at higher ranks and overrepresented in clerical roles



Source: eeoc.gov and BlackRock's calculations; EEO1 reports for US companies for 2021. Women over- (under-) representation measure defined as the difference in women's representation in specific role and women's representation among all employees. NAICS sectors sorted by the gap in women's representation; as of April 2023.

Having a diversified workforce across all ranks is relevant for financial performance. Morgan Stanley's HER score ranks companies on their women's representation across four different criteria, from all employees to managers, executives and board members. It has shown that firms with

higher diversity across the ranks have outperformed less-diverse firms by 1.2% on average between 2011–2022.⁴ The gains were higher in Europe (2.1%) and North America (1.5%) and smallest in Asian markets (0.2% in Japan). McKinsey has reported similar findings, showing that companies that lead their industry peers on diversity also tend to outperform on a relative basis.⁵



Senior and boardroom management-level diversity has so far received the most attention, with board composition guidelines being implemented in many jurisdictions. Following the influx of diversity data at this level, researchers have found a positive relationship to corporate performance. For example, an IMF study of two million European companies has shown that replacing one man with a woman in senior management or on the corporate board is associated with an 8–13 basis point increase in RoA. Diversity effects appear to be even larger for sectors with a higher share of women in the labor force, such as services, as well as where complementarities in skills and critical thinking are in high demand (such as high-tech and knowledge-intensive sectors).⁶

⁴ Morgan Stanley Research. HERS Update: Gender Diversity Continues to Drive Alpha, February 1, 2023. ⁵ McKinsey, "Diversity Wins: How Inclusion matters", 2020. ⁶ IMF Working Paper, "Gender Diversity in Senior Positions and Firm Performance: Evidence from Europe", 2016.

Companies where women’s representation at the middle management level⁷ best aligns with that of the overall workforce perform better than those with the most skewed representation, on a risk-adjusted basis. In our analysis, a ‘Most Minus Least’ portfolio of company stocks that has long positions in the top 20% of companies with diversity at middle management most aligned with total workforce⁸, and short positions in the bottom 20% of companies with the least representative diversity at the middle management level, shows statistically significant monthly alpha of 36 basis points (see Chart 7).

We have also identified a negative relationship between this measure of misalignment in women’s representation across ranks and future RoA, even when controlling for past RoA.⁹ A recent academic paper has found similar results, showing that firms with middle management closest to parity are significantly more profitable when looking at net, EBIT and EBITDA margins than those with male-tilted middle management cohorts.¹⁰



Chart 7: Companies where overall workforce diversity is better reflected at higher ranks have performed better than those with the least-aligned diversity across ranks



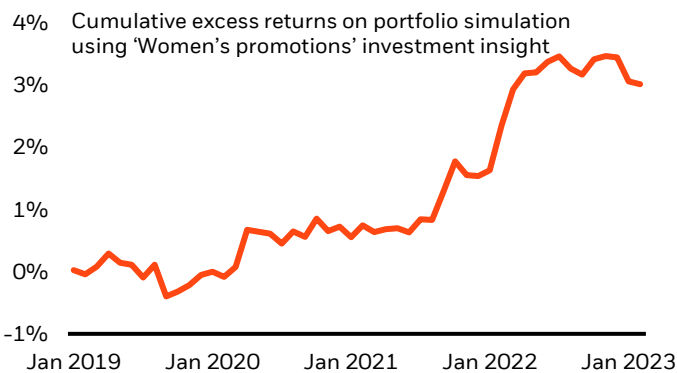
Source: Bloomberg, MSCI and BlackRock’s calculations. Bars represents portfolios’ alpha from regressing portfolios’ monthly excess returns in USD on World Market, Size and Book-to-Price factors from the MSCI GEM3 model using 2016-2022 monthly returns, $R_{it} = \alpha_i + \beta_i^W * R_t^{WORLD} + \beta_i^S * R_t^{SIZE} + \beta_i^{BtoP} * R_t^{BookToPrice} + \epsilon_{it}$. Triple, double and single stars denotes statistical significance at the 1%, 5% and 10% significance level when using HAC standard errors accounting for autocorrelation of lag 1. Portfolios constructed by sorting companies in the MSCI World Index using the absolute difference between women’s representation in middle management and women’s representation in total workforce reported within the year prior. Most representative diversity at middle management corresponds to the smallest value of the sorting variable. Most minus Least representative portfolio denotes the long-short zero investment portfolio returns. As of April 2023.

