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Strategy Espresso: Q&A on Womenomics: Where is Europe now?

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For International Women's day we update our Womenomics research; see *Global Strategy Paper: Womenomics: Europe moving ahead*, 13 October 2020.

Progress on equality continues. Legislation on female representation at executive level in Germany and the Netherlands, proposals for listing requirements by the Nasdaq, and persistent strong flows in ESG funds should all help to improve the gender balance. Indeed, for STOXX 600 companies that have reported 2020 figures, the ratio of women in senior roles has risen again versus 2019. We consider some of the key questions we've encountered in response to our research:

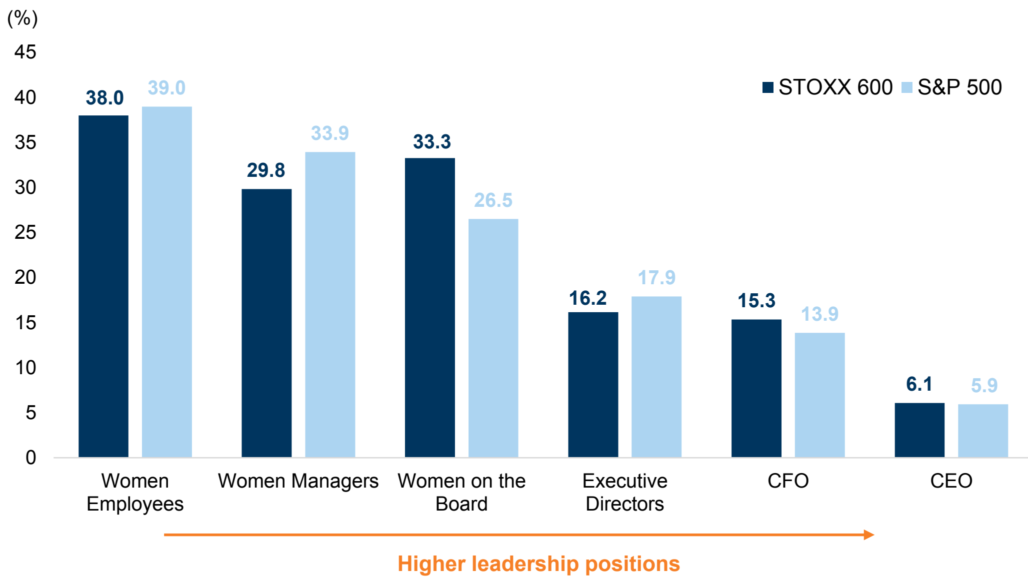
- **The share of women on boards has improved; but isn't this all non-executive directors?** Yes, there is truth in that. Fast progress has been made at board level: 33% of board members are women for the STOXX 600 companies, up from 9% in 2005. Europe is doing better than the US on this metric. But, only 16% of executive directors are women, a lower share than in the US.
- **Are things improving?** Yes, but slowly. Based on the pace of progress in the last 5 years, to achieve a 50/50 split for male/female managers would take another 25 years for the STOXX 600 companies. For women executive directors, it would take over 40 years, meaning we wouldn't reach that goal until 2062.
- **Are certain sectors/countries doing better?** France has a high ratio of women on the board, which is a function of quotas that have been in place for 10 years, but it has relatively few women executives. Germany has very little female representation at senior levels. Among sectors, Financials stand out as having a high ratio of women employees but very few in leadership roles.
- **What matters for the gender pay gap?** The pay gap remains high, especially for companies in Finance and Tech. We are often asked what can narrow this gap. The simple (and somewhat tautological) answer is more upward mobility for women. FTSE 100 companies with a higher ratio of women managers vs. their ratio of women employees have lower pay gaps; more women on the board and in executive seats also helps.
- **Have women been hit harder by Covid in terms of job losses ?** The pandemic has hit women workers slightly more than men – but the difference is small. The cohort that have been hit hardest in the pandemic have been younger workers (male and female), so age rather than gender has been a more significant factor, in our view.

Q1: The share of women on boards has improved; but isn't this all non-executive directors?

We highlighted in our October report that there has been a large increase in the number of women on boards in Europe, from 9% in 2005 to 33% in 2019. Having previously been behind the US, Europe has leaped ahead on this metric. But, it is fair to say that a lot of this increase has been in numbers of non-executive directors.

