Why Gender Diversity May Lead to Better Returns for Investors

Investing in equality for women can potentially increase a company's—and your portfolio's—bottom line. Our expert explains.

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Despite significant strides made by women in the workforce, recent research shows that the pandemic has **slowed progress**. While COVID-19 has impacted all of us, it has disproportionately affected women, especially women of color. The challenges are numerous: Women are more likely to work in roles eliminated in the pandemic and, women engaging in paid labor or not, often take on a greater share of household labor, including childcare.[1]

Using data from the Bureau of Labor Statistics monthly jobs report, The National Women's Law Center found that over 1 million fewer women were in the labor force in January 2022 as compared to the beginning of the pandemic (February 2020), while men have largely recouped their labor force losses. An article from The New York Times reports that 66% of mothers with partners say that they are chiefly responsible for childcare, compared to 24% of fathers.[2] Further, the gender pay gap in the U.S. remains at 19% ;[3] just 26% of corporate board seats in Russell 3000 companies are held by women;[4] and only 14% of fund managers are female.[5]

Every March, Women's History month serves as a great reminder to reflect on a year-long conversation—investing to support advancing women and families. I am heartened to see real interest and momentum across our clients in integrating gender equality into their investment decisions. According to a recent survey from Morgan Stanley Wealth Management, high-net-worth investors said it is important that companies they invest in have policies in place to promote diversity, equity and inclusion (67%), hire and promote employees of diverse backgrounds (66%) and have people of diverse backgrounds in leadership positions (63%).[6] In celebration of Women's History Month, here are a few notable factors influencing the gender investing landscape and a few resources to help with your portfolio decisions.

Regulations and Investors Are Changing Corporate Behaviors

Previously, in September 2020, California Governor Gavin Newsom enacted regulation AB 979, requiring minimum representation by minority individuals on corporate boards. The law requires a minimum of one minority director by the end of 2021 and larger boards to have a minimum of 2-3 by the end of 2022.[7]

Around the same time, Nasdaq filed a proposal with the U.S. Securities and Exchange Commission (SEC) to adopt new listing rules related to board diversity and disclosure. This proposal was passed in August 2021 and will require all companies listed on Nasdaq's U.S. exchange to publicly disclose consistent, transparent diversity statistics regarding their board of directors.[8]

In the U.S., investors can play a role in influencing companies on the topic of gender equality through voting proxies and dialoguing with companies to encourage disclosure. Specifically, investors have been focused on disclosure of relevant policies and employee diversity statistics. According to shareholder engagement data from the shareholder advocacy nonprofit As You Sow, out of the 435 resolutions filed in 2021 (down from 469 filed in 2020), 9% of total shareholder resolutions filed address board diversity and 16% address workplace diversity; combined, these exceed the largest single category, corporate political activity (with 18% of total filings).

Gender-Diverse Companies Have Outperformed, On Average

Gender equality emphasizes that a balance in representation across all genders can help to broaden perspectives and drive better decision-making across organizations of all sizes. As it turns out, diverse perspectives actually has the potential to increase your portfolio's bottom line.

According to Morgan Stanley Research from 2019, a more diverse workforce, as represented by women across all levels of the organization, is correlated with higher average returns. When our quantitative team analyzed global companies based on their percentage of female employees and other metrics of gender diversity, companies that have taken a holistic approach toward equal representation have outperformed their less diverse peers by 3.1% per year. From 2011-2019, an eight-year period, companies with more gender diversity enjoyed a one-year return on equity that was 2% better than companies with low gender diversity.[9] Further, these more diverse companies experienced lower return-on-equity volatility, too.

Why Has Gender Diversity Translated to Outperformance?

A few possible reasons:

- **Employee satisfaction:** Diversity broadly, including gender diversity, has been shown to correlate with superior performance in terms of employee engagement.[10,11] Interestingly, there seems to be a statistically significant relationship between diversity practices and employee engagement for all employees, not just women. [10] Happy workers create more innovative products. Plus, it's most cost efficient to keep talented employees than find replacements, so keeping your workforce motivated and engaged can help a company's bottom line.
- **Recruit diverse talent:** Family-life balance, flexible working programs and family leave may be drivers of outperformance for many reasons, including helping companies in competitive markets attract top talent. This gives companies an edge in hiring the workers they need—especially in countries that are experiencing an aging and shrinking workforce.
- **Promote innovation:** A more diverse perspective can improve team decision making. If everyone sitting around a board room has similar experiences and perspectives, that could create unintentional blind spots in decision-making. Further, innovative products and services that arise from diverse perspectives can allow companies to tap new markets and add new revenue sources.
- **Avoid reputational risk:** Companies may suffer when they experience controversies over issues such as big pay gaps, wage disputes, sexual harassment litigation and equal-opportunity litigation. While these issues can happen even at diverse workplaces, many investors seek to avoid these reputational risks.

Incorporating Gender Diversity Into Investment Portfolios

Just as getting qualified women into the C-suite and the boardroom, female ownership and developing policies supporting diversity are important, there are other dimensions of gender equality that motivated investors can also support. For example, investing in companies providing products and services that benefit women and girls. Women, according to the World Bank, represent the majority of unbanked adults globally. Increasing access to financial services for women, such as bank accounts, can support equality and serves as a growing business opportunity as well.

When helping our clients to create impact investing portfolios that meet their unique financial and impact goals, a creative and holistic approach to gender equality that includes representation and more can be helpful both to build a more diversified portfolio—by accessing the broadest range of asset classes, styles and geographies—and to systemically seek to solve a deep-rooted and complicated issue. When thinking about activating your portfolio broadly to support sustainable and impact investing, strategies that broadly incorporate environmental, social and governance data, according to a study by the **Morgan Stanley Institute for Sustainable Investing**, have outperformed their traditional peers, even amid volatile market conditions brought on by the COVID-19 pandemic.[12]

Just as it is important to create impact investing portfolios to help clients meet their needs, it's equally important for you to understand how your money is working to meet your goals and generating better outcomes for society and the environment. As such, we launched **Morgan Stanley Impact Quotient®**, an award-winning[13] now patented[14] application that enables our clients to evaluate their portfolio on over 100 social and environmental impact preferences, including areas such as diversity in leadership, gender equity and access to finance, education and health care.

Advancing Gender Diversity

Despite progress made, we are still a long way away from achieving gender equality. Thanks to investor demand, increased data and transparency driving investment strategies and more robust impact reporting capabilities, investors now have more opportunities than ever to create more equitable outcomes for all. If you are interested in **advancing gender equality** by incorporating these themes into your investment portfolio, reach out to your Morgan Stanley Financial Advisor to learn more.

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