7 Middle management here is defined as management with middle- or lower-level supervisory responsibility, typically positioned in the management hierarchy three or more levels from the CEO, as sourced from Bloomberg Gender-Equality Index Gender Reporting Framework. **8** Measure defined as an absolute difference between women representation in middle management and in total workforce. **9** In a linear regression of form $RoA_{i,t+1} = \text{const} + \beta RoA_{it} + \gamma * \text{abs}(\% \text{womenMidManagement} - \% \text{womenWorkforce})_{it} + \epsilon_{it}$ we obtained an estimate for the coefficient γ of -0.02 that is statistically significant at 10% significance level using SE clustered at the company level. Annual data between 2012-2022 were used for the companies in the MSCI World Index. **10** Michel Ferrary & Stéphane Déo, “Gender diversity and firm performance: when diversity at middle management and staff levels matter”, The International Journal of Human Resource Management, 2023.

‘Women’s promotions’ insight – companies that promote women tend to show higher returns

Some companies do recognize benefits from having greater diversity at all levels, particularly among the higher ranks, and they put that in practice by promoting more women. Investing in companies that promote more women may be associated with positive stock returns. In our own analysis, we looked at women’s representation among promoted employees relative to women’s representation in the workforce overall. A hypothetical long-short portfolio that maximizes the relative women’s promotions exposure generated 0.72% excess return per year (relative to the benchmarked portfolio of MSCI World Index) over the past four years (see Chart 8).

Chart 8: Overweighting companies that are closing the gaps in women’s representation at higher ranks is associated with higher portfolio returns



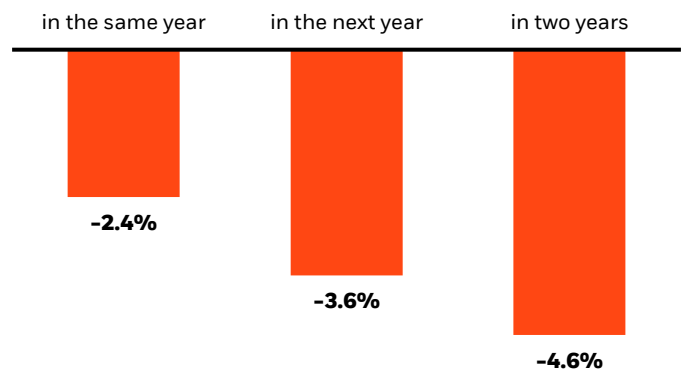
Source: Bloomberg, MSCI, BlackRock’s calculations, as of April 2023. The hypothetical long-short portfolio is created by optimizing the MSCI World Index on the women promotion score subject to 100 bps ex-ante tracking error, industry and full investment constraints. The women promotion score is calculated as percent women promoted out of total employees promoted minus percent women employees out of total employees. The optimization process maximizes the portfolio score by overweighting companies with higher women’s promotions rate, and underweighting companies with a lower rate, subject to constraints.

Promoting women is also associated with lower employee turnover rates. We estimate that improving women’s underrepresentation at higher ranks by 5 p.p. is associated with a 3.6% decrease in turnover rates the following year, and 4.6% two years later (see Chart 9). This relationship is relevant for a company’s long-term performance, as pointed out in our earlier paper, ‘After the Great Resignation: Shifting Expectations for Employers,’ which highlights the links between low turnover rates and financial performance.