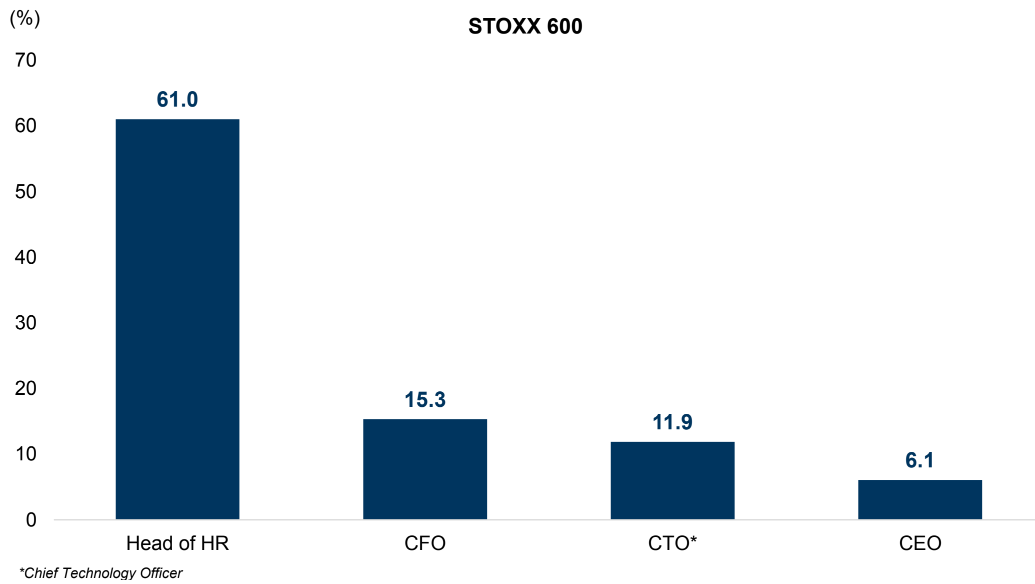
In Exhibit 1 we show the percentage of women at different levels or roles within the STOXX 600 and S&P 500. As we move up the scale towards higher or more influential positions within firms, the proportion of women in those roles falls; this is true for the US and Europe.

Exhibit 1: As we move higher up in a firm's influential positions, the proportion of women falls
% of women by position, equal-weighted



Source: Datastream, FactSet, Goldman Sachs Global Investment Research

Exhibit 2: European firms have good representation in Head of HR positions but in few of the other leadership roles
% of women by position, equal-weighted



Source: Datastream, FactSet, Goldman Sachs Global Investment Research

What is slightly different for Europe is that the percentage of women on the board, at 33%, is higher than one might expect, and higher than in the US. We think this is because this is a very targeted figure. Some countries, such as France, Norway and Belgium, have quotas for women's representation at board level.

In other countries the pressure is softer but has also been somewhat effective at moving up women's representation, such as the 30% club in the UK. ESG funds have grown rapidly in Europe, more so than elsewhere, and women on the board is a metric that is often looked at as a measure of companies' diversity. Furthermore, this is an often-quoted figure by the media and the make-up of a board is relatively easy to change – boards are made up of a small number of people and diversity can be increased via non-executive directors.

That said, Europe scores less well than the US on women managers and women executive directors. A third of board members are women in Europe's largest companies but just 16% of executive directors on boards are women. The ratio of women CIOs and CFOs is similarly low in both regions.

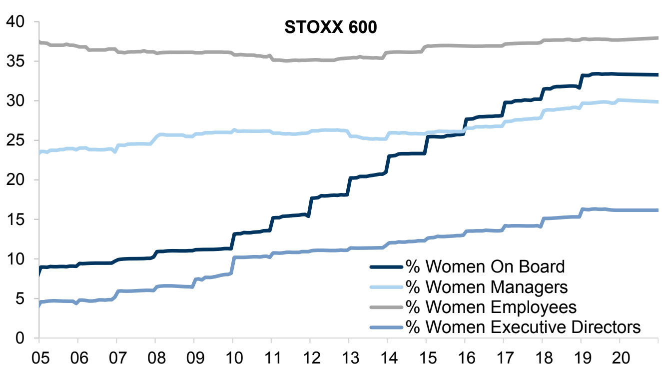
Finally, there is also a lot of evidence that women are siloed in certain roles: European firms have good representation when it comes to women heading up Human Resources but in few of the other leadership roles (Exhibit 2).

