The Future of Capitalism Is Feminine

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Responding to the 1929 meltdown-induced tumult of the Great Depression, on May 27, 1933, President Franklin D. Roosevelt signed the Securities Act of 1933 into law. It was quickly followed by The Securities Exchange Act of 1934. These efforts replaced the prevailing and dodgy state-owned and operated “blue sky” rules with a federal charge to disclose information deemed to be material to the decision-making process of buying or selling a stock or bond. The economy frantically needed investment to grow, however investors were justifiably skittish as the lack of available and credible data had recently cost them a fortune. Desperate times called for pragmatic measures.

At first, business was resistant to the changes. New York Stock Exchange president Richard Whitney regarded any alterations to his "perfect institution" as a personal threat and facilitated what has been called "the biggest and boldest, the richest and most ruthless lobby Congress had ever known" to emasculate the legislation. Companies viewed the requirement to disclose information to investors and the government—the Securities and Exchange Commission (SEC) came out of these actions—as irksome, if not downright anti-American. Accusations from business quarters that Communist sympathizers were infiltrating the government made the media rounds. At this time, one hundred percent of the companies listed on the U.S. exchanges were directed, managerially and at the Board level, by men.

Examples of the kind of disclosures that caused all the ruckus include: information about the issuer’s management, third-party certified financial statements, and documents such as the 10-K, an annual snapshot of the company’s well-being. This information is regarded as standard, accepted, and expected today. In fact, no CFO in their right mind would think of reporting results without using these protocols for one very simple, and profitable, reason: investors like data, in consistent and understandable formats. The more they have, the more they can understand and evaluate the degrees of risk and reward the company faces. This impacts their revenue and cost projections, and the relative amount of uncertainty they will have in meeting them (known as a discount rate; the lower the better). Concomitantly, having more data can also impact a company’s cost of capital, the interest rate they will pay lenders for their money. Again, the lower the better.

Which is precisely what happened. Some prescient firms, such as Pacific Gas & Electric and packing titan, Swift & Company, used these new materiality standards to raise debt, and investors repaid adherence with capital at reasonable rates. Everyone quickly followed; it was in their financial best interest.

This system survived, with occasional amendments, for 40 years. In 1973 however, to try and avoid increasing political influences, the Financial Accounting Standards Board (FASB) was created. FASB’s charter is to establish and continually improve Generally Accepted Accounting

Principles (GAAP), the global bedrock of financial reporting. Arguably once-esoteric financial products such as junk bonds, mortgage-backed securities, and credit-default obligations–all very helpful financial instruments if not used primarily for personal gain–would not have been able to come to market without this guidance.

The key terms above are "if not used primarily for personal gain," a caveat it seems many men have a difficult time upholding. Why is this so? In his book *Women After All: Sex, Evolution, and the End of Male Supremacy*, Dr. Melvin Konner presents a compelling hypothesis: our evolutionary biology, particularly the relative degrees of testosterone and estrogen between genders, has been the primary driver of our political, economic, and social mores since the time property was needed to be farmed, and defended. To be sure, there are many other bio-chemicals and environmental factors that affect our actions, however the over-arching influences these two possess seem to be intractable.

As a daily baseline, men carry up to nine times the amount of testosterone as women, and can produce twenty times more per day. In addition to physical size, musculature, and a lower voice (all of which historically correlate with power/authority), testosterone has been linked with confidence extending to hubris, aggression, sex drive, criminality, irrational financial decision-making, self-centeredness/lack of generosity, and triggers the classic fight or flight response when faced with crises (like having to follow new rules). Estrogen, while no means a perfect hormone, manifests itself in nurturing/empathy, clear thinking, multi-tasking, better memory, and, when faced with difficult decisions, defaults to tending and befriending.