Chart 9: Closing women’s underrepresentation at higher ranks is associated with lower employee turnover rates

Change in employee turnover rate associated with closing women’s underrepresentation at higher ranks by 5p.p.:



Source: Bloomberg, MSCI, BlackRock’s calculations, as of April 2023. Bars represent linear regression coefficient estimates from regressing the natural logarithm of employee turnover rate (in period t for the same year, in period t+1 for next year, and in period t+2 for two years) on the women promotion score constructed as the difference in % of women among promoted employees and % of women among all employees, controlling for company size, and sector and country fixed effects; raw coefficients are multiplied by 5. All numbers reported are statistically significant at 5% significance level when using robust standard errors.

BOX 1

Women in leadership and financial performance: the female CEO

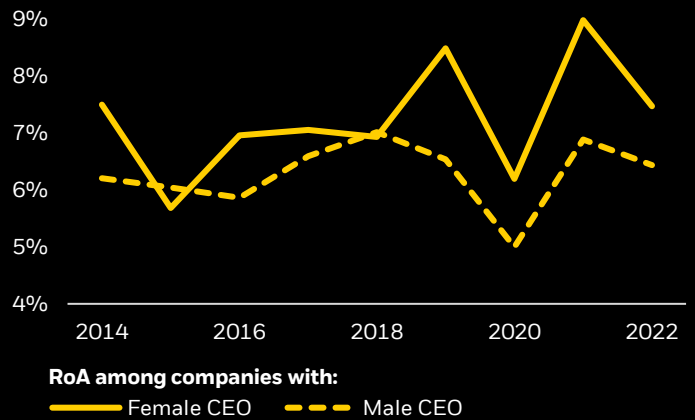
The business case for investing in and supporting female leaders also appears to be strong when looking at the very top of the career ladder: namely, CEO seats. Companies within the MSCI World Index with women as CEOs have almost consistently outperformed (by 1.0 p.p., on average) companies run by men on RoA metrics over the past decade (see Chart 10). Yet at the same time, men heavily dominate the drivers' seats of the largest corporations, with only 6% of these corporations being led by women.

Deteriorating diversity across higher ranks causes a lack of qualified CEO candidates and can explain low women's representation among corporations' CEOs to a large extent. However, the striking disparity between the rarity of female CEOs and the outperformance of companies with women at the very top may indicate a persistent glass ceiling that is broken only by the very best female CEO candidates.

There are large cross-country variations in the prevalence of women in CEO seats. Within the MSCI World Index of companies, Nordic countries (Finland, Norway, Sweden) and Singapore have highest women's representation, while Spain, Italy and Israel have none. The US is positioned in the middle, with 7% of companies having female CEOs in 2022 (see Chart 11).



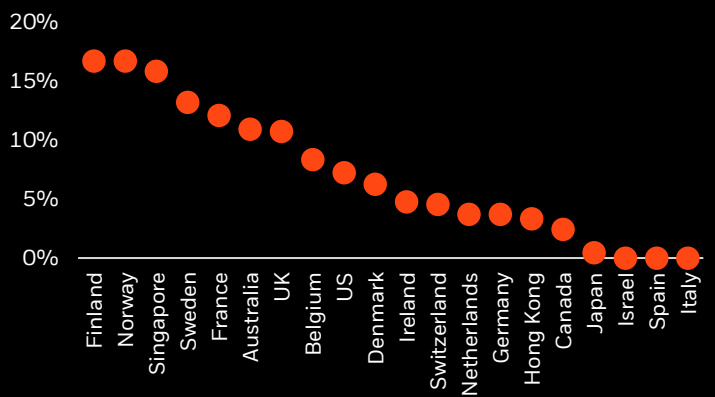
Chart 10: Companies with female CEO tend to have higher RoA



Source: Bloomberg, Worldscope, BlackRock's calculations. Average RoA for companies in MSCI World Index, by the gender of CEO at the end of previous fiscal year. As of April 2023.