Q2: But are things improving?

Yes, slowly. We show in Exhibit 3 the change over time in women's representation at different levels: the share of the workforce that is female hasn't shifted for listed European companies in the past 15 years. But the other metrics have. The share of women on the board has increased by far the most (as we note above, this is a very targeted metric), the share of women managers has moved up, albeit only relatively slowly, and the same is the case for women executive directors. We think these latter two are connected. It is possible to bring in non-executive directors from outside the firm, or even outside the industry, whereas executive directors tend to be home-grown – to get more women into those positions we first need to see better representation in management roles.

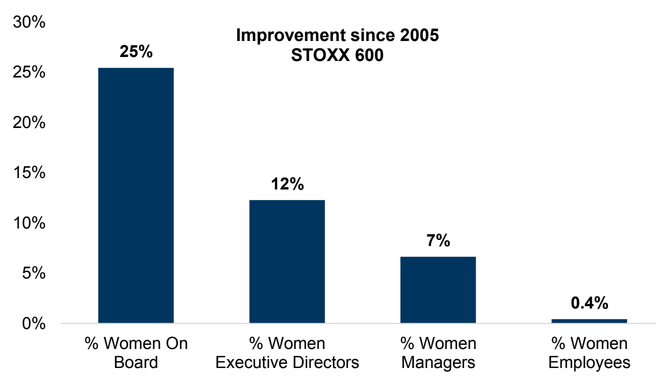
If we assume that the pace of improvement we have seen in the last 5 years will continue, when might we reach equality? Unfortunately, this will likely take a long time. Based on the pace of progress so far, to reach a split of 50/50 for women and male managers would take 25 years, and for women executive directors over 40 years, meaning we wouldn't achieve that goal until 2062 based on the pace of improvement in the last 5 years.

Exhibit 3: Europe (STOXX 600) - Percentage of women on the board has risen sharply
%, equal weighted



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 4: The largest change in share of female representation has been at the board level
STOXX Europe, equal-weighted, average % change in the proportion of women 2005-2020



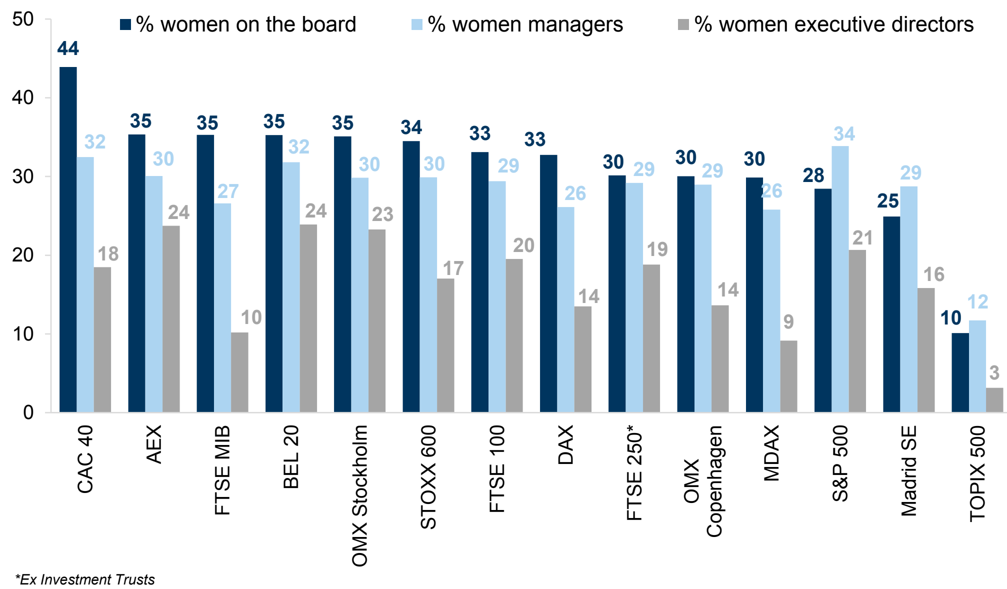
Source: Datastream, Goldman Sachs Global Investment Research

Q3: Are certain sectors/countries doing better?