In 2012, a ground-breaking management survey was published in the Harvard Business Review. 64,000 global employees were asked to rank desired leadership competencies of modern leaders. Eight out of the top ten were deemed to be viewed as "feminine" by the participants, i.e., "expressive," "reasonable," "loyal," "patient," "intuitive," and "collaborative." The two traits considered to be "masculine" were "decisiveness" and "resiliency." While the respondent's correlation of traits with gender is certainly being influenced by prevailing social mores and degrees of confirmation bias, the links to our basic biochemistry are difficult to shake. Subsequent studies by top tier consulting firms such as Bain and McKinsey reflect these competencies, underscore their importance in leading, and correlate impacts on organizational performance, particularly in the leadership function.

This preference for "feminine" management styles would seem to manifest itself quantitatively in "engagement," the degree of passion and energy employees have for their work. Employees who feel cared for, are recognized and grown, etc. are more engaged, which both significantly impacts productivity and innovation, and reduces numerous costs: hiring, retention, absenteeism, and healthcare. Gallup, a leading engagement survey provider, reports that of the 12 questions they use, employees who report to women score better on 11 than those who report to men. The likelihood a female manager will be engaged is six points higher than a male, and there is a five point greater difference gracing the scores of blended teams run by women. Male-run and occupied teams average five points less than this and female-run and occupied teams score five points more.

These percentage differences may not seem like they would have much impact. However, per a 2016 study by Lean In and McKinsey, women currently occupy only 19% of C-suite positions, 27% of upper management, and 37% of lower management. If numerical managerial parity were achieved, the potential top and bottom line impacts would be massive. Indeed, McKinsey also projects an additional $25 *trillion* in global GDP growth by 2025 from advancing gender parity, which would dwarf any government-initiated policy shift or stimulus program.

And as capitalism thrives, instability—the risk of conflict, which is generally bad for most businesses—falls. This observation could be a significant reason why Goldman Sachs launched their *10,000 Women* initiative in 2008 to help educate, network, and provide capital to women entrepreneurs in emerging markets. While research in those markets reveals men's biology tends to spend its disposable income on alcohol, tobacco, weapons, and premium branded products for self-glorification, women's fuels economic growth by allocating its money to clothing, food, education, consumer durables, financial services and insurance. Goldman Sachs has committed to raising up to $600 million to fund these efforts. In addition to the fact investing in women produces greater risk-adjusted returns, reductions in country or regional risk means a better overarching environment for business.

Balancing out testosterone-based groupthink with different perspectives also seems to be extremely accretive. Per a 2016 report from Morgan Stanley, companies with merely more women in them have lower execution risk, as measured by volatility of earnings and stock-trading ranges. Conceptually, this should lower companies' discount rates and their cost of capital, which is in fact happening; recently, Trillium, an asset manager, publically lowered their discount rate on eBay due to its board-level gender diversity efforts. Further, a study done by Sodexo, a 400,000-employee global food services company, revealed gender-balanced teams, defined as 40-60% female, on average generated 12% greater client retention, 13% more organic growth, and 23% more gross profit. It should be noted the optimal proportion was 60% female.

Combining these two dynamics—the benefits of engagement and the ability to present new viewpoints without being dismissed—could provide rationale behind the results of a recent Credit Suisse and Bloomberg study (N>3,000). It concluded that companies whose senior front-office (revenue generating) positions were 50% female generated roughly 60% better share price growth over the last eight years. "Where women account for the majority in the top management, the businesses show superior sales growth, high cash flow returns on investments, and lower leverage (less debt)."

There are also numerous studies that correlate female participation on Boards with markedly higher metrics: share price growth, return on sales, return on invested capital, etc. The data also indicate the greater the number of women, the better the company performs. While the type of industry probably plays a role in these numbers, the prevailing hypothesis of different and less risky perspectives, and engagement to varying degrees (women tend to show up more often for Board meetings, as a starter), seems to be driving these results. Last year (2016) marked the highest percentage of women ever, 18.8%, serving as Fortune 1000 board members and there

are significant efforts underway to rapidly increase these numbers. Per the numbers, it would seem to be in shareholder's best interests.