Chart 11: Female CEOs are most common in Nordic countries and Singapore

MSCI World companies with women in CEO seat



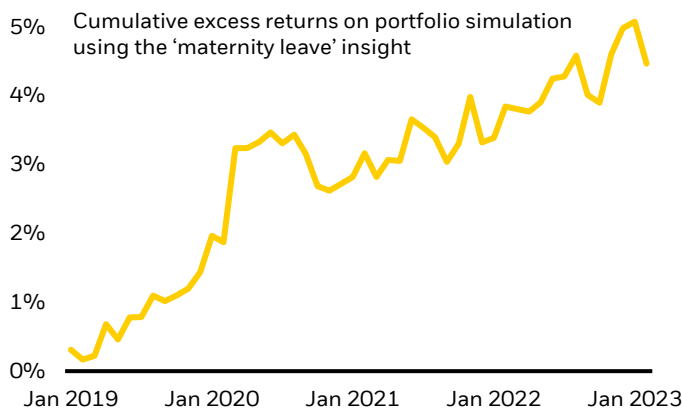
Source: Bloomberg, BlackRock's calculations. Percent of companies with female CEO at the end of 2022 fiscal year. As of April 2023.

‘Maternity-leave insight’ – women-friendly workplaces help boost performance

The extent of a ‘women-friendly workplace culture’ is hard to measure, but the length of average maternity leave taken can be a good proxy. We have found that incorporating maternity leave data into an investment portfolio helps boost returns. By overweighting companies with longer maternity leaves taken and underweighting companies with shorter maternity leaves taken, a hypothetical portfolio has yielded an outstanding 1.07% annualized excess return over the benchmark portfolio (Russell 1000 Index) (see Chart 12).

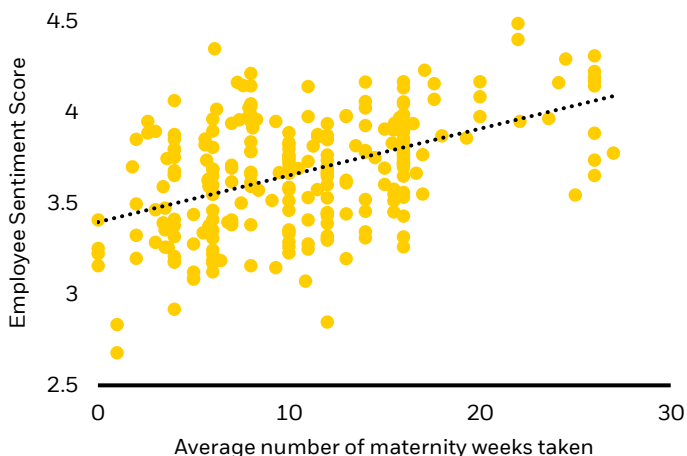
The length of maternity leave is positively correlated with employee sentiment (see Chart 13), the presence of employee groups and the flexibility of work schedules and locations. As with our women’s promotions study, we found a significant negative correlation between the average maternity leave taken and employee turnover rates.

Chart 12: Maternity leaves taken by employees is associated with higher returns



Source: Bloomberg and BlackRock’s calculations, as of April 2023. The hypothetical long-short portfolio is created by optimizing the Russell 1000 Index on the maternity leave score subject to 100 bps ex-ante tracking error, industry and full investment constraints. The optimization process maximizes the portfolio score by overweighting companies with a higher average number of maternity leave weeks taken, and underweighting companies with a lower number, subject to constraints.

Chart 13: Companies, where women can take longer maternity leaves tend to have more satisfied employees



Source: Glassdoor, Bloomberg and BlackRock’s calculations. Glassdoor rating is 36-month average of the company review ratings (using 5-star ranking). Scatter plot presents company level data for 80 US companies, that reported the relevant measure in the Bloomberg GEI data for fiscal years 2016-2021.