This depends on where you focus. France is doing especially well on women's representation at board level (44%, nearing equality) but it is close to average relative to the rest of Europe with respect to the percentage of women managers or executive directors. It is 10 years since the "Loi Copé-Zimmermann", which set a 40% quota for women on boards, and this has clearly been effective in France. But only where it was targeted, at board level – executive committees still lack female representation.

In Germany, legislation currently in process will impose the appointment of at least one woman on each executive committee (for listed companies with more than three people on the committee and 2,000 or more employees). Germany, especially the MDAX companies, scores badly on women's representation at executive director level. There are no women CEOs of DAX companies, although this will change in May when Belén Garijo takes over as CEO of Merck.

Exhibit 5: While female representation on the board can be significant, executive committees still lack female representation
%, equal weighted

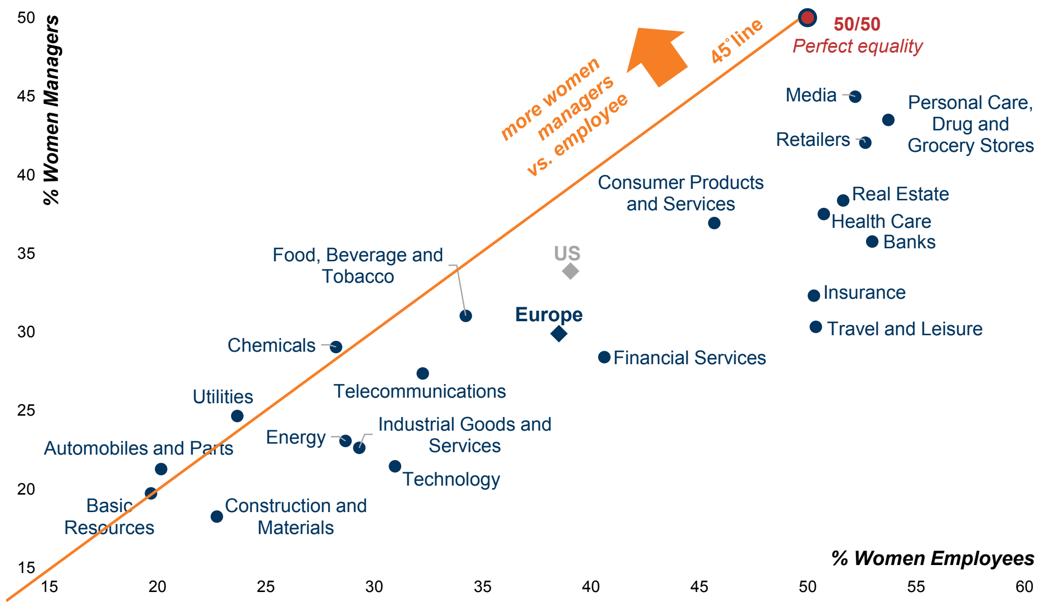


Source: Datastream, Goldman Sachs Global Investment Research

Sector-wise, those with the highest number of female employees are not necessarily the ones doing best at female representation at management, board or executive level. As we show below, some sectors with a high percentage of women employees – such as Travel & Leisure and Finance – have very few women at senior levels.

In contrast, the sectors with lower female representation – for example, Autos, Chemicals and Basic Resources – tend to have relatively good mobility, i.e., the ratio of % women managers to % women employees is high, meaning that, while women in these companies are under-represented at all levels, they are more able to move upwards than in other industries.

Exhibit 6: No industry is at 'perfect equality' with 50/50 women/male employees and managers