There is also a growing body of evidence that a newer demographic of women, at least on paper, are more qualified than older men to fill these pivotal positions, whose mandates have been rapidly expanding over the last decade to address capitalism's sketchier impacts on the world—i.e., climate disruption, resource scarcities, human rights, etc. It appears that it is finally in capitalism's best interests to become actively involved as a force for good.

The notion of Socially Responsible Investing (SRI) has been around a long time. One of the first recorded references came from John Wesley, a founder of the Methodist church, who in a sermon called "The Use of Money" outlined its basic principles: make sure your business doesn't hurt your neighbor and avoid businesses that treat people poorly. Fascinatingly, the "sin" stocks—guns, alcohol and tobacco—have been shunned by the more religious investors for centuries.

SRI has progressed over time, with a few notable lapses that include enslavement, aspects of industrialization, weapons and war machines, and the seeds of climate change. It has been a man's world. Then, in the mid-1980s, after twenty years of simmering, SRI was thrust into the global spotlight with the apartheid divestment movement. It was a full-blown mainstream retail, foundation, endowment, and institutional investor revolt, which underscored the fact that individuals with money, organized and at scale, can make different rules.

In 1989, the year of the Exxon Valdez catastrophe, a non-profit named the Coalition for Environmentally Responsible EconomieS (CERES) was founded by Joan Bavaria, an asset manager, with the mission to "mobilize investor and business leadership to build a thriving, sustainable global economy." Ceres, coincidentally, is the name of the Roman goddess of agriculture and fertility. Roughly ten years later, The Global Reporting Initiative (GRI), with U.N. support, was spun out of CERES. It brought to market the first international set of standards that businesses, governments, and other organizations could use to identify, track, and report their impacts on the environment, climate change, corruption and human rights. As of 2015, GRI has accumulated 7,500 signatories that include many Fortune 500 firms. Mutual funds marketing various flavors of SRI started popping up in the early-2000s.

At the time, it was a generally accepted principle that investors in SRI products were sacrificing a portion of their returns in exchange for their sustainable and ethical attributes. This started to change however, with the introduction of terms such as "triple bottom line," which implied environmental and social profit, in addition to the standard financial implication. Eventually, drawing on GRI themes, factors categorized as Environmental, Society, and Governance (ESG) started wheedling their way as additional inputs into investment analyses. Not surprisingly, a study by the Haas School of Business (N>1,500) reveals that companies with women on their boards are more likely to focus on addressing a multitude of ESG factors, which coincidentally mitigate a multitude of malevolent effects emanating from "controversy" or "headline" risks. BP has estimated the total costs of its Deepwater disaster to be $61.5 billion.

These efforts would eventually culminate in a study published in the Harvard Business Review, which showed that ESG factors, depending on the industry, could have varying degrees of material financial impact on a company's revenues and costs, assets and liabilities, and/or cost of capital. The factors used in the report came from a non-profit enigmatically named Sustainability Accounting Standards Board (SASB).

SASB is the brainchild of Dr. Jean Rogers whose first job, after earning her PhD in Environmental Engineering, was with a superfund clean-up company. The work was disheartening: how could anyone let things get so bad? (Perhaps not by coincidence, the percentage of women with senior business decision-making authority in the chemical, petro-chemical and mining industries is at the very low end of the range.) After a stint with Deloitte Consulting to understand the business-side of things, she found herself embarking on her life's work, bringing complex issues to light by developing ways to measure them. This led her to a Loeb Fellowship at the Harvard Graduate School of Design, where she studied the link between finance and sustainable business practices. It was this research, and a cast of progressive characters, led by Bob Eccles, a legendary Harvard Business School professor, and Robert Massie, who at the time was the executive director at CERES, that solidified her beliefs that ESG-related changes could be made by aligning respective interests. It was a near-death experience, a neck fracture while sailing in the San Francisco bay, which apparently melded these beliefs with her life's work.