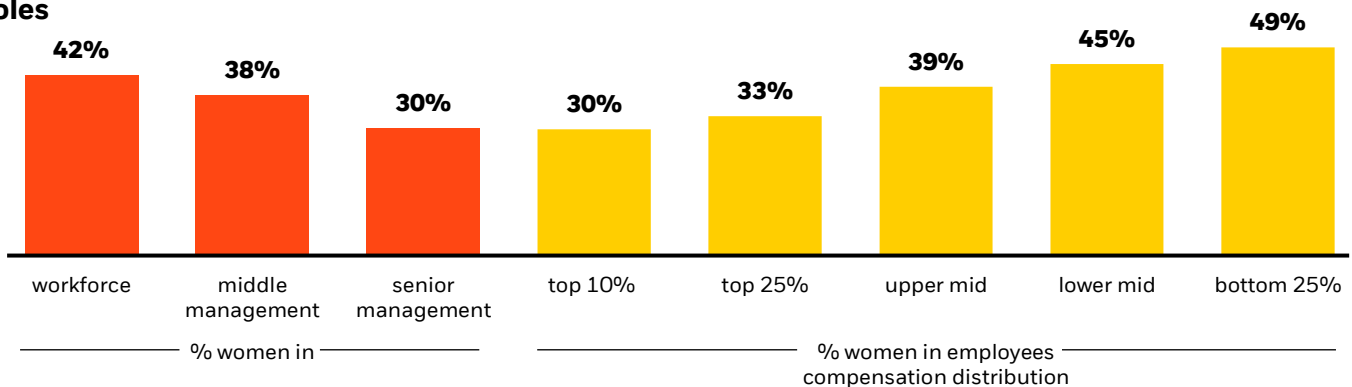


Women in specialized roles

Women are underrepresented across STEM roles, such as IT (27% women’s representation) and engineering (23% women’s representation)¹¹, which tend to be associated with higher pay. To some extent, this is a result of educational choices, as we discussed in detail in our earlier paper, ‘Lifting global growth by investing in women.’ Combined with the lower presence of women in higher-paid senior roles, this translates into a significant wage gap between

men and women. As a result, women tend to be overrepresented in the lower parts of the wage distribution and underrepresented in the higher-income quartiles (see Chart 14). Interestingly, however, the imbalance is much smaller when looking at revenue-producing roles (41% women’s representation¹²), which presumably are driving companies’ revenue generation.

Chart 14: Income gaps potentially resulting from lower share of women in STEMs and senior roles



Source: Bloomberg, GEI survey results for FY2021, companies include that answered at least one question related to women representation in income decile or quartiles, as of April 2023.

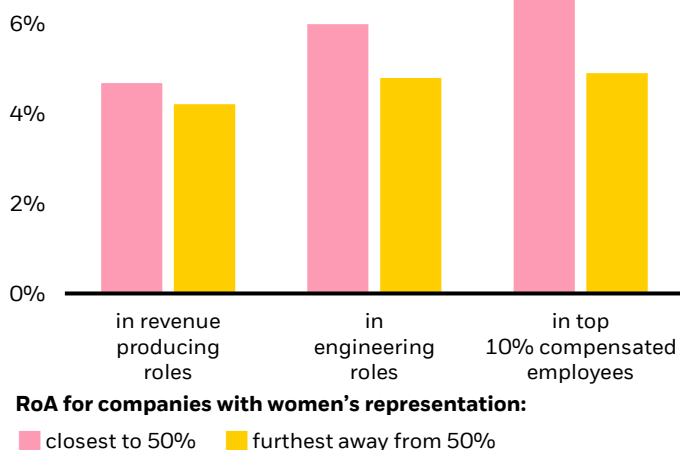
^{11,12} According to survey data collected by Bloomberg Gender Equity survey, for FY 2021.

Diversity in specialized roles matters for performance.

Our analysis shows that companies with the most even balance (closest to 50-50 parity) in roles driving revenue generation have outperformed those with a greater imbalance, on the RoA measure (see Chart 15). Similar conclusions come from looking at women’s representation in highly specialized types of roles, such as engineering roles, and among top-paid employees.

