CRITERION INSTITUTE

A Framework for Screening Portfolios for Risks Posed by Gender-Based Violence

Gender-based violence is a global epidemic affecting more than 1 in 3 women worldwide, as well as millions of boys, men, and gender-nonconforming individuals. It also increasingly poses a risk to companies beyond the operational and legal costs of violence in the workplace: we are seeing many instances of companies associated with gender-based violence have lost value or even been shut down. Yet little work has been done on how to identify the investment risk of gender-based violence—that is, the extent to which a company's value is at risk due to gender-based violence.

Criterion has developed a framework for how gender-based violence poses an investment risk and a draft of a tool for assessing the investment risk to public equity portfolios as a result of gender-based violence. As we lay out in an article published with our partners at Christian Super, fully developing this tool so that it includes mechanisms for assessing market risk will depend upon further research into tracking and measuring culture change.

What started out as a straightforward research question—"How do you screen a public equities portfolio for risk related to gender-based violence?"—took us down a complex research path that led us to a novel conclusion: there are underexplored links between culture change and market risk that could markedly change how investors of all types assess market risk. As we lay out below, as culture changes, perceptions of what is acceptable change, and other changes follow: laws, regulations, public attention, funding for advocacy and activism, and calls for change.

Our analysis determined that investors looking to assess the future enterprise risk of gender-based violence need to be looking not only to companies, but to culture. And to understand how culture is shifting with regard to the gender norms that underpin the incidence and acceptance of gender-based violence, one of the most crucial indicators is also one of the most poorly understood and funded: the strength and growth of regional and national women's movements.

Below we lay out the course of our research, the methodology developed, how we arrived at our conclusions, and pathways for new research that investors and gender-based violence experts can pursue together to better understand how complex societal issues translate into calculations of market risk.

Defining Gender-Based Violence as an Investment Risk

Gender-based violence is a global epidemic affecting more than 1 in 3 women worldwide, as well as millions of boys, men, and gender-nonconforming individuals. It exerts a significant physical and mental toll on survivors, which in turn impacts the economic systems that survivors interact with. Research suggests the cost of violence against women alone is 2% of global GDP, equivalent to about US $1.5 trillion.

In addition, gender-based violence increasingly poses a risk to companies beyond the operational and legal costs of violence in the workplace: over the last two years, we have seen many instances of companies associated with gender-based violence losing value or shutting down. Investment analysts speculated that the record-high CEO turnover rate in 2019 was as a result of companies holding leaders accountable in light of increased pressure brought about by #MeToo and #TimesUp. Yet little work has been done on how to identify the investment risk of gender-based violence—that is, the extent to which a company's value is at risk due to gender-based violence.

Research Approach

One of Criterion's partners, Christian Super, asked us to develop a methodology for assessing the risk of gender-based violence in its public equity portfolio. The initial goal of our work together was to create a framework and tool that fund managers could easily implement to identify companies that were at risk of being exposed for sexual misconduct, and consequently at risk for decreased stock prices.

Criterion did extensive research and analysis on what leads to violence occurring and what in turn makes that violence a risk to a company's performance. After looking at a series of factors—company policies and their impact on employee behavior, what company-level data are available, patterns that characterize companies that have had public sexual misconduct blowups, and more. This research led us to two key conclusions:

1. **The prevalence and incidence of gender-based violence is impacted by a host of socioeconomic and cultural factors beyond company policies and practices.** As those factors change, so does incidence and tolerance of gender-based violence. And violence outside of companies has impacts on companies as much as violence inside, meaning even enterprise-level risk is not limited to enterprise-level policies, practices, and behaviors.

2. **These risks translating into a shift in stock price is less about the behaviors happening at the company and more about the cultural tolerance of the behavior.** Gender-based violence has been happening inside and outside of companies for as long as companies have existed. What makes it at investment risk—what invites the legal and/or public scrutiny that affects investor confidence—is changes in whether certain types of violence are tolerated.

Therefore, to understand investment risk, investors need to understand the ways in which different kinds of violence impact companies as well as how to track changes in the cultural tolerance of gender-based violence so as to accurately price market risk in the short-, medium-, and long-term.

The Framework

To understand the risk gender-based violence presents to company stock price within public equity portfolios, we need to ask two separate questions:

1. Where does gender-based violence exist?

2. What makes gender-based violence a risk to stock price?

This distinction is important because the relationship between the extent of gender-based violence and its impact on a company's stock performance is often not direct or proportionate. Gender-based violence is being uncovered and exposed by NGOs, journalists, governments, and various other parties to be happening in countries around the world—from serial rape and abuse at a mine in Papua New Guinea to revelations of sexual harassment at top US media companies—but the impacts on the company's stock performance vary wildly, impacted by many factors other than the severity of the abuse.

A negative trend in stock performance is not necessarily caused by the worst behavior—it is caused by the perception of that behavior. The market's response to bad behavior is impacted by factors like a company's visibility, cultural norms in the regions in which the company operates, global trends in what is and isn't deemed acceptable behavior, and more. Consider, for example, the case of CBS and its former chairman and CEO, Les Moonves, who resigned in late 2018 after revelations that he perpetrated serial sexual abuse over more than a decade. CBS's stock price was impacted by the story, but many factors went into that impact other than Moonves's actions. The story was broken by the *New York Times*, a high-profile newspaper with a global reach. CBS is based in a country that was having a public reckoning with sexual misconduct at the time the story broke, increasing the public interest factor. In fact, the initial stock price dive happened not when the facts became known, but when the rumor broke that the *New York Times* was about to drop a story on Moonves. The environment surrounding CBS, executive behavior, investigative journalism, advocacy, and more were all germane to the market's reaction.

Thus, to understand portfolio risk, in addition to asking where gender-based violence is happening, we need to assess what other factors are at play that would impact stock performance. Thanks to data and research, we know that gender-based violence is happening at many companies and in many environments that affect companies, but it poses a chronic risk—the behaviors themselves may not change, but what turns them into an acute risk that impacts stock performance and company value?

Types of Risk

The investment risk of gender-based violence is comprised of enterprise and market risk. As with all investments, the combination of enterprise and market risk indicates the overall portfolio risk. Below we break down the four components of enterprise risk and what constitutes market risk when it comes to gender-based violence.

Enterprise Risk

Enterprise risks result from actions of the company. Types of enterprise risk connected to gender-based violence include:

- Operational: where is bad behavior happening at the company? What is the incidence of gender-based violence in the sector and geography?

- Reputational: what are the factors that add up to a company's public profile and visibility—i.e., the things that give it a reputation? What is its size, its public footprint, the profile of its investors, the visibility of its sector?
- Regulatory: Is the company compliant with all existing laws and regulations related to gender-based violence, and how prepared is it to adapt to regulatory changes?

It's important to note that reputational and regulatory risk are tied to culture change as well as to the actual behavior of the company. Therefore, in the tool, we include separate indicators of reputational and regulatory risk in both the enterprise and market risk sections.

Market Risk

Market or external risks are generated by forces outside of the control of the company. The investor is looking to see how the company will mitigate those risks.

Gender-based violence has been happening at high rates for centuries and constitutes a chronic risk for enterprises, but culture change around the incidence or acceptance of gender-based violence constitutes the market risk to investments. Culture change is outside the control of a company, and when it changes, it changes a company's exposure to risk. Changes in the market can turn chronic risks into an acute incident that impacts a company's stock price. The true risk to the price of the company is driven by shifts in culture that would shape perceptions of the