What performance for an investment strategy based on the feminization of the firm management?

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Socially responsible investment (SRI)

• **SRI definition:**
  Socially Responsible Investment is an investment strategy which takes into account extra-financial criteria related to ethical management and sustainable activities to choose stocks.

• **SRI figure:**
  In 2011, in France, Novethic estimated at 115.3 billion euros the current amount of SRI (+69% compared to 2010).

• **SRI criteria:**
  – Environmental
  – Social
  – Corporate Governance
    • Among the social criteria, one of them is the promotion of diversity and the respect of equality between women and men, especially in management/executive positions.
Are SRI profitable?

Beyond the dimension of responsible investment, question about the profitability of these SRI funds arises.
Many academic researchs explore this question (Bauer, Gunster and Otten, 2005; Gunster, Derwall and al, 2005; Managi Okimoto Matsuda. 2012; Orlitzky, Schmidt and Rynes, 2003).

Purpose of answering this question:

- Does the implementation of ethical and responsible management practices by the firm management actually contribute to the economic and financial performance of the company?

- Convergence between social responsible criteria and stock performance would promote the collection by SRI funds because investors would not have to choose between responsibility and profitability.
Feminization and market performance

Respect of equality between women and men within the firm and diversity enhancement square with responsible management practices.
Studies exploring the link between feminization and financial performance of the firm are mainly analyzing the impact of:
• The feminization of boards of directors
• The feminization of executive committees

This study examines the relationship between feminization of the firm middle-management and its stock performance
• Why:
  – It is the business executives (middle-managers) of the firm who contribute to the operational implementation of the strategy chosen by the top management and ensure the functioning of the organization.
  – Feminization of the management is a durable feature and difficult to change in the short term by the top management of the firm (as opposed to the presence of women on boards of directors and executive committees).
  – It is a simple criterion for all firms regardless of the industry.
Femina Index: an investment strategy based on the feminization of the firm management

The investment criterion of Femina Index is the percentage of women in the firm management.

To be integrated in the Femina Index the minimum threshold of women in management is 35%. 35% is justified by the work of the American sociologist Rosabeth Kanter, a professor at Harvard University, which stipulates that a minority group has to represent 35% of an organization to influence its operation and therefore its performance.

Among the CAC40 firms in 2007, 10 of them had their percentage of women in senior management higher to 35% and were included in Femina Index. They are:

- Accor
- Axa
- BNPParibas
- Danone
- L’Oréal
- LVMH
- PPR
- Publicis
- Sanofi
- Société Générale

Femina Index is a diversified portfolio: 3 values in the luxury industry, 3 in the financial industry, 1 in the food industry, 1 in the tourism industry, 1 in the health industry and 1 value in the communication industry.

Femina Index performance is compared to its reference index: The CAC40
Inception of the fund Femina Index: 02.01.2007

Performance:

On the 31.12.2012, 6 years later, the portfolio replicating the CAC 40 lost 34.70% of its value while the one consisting of 10 companies whose management is the most feminized lost only 5.28%.

In concrete terms, 100,000 euros invested early January 2007 in the CAC40 index would represent 65,300 euros on the 31.12.2012 and 94,720 euros if they had been invested in the Femina Index.
Inception of the fund **Femina Index**: 02.01.2008

**Performance:**
On the **31.12.2012**, 5 years later, the portfolio replicating the CAC 40 lost **35.14%** of its value while the one consisting of 10 companies whose management is the most feminized lost only **2.20%**.

In concrete terms, **100,000 euros** invested early January 2008 in the CAC40 index would represent **64,860 euros** on the 31.12.2012 and **97,800 euros** if they had been invested in the Femina Index.
Inception of the fund **Femina Index**: 02.01.2009

Performance:
On the **31.12.2012**, 4 years later, the portfolio replicating the CAC 40 won **13.15%** of its value while the one consisting of 10 companies whose management is the most feminized won **70.34%**.

In concrete terms, **100,000 euros** invested early January 2009 in the **CAC40** index would represent **113,150 euros** on the **31.12.2012** and **170,340 euros** if they had been invested in the **Femina Index**.
Inception of the fund **Femina Index** : 02.01.2010

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<td>Femina Index</td>
<td>10.83%</td>
<td>-19.73%</td>
<td>-7.50%</td>
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<td>CAC40</td>
<td>-3.34%</td>
<td>-5.95%</td>
<td>20.05%</td>
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**Performance:**
On the **31.12.2012**, 3 years later, the portfolio replicating the CAC 40 **won 20,05%** of its value while the one consisting of 10 companies whose management is the most feminized **lost 7,50%**.
In concrete terms, **100,000 euros** invested early January 2010 in the **CAC40** index would represent **120,050 euros** on the 31.12.2012 and **92,500 euros** if they had been invested in the **Femina Index**.
Inception of the fund **Femina Index**: 02.01.2011

**Performance:**
On the **31.12.2012**, 2 years later, the portfolio replicating the CAC 40 lost **4.30%** of its value while the one consisting of 10 companies whose management is the most feminized won **7.60%**.

In concrete terms, **100,000 euros** invested early January 2011 in the CAC40 index would represent **95,700 euros** on the 31.12.2012 and **107,600 euros** if they had been invested in the Femina Index.
Inception of the fund **Femina Index**: 02.01.2012

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<td><strong>Femina Index</strong></td>
<td>31.44%</td>
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<td><strong>CAC40</strong></td>
<td>15.23%</td>
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**Performance:**
On the **31.12.2012**, 1 year later, the portfolio replicating the CAC 40 **won 15.23%** of its value while the one consisting of 10 companies whose management is the most feminized **won 31.44%**. In concrete terms, **100,000 euros** invested early January 2012 in the **CAC40** index would represent **115,230 euros** on the 31.12.2012 and **131,440 euros** if they had been invested in the **Femina Index**.
Conclusion: **Femina Index** outperforms the **CAC40**

The investment based on the criterion of feminization of the firms management proposed by the **Femina Index** outperformed the **CAC 40** 5 times over 6 during the past 6 years.

The **Femina Index** outperforms the **CAC40** in both medium term (2007-2012) and short term (2010-2012 and 2011-2012)

A strategy of asset allocation can be socially responsible and profitable when based on the criterion of feminization of the management.
Promoting diversity and enhancing the advancement of women in management/executive positions can contribute to the financial performance of companies for three reasons:

- Recruiting women enlarge the size of the labor market (the pool of talents) and therefore increase the probability of recruiting human resources of higher quality.
- Half of consumers are female consumers. Employing women allow to better understand the expectations of clients.
- Diversity of representation systems improves the decision-making process within the firm.
The Skema observatory of firms feminization
http://www.skema-bs.fr/faculte-recherche/observatoire-de-la-feminisation

• The observatory was founded in 2008 by Professor Michel Ferrary. The goals of the observatory are to:
  ❖ Analyze the feminization of both the workforce and the management of large French firms
  ❖ Explore the factors explaining the feminization of large firms
  ❖ Study the relationship between feminization and corporate performance
  ❖ Provide elements of analysis for the socially responsible investment

• His researchs about firms feminization are regularly picked up by the French newspapers (*Le Monde, L’Express, Les Echos,...*) and foreign ones (*Financial Times, Washington Post, Business Week,...*)