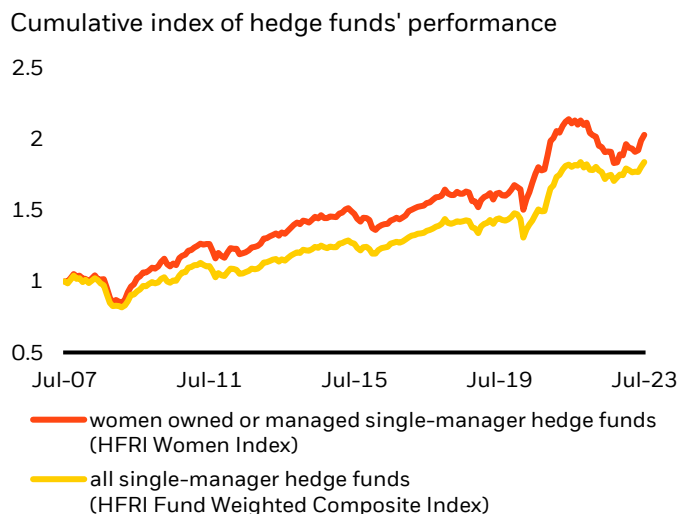
More diverse investment teams can generate higher returns. A recent study has shown that US active equity funds with more balanced investment teams outperformed those with all-men or all-women teams.¹³ Using funds’ performance and biographical data from 2008-2020, the author finds that moving from an all-men to a perfectly balanced team (with a 50-50 split) is associated with a performance gain of 38.9 basis points. A recent academic study came to similar conclusions in the venture capital investment sphere: using a robust identification strategy, the authors show that a 5% increase in the representation of women among active partners increases a fund’s excess internal rate of return by 4.2%-4.7%.¹⁴

Chart 15: Diversity in key roles at a company matters for performance



Source: Bloomberg GEI Survey, Worldscope, and BlackRock’s calculations. Bars represent RoA for companies in top and bottom tercile of companies, sorted by gender balance measured as the absolute distance of women’s representation from parity (50%) in the year prior in revenue producing roles (average RoA for 2018-2022), in engineering roles (average RoA for 2020-2021) and among top 10% compensated employees (average RoA for 2018-2022). Portfolio sorts performed within country and GICS industry group, with at least 3 companies in such a combination of country and GICS industry group. As of April 2023.

Chart 16: Hedge funds managed by women performed better than the average hedge fund



Source: Hedge Fund Research. HFRI Women Index is a global, equal-weighted index of single-manager funds owned by or managed by women that report to HFR Database, the HFRI Fund Weighted Composite Index is a global, equal-weighted index of single-manager funds that report to HFR Database, as of July 2023. Both indices reindexed to 1 on Jul 31st, 2007.

Women investors or women entrepreneurs should not be expected to outperform their male peers if the barriers to entry were the same for both men and women – yet they often do. In a survey of more than 350 startups, women-owned startups were found to deliver twice as much per dollar invested as those founded by men.¹⁵ According to Hedge Fund Research data, the women-owned or managed hedge fund index has outperformed a broader hedge fund index by 10.5% over the last 16 years (see Chart 16). As with CEOs, this outperformance of women in the VC and hedge fund domains potentially points to a persistent glass ceiling, where only the very best female money managers manage to break through this invisible barrier.

With the World Economic Forum projecting that it will take 169 years to close the global gender gap in economic participation and opportunity,¹⁶ it is likely that female alpha may be here to stay for some time. Just 12.5% of portfolio managers in the US are women,¹⁷ while 25.5% of total VC deals in the US are linked to women-founded companies.¹⁸ Low women’s representation in the investment world means that bringing more women into the mix could raise the overall level of talent – and with it, the performance of the financial sector.