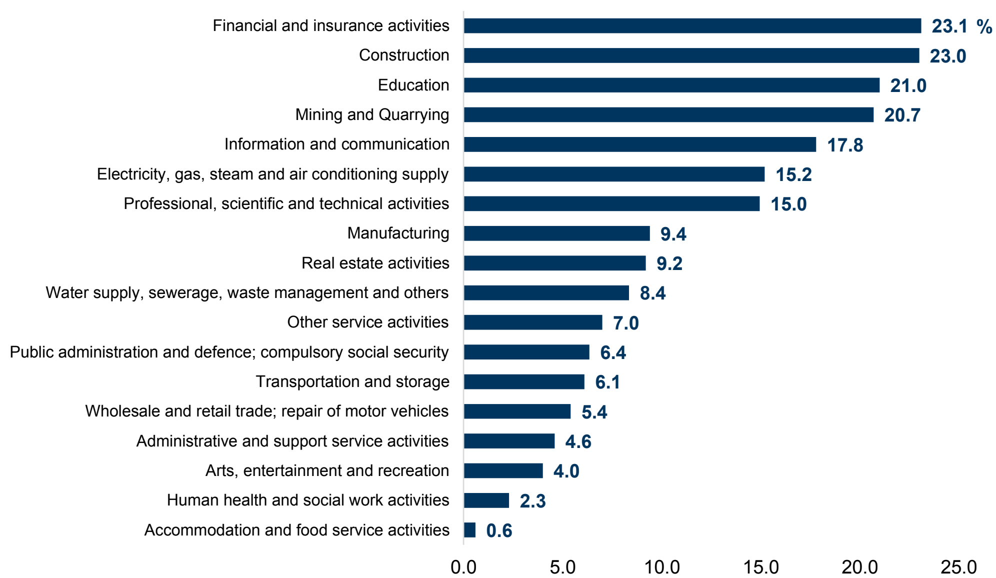


Source: Datastream, Goldman Sachs Global Investment Research

Q4: What matters for the gender pay gap?

UK companies with a headcount of 250 or more have to publish their pay gap (this requirement has been suspended for 6 months given the coronavirus). The UK pay gap remains high, especially for companies in Finance and Technology.

Exhibit 7: Pay gap remains high in the UK, especially for companies in Finance and Technology
UK gender pay gap, %



Median pay gap of the median company

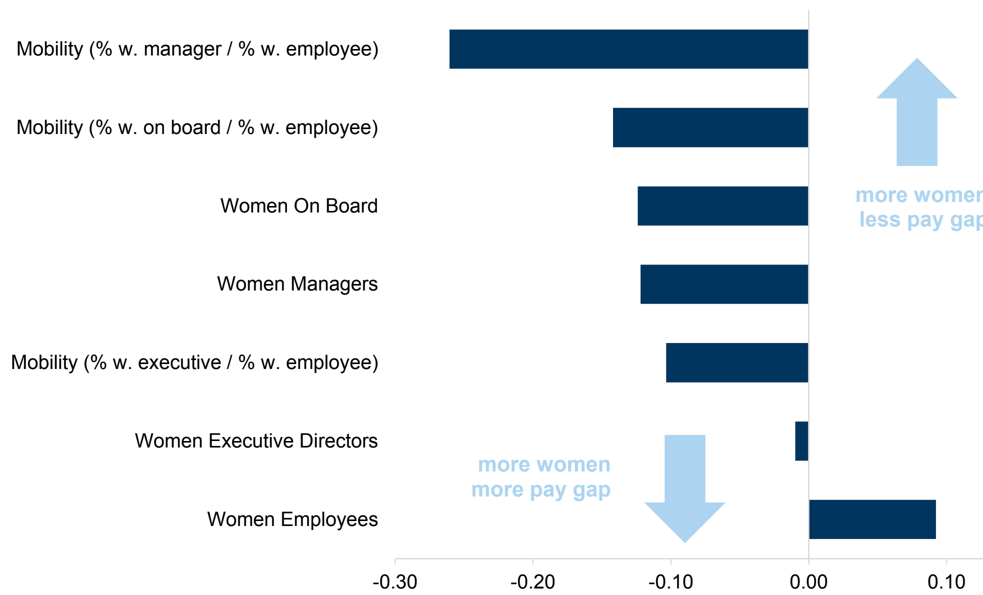
Source: uk.gov, Goldman Sachs Global Investment Research

We are often asked what can be done to narrow the pay gap. For FTSE 100 companies, we looked at their pay gaps compared with other data on representation of women within the companies. We found there is a negative correlation (i.e., a lower pay gap) when there is more mobility for women, meaning that the ratio of % women managers to % women employees is higher. More women on the board is also associated with a lower pay gap.

Employing more women is not necessarily associated with a low pay gap – some of the industries with a high number of women employees have high pay gaps. It's an obvious statement, and somewhat tautological, but to reduce pay gaps you need more women representation at more senior levels, and the companies doing this generally have lower gaps.