Up to this point in time, SRI investments were relatively narrowly focused on specific issues, i.e., sin stocks, environmental issues, etc., and to this day, there are distinct degrees of dissonance between how funds are marketed and the precise practices of the companies in them. The real gating factor that was constraining potentially trillions of dollars of investment capital being allocated along sustainable and ethical lines was the lack of industry-agreed upon standards for the bevy of ESG factors *on a sector-by-sector basis*. Water scarcity has little impact on banking however it is a big deal when it comes to semiconductor manufacturing. This was viewed as a Herculean task, one that would require immense fortitude, patience, and probably a bit of existential lunacy. Dr. Rogers fit the bill perfectly, noting the referenced male scale of the effort.

The first few years were harrowing. Dr. Rogers was eternally raising money, courting partners and board members from a broad swathe of backgrounds, and building and guiding the organization, while raising a family. Then, in 2014, Michael Bloomberg agreed to Chair the Board. Goldman Sachs and BlackRock, the world's largest asset manager with $5.4 trillion under management, would join as corporate sponsors. The Ford Foundation would make a significant grant with a video from Darren Walker, its President, endorsing the organization's purpose and its impacts on the world. SASB would have the resources to meet its mission.

SASB intends to button up its standards, presently broken down to 30 factors across 49 industry types, in the first quarter of next year and, given its momentum, it will set the bar for U.S., and perhaps one day global, reporting. What is particularly compelling is that, going back to the language of the original securities' laws of the 1930s, the material impacts its standards have on investors' buy-sell decisions would seem to necessitate their inclusion in annual SEC-mandated

corporate reporting. Irked or not, companies may need to disclose more data. However, similar to what happened 80 years prior, using SASB should help them attract and retain investment from the $62 *trillion* in assets whose signatories have committed to upholding the Principles of Responsible Investing (PRI) issued by the U.N. And depending on the means of investment, they will conceivably secure these funds at a lower cost. The leverage these standards could have on where money is invested, essentially screening for more estrogen-influenced returns, could be profound. And regardless of what happens with the SEC, data reveals the train is leaving the station.

A good example is what is evolving in the Alternative Investment, or Private Equity (PE) space, a notoriously male-dominated sector. A recent study by Pitchbook, a data and technology provider, reveals that upwards of 60% of the people with the money (pension funds, foundations, endowments, family offices, etc.) consider the ESG practices of a fund vis-à-vis their investments to be "Important" to "Essential" in determining whether they will commit money to that fund. Per David Rubenstein of The Carlyle Group, a leading PE shop, "I don't really think many limited partners (people with the money) for much of history gave much more than lip service to ESG concerns. Now I think they are very serious about it. And I think GPs (PE funds) that aren't serious about it will suffer."

It turns out that the people with the money, due in considerable part to their shareholder's desires, want sustainable and ethical returns. It should also be noted that 70% of women, who are projected to control two-thirds of America's wealth (~$14 trillion) by 2030, and 92% of Millennials have similar investment preferences. While 2016 was a blowout year for PE fundraising—almost $600B was collected—there is a trend amongst some of the larger LPs to downsize the number of GPs (sometimes by a ratio of 10 to 1) and the GPs that are remaining tend to be larger, more established outfits, often with buyout intent, that have invested in integrating ESG into their investment theses and post-transaction operations. It is becoming increasingly difficult to raise the next round of capital, the lifeblood of the industry, without focused attention on the holistic impacts this money will have. In the closing days of 2017, both the New York State and NYC Pension Funds (top 20 largest such funds on the planet with combined assets under management of nearly $400B), followed the Norwegian Sovereign Wealth Fund (largest in the world with $1T) in publicly declaring their portfolios will become free of fossil fuels.

Another recent outgrowth off the SRI/ESG root system is the budding rise of Benefit Corporations. US corporate structures have traditionally been centered on maximizing shareholder value. Board members have a fiduciary responsibility to these ends. This philosophy came into serious question however, with the rise of ESG factors, and pension fund managers who noticed the competitive dynamics of companies in their portfolios weren't having the nicest accents on the environment, climate, people, etc. While for-profit, Benefit Corporations allow prioritization of other functions, such as purpose and corporate citizenship, both arguably more feminine-focused, before maximizing shareholder value.