¹³ Stephen Lawrence, “Diversity Matters: The Role of Gender Diversity on US Active Equity Fund Performance”, SSRN working paper, 2022. ¹⁴ Sophie Calder-Wang, Paul A. Gompers, “And the children shall lead: Gender diversity and performance in venture capital”, Journal of Financial Economics, 2021. ¹⁵ Boston Consulting Group, “Why Women-Owned Startups Are a Better Bet”, June 2018. ¹⁶ World Economic Forum, “Global Gender Gap Report 2023”. ¹⁷ Morningstar, “Gender Representation Progress Is Slow in C-Suite and Investment Management”, 2023. ¹⁸ Pitchbook, “All In Female Founders in the US VC Ecosystem”, 2022.

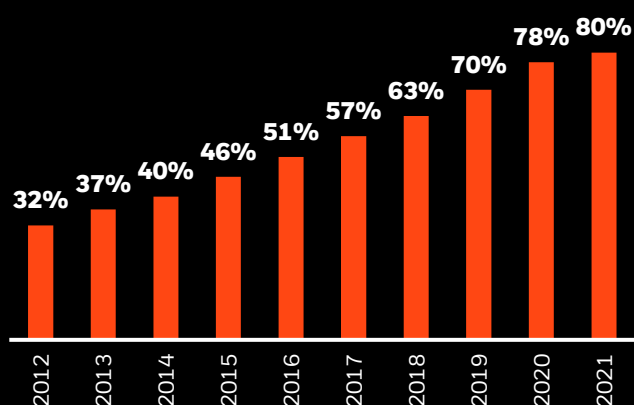
Regulation and the evolution of disclosure

Board-level diversity has so far received the lion’s share of attention from regulators.¹⁹ Much less focus has been directed towards women’s representation across other parts of an organization. Nevertheless, there has been an upward trend in diversity disclosures globally, prompted by increased inquiries from investors, evolving ESG rating methodologies, rising interest in DEI practices and regulators’ push for greater disclosure of human capital-related issues. For example, the share of companies in the MSCI World Index that disclosed their women’s representation in workforce rose from 32% in 2012 to 80% in 2021 (see Chart 17).

However, disclosures are mostly discretionary and non-standardized. As a result, firms with low women’s representation are less likely to disclose this information.²⁰ And those that do disclose may cherry-pick indicators that speak in their favor.

Chart 17: Positive trends in diversity disclosures

Companies disclosing women’s representation in workforce



Source: Bloomberg and BlackRock’s calculations. % of companies from MSCI World Index with available data on gender composition of workforce, as of April 2023.

The most recent developments in regulation surrounding diversity disclosures have been primarily focused on pay gaps. The European Parliament approved a new “EU pay transparency directive” in March 2023, requiring companies with over 100 employees to calculate and publish their median pay gap between women and men starting from 2027. Australia has introduced similar public disclosure requirements for companies with 100+ employees, due to come into force in 2024; the UK has required similar disclosures from companies with 250+ employees since 2017.

In the US, a summary of human capital-related risks in annual financial reports has been required since 2020. The current rules require principle-based disclosure of material human capital issues, as opposed to requiring prescriptive guidance on which metrics to disclose. However, this may change soon as the Securities and Exchange Commission (SEC) is currently working on an updated rule on human capital disclosures.²¹

With the expected influx of new and more standardized data on human capital in multiple countries, a better understanding of potential investment opportunities, with respect to workforce diversity, is highly relevant.

Hiring and retaining talent was indicated as the most critical growth driver in 2022 by 77% of C-suite executives²² and intangible assets now represent 90% of the S&P 500’s value, compared to 17% half a century ago.²³ The ability to compare companies on their material human capital measures, which is easier when disclosed metrics are standardized, is important for investors.