Exhibit 8: Employing more women is not associated with a lower pay gap at UK listed firms, but having more women managers is

Correlations of women's representation at various positions in FTSE 100 companies with gender pay gap



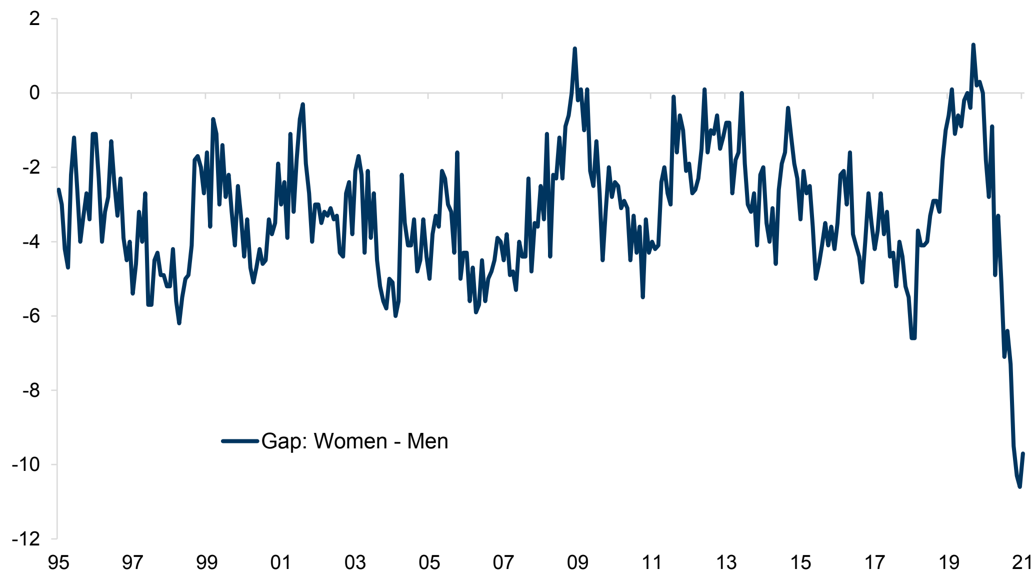
Source: Datastream, uk.gov, Goldman Sachs Global Investment Research

Q5: Have women been hit harder by Covid?

This is a frequent question we receive, and there is some evidence that women have been harder hit, especially when it comes to taking on more care responsibilities at home for example. Also, the unemployment rate has risen slightly more for women than for men, against the pattern in past recessions. There have been a higher number of women on the UK's furlough scheme than men. All that said, we find that younger workers of both genders have been the hardest-hit cohort. We think age rather than gender has been a bigger divide in this pandemic.

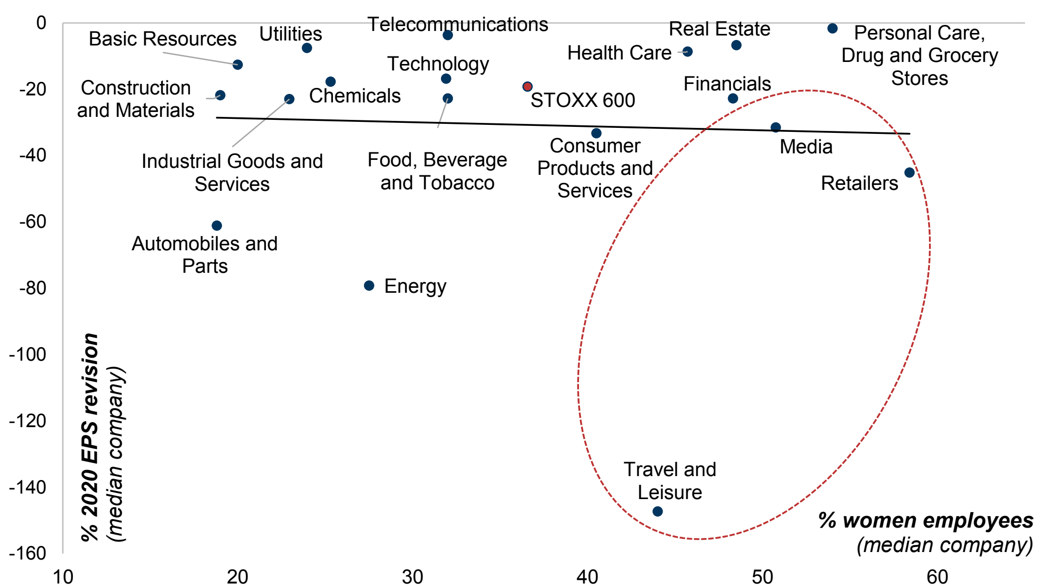
Survey data show that women are more concerned about the general economic outlook over the next 12 months (Exhibit 9) and (consistent with this concern) more concerned about unemployment.