Benefit Corporations can be certified as "B Corporations" via a grueling, ESG-infused process. And while household names such Patagonia, Ben & Jerry's, Warby-Parker, and Etsy may be perceived as playing on the fringes, a company called Laureate, backed by Kolhberg Kravitz Roberts (KKR), one of the world's largest PE players, went public last year as a B Corp. Currently, B Labs, the non-profit that issues the credentialing, is responding to market demands by working on ways to allow both private and publicly-traded multi-nationals to become certified, as the current process cannot accommodate the complexities of their legal structures. Soon, both Ben & Jerry's, and its parent, Unilever, could be putting their missions first.

Perhaps the best reflection of the acceptance of ESG materiality is its inclusion in short term incentive plans. A Goldman Sachs report of this year found that 20% of the non-financial services firms on the S&P 500 had incorporated ESG factors into their management's bonus calculations. Employee health & safety topped the lists, particularly in the heavy industries, however there were growing showings in risk factors ranging from environmental impacts to product safety and workforce diversity to employee engagement. It has only taken 100+ years for predominantly male bosses, especially in industries that employ a lot of metal, to be compensated based on worker safety.

By 2021, for every 100 men in the U.S. who graduate with a degree—bachelor to PhD—148 women will receive similar designations. This is a global phenomenon and the U.S. is actually at the lower end of the developed world spectrum. The impacts this inexorable trend will have on our social, economic, political and business landscapes will be profound, irreversible and long, long overdue. From personal experience, having attended Vassar College, which has been predominantly female since its conception in 1868, perhaps the most influential unintended consequence of this imbalance is that men, for the first time in their lives, will be significantly outnumbered by more mature women, presuming gender acceptance rates flex with the number of applications. And if they don't move, the increased competition amongst women for those slots means those who do matriculate will be more mature and more intelligent and accomplished, which will highlight the disparity. I hope these women will be as vocal with their views as my college colleagues, of both genders, continue to be today. The environment is certainly ripe.

While this enlightenment may not be realized without addressing some anxiety-provoking unknowns—good enlightenments rarely do—the end product will be men much more conditioned for equality on a scale previously unseen and probably unimagined. Indeed, this trend is already happening as a recent survey of younger male workers reveals only 23% want to be viewed as having "masculine" traits—tough, strong and respected—versus the vast majority who desire to be perceived as intelligent, caring, humorous, and friendly. Job descriptions and promotion criteria may need to evolve a bit.

Modern capitalism, like most other governing systems—political, legal, social, religious, and the media—has been created and codified by men, for men, and would seem to be intractably influenced by their biology. The fact a convicted rapist can be released after serving four months

in jail, by the letter of the law, is an infuriating reminder of this legacy. It would seem though, if left unfettered and to their own devices, without balance, these codes won't perform optimally, and could inevitably destroy themselves. Numerous reports identify testosterone as the leading cause of financial crises, the 2008 version being the most recent and potentially systemically-devastating. Conflict, spanning a myriad of intolerances peaking with war with radiation, is another exemplary manifestation of this syndrome. Our partitioned Congress is currently 19.6% female, roughly one point more than female representation on Fortune 1000 boards, and there are currently pronounced efforts, at least within one party, to increase these numbers. This would also seem to be in shareholder's best interests.

The significance of the diminutive yet sassy Fearless Girl statue confidently staring down the Wall Street bull is profound, even to those who have little understanding of the mechanics of financial markets and don't know the backstory. It was funded by State Street, a $2.5 trillion financial force, as a call for more women on boards. Her hands-on-hips stance, positioned squarely in the path of the Goliath-sized bull's imminent charge, is precisely how and where she currently needs to be. In time however, as her immense and innate value is recognized, accepted and expands, a more apt rendering might be a similarly strong, yet trotting icon of growth being guided by a woman, at her side. Together, they could be called The Fearless Femme and Ferdinand.

The future of capitalism is feminine. The future of the world is not far behind.