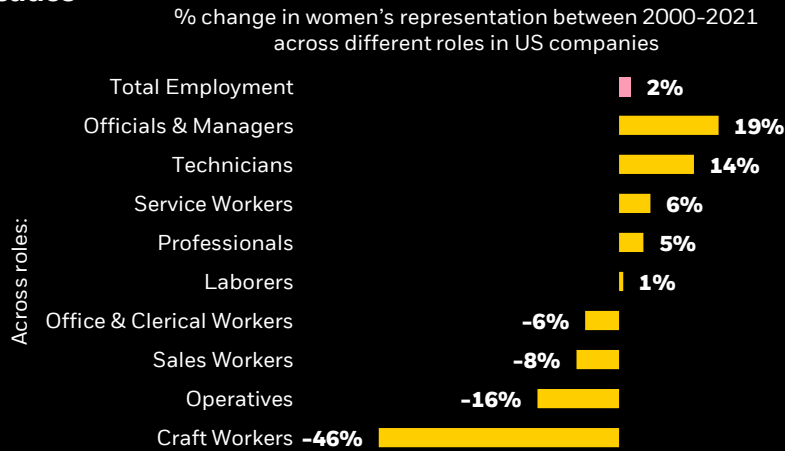
Efforts to create global standards for human capital disclosures are underway by the International Sustainability Standards Board (ISSB) under the International Financial Reporting Standards (IFRS), as well as the Sustainability Standards Advisory Forum (SSAF), supported by G20 members. Such standards, once developed, can guide corporate disclosure practices and help emerging regulation converge around the data points most useful for investors.

¹⁹ Deloitte, “Progress at a Snail’s Pace - Women in the Boardroom: A Global Perspective”, 2022. ²⁰ Liang, Chuchu and Lourie, Ben and Nekrasov, Alexander and Yoo, Il Sun, “Voluntary Disclosure of Workforce Gender Diversity”, SSRN Working Paper, 2023. ²¹ According to recent (Spring 2023) SEC’s Agency Rule List. ²² PwC, “PwC Pulse Survey: Executive views on business in 2022”, 2022. ²³ Ocean Tomo, “Intangible Asset Market Value Study”, 2020.

BOX 3

Improvement in women’s representation over recent decades

Chart 18: Progress in women’s representation among managerial, technical and professional roles over the recent decades



There has been a significant positive trend towards closing the gaps in women’s representation in senior and professional jobs over the last two decades. As shown in Chart 18, since 2000, in the US women’s representation has increased by almost 20% at the managerial level, by 14% among technicians, by 6% among service workers and by 5% across professionals.²⁴ This has coincided with an increase in public discussion, research and data disclosures around diversity and its impact on corporate culture and performance.

Source: eeoc.gov, EEO1 reports, as of April 2023.

²⁴ According to data published by the Equal Employment Opportunity Committee.

Diversity beyond gender

Not everyone’s experience is monolithic. Other forms of diversity, such as race, ethnicity, gender identity, sexual orientation, socio-economic or cultural background, age, national origin, personality, physical ability, or others, may be equally important in creating a diversity of thoughts, skills and perspectives, enhancing the performance of groups and organizations.

This paper focuses on specific type of diversity and its importance for corporate performance, primarily due to greater data availability on the representation of women in the workforce. We recognize that other aspects of workforce diversity are also important in driving corporate performance, and we believe that many of the arguments described here can translate into other features of workforce diversity.

Authors

Sandra Lawson

Managing Director
Global Client Business

Tanja Boskovic

Director
Global Client Business

Ewelina Zurowska

Director
Global Client Business

Jessica Huang

Managing Director
Global Product Group

Manling Li

Vice President
BlackRock Investment Institute

Faerlie Wilson

Vice President
iShares Investment Strategy

MSCI: MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. MSCI information may not be redistributed outside of this document or used as a basis for other indices or any securities or financial products. This document is not approved, reviewed or produced by MSCI.

This material is intended for information purposes only, and does not constitute investment advice, a recommendation or an offer or solicitation to purchase or sell any securities. The opinions expressed are subject to change without notice. Reliance upon information in this material is at the sole discretion of the reader. Investing involves risks.

©2023 BlackRock, Inc or its affiliates. All Rights Reserved. BLACKROCK is a trademark of BlackRock, Inc., or its affiliates. All other trademarks are those of their respective owners.