Exhibit 9: Women are more concerned about economic outlook than men
Consumer confidence on general economic outlook over next 12m, European Union



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 10: Some of the sectors where women account for a high share of employees saw a large EPS hit in 2020



Source: Datastream, FactSet, Goldman Sachs Global Investment Research

How about unemployment – has it had a bigger impact on women? Given that this downturn has hit Retail, Hospitality and Leisure especially hard, where we know more women work, we'd expect to see a bigger rise in female unemployment.

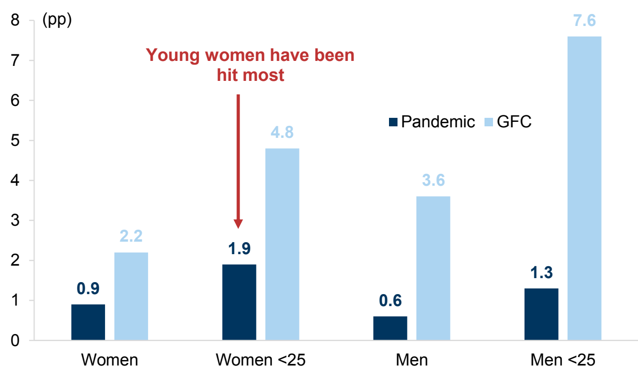
Using Euro area data, unemployment has risen by more for women than for men during the pandemic, but only fractionally so: a rise of 0.9pp versus 0.6pp for men. In both cases, these increases are small considering the size of the downturn in output.

Government schemes to protect jobs have been the main factor behind this; we won't know the true impact on unemployment until those schemes end.

In the US, furlough payments were made to unemployed workers and the impact is perhaps clearer in the unemployment data. From December 2019 to April 2020 (the worst period for rising unemployment), the unemployment rate for women rose to 16%: this was higher than the rate for men, which peaked at around 13%. That was the opposite of the outcome during the Global Financial Crisis, when unemployment rose by more for men. But the latest data show US unemployment (for workers >16 years) is now down to 6.3% for women and 6.4% for men. And the rise in unemployment since the pre-pandemic level is actually slightly smaller for women.

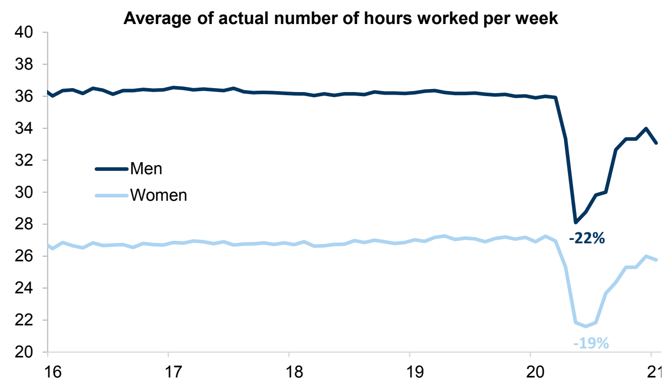
Finally, more women work in the public sector, where jobs have been relatively protected in this downturn. So, overall, we think the difference for men/women is not that large, and we would note that, when it comes to actual hours worked in the UK (where we have weekly data), women saw a smaller drop than men.

Exhibit 11: Young women have been hit harder by the economic consequences of the Covid crisis
Change in unemployment rate in pp, Euro Area



Source: Eurostat, Datastream, Goldman Sachs Global Investment Research

Exhibit 12: Working hours for men and women fell by around the same amount in 2020
UK, Weekly data



Source: Haver Analytics, ONS, Goldman Sachs Global Investment Research

Younger people have been badly hit by the pandemic in terms of education, experience and job prospects. Young women is the category that has seen the largest rise in the unemployment rate in this downturn (Exhibit 11). The impact on the young, whether male or female, has been greater than on the rest of the working population, as tends to be the case in every downturn.

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Reg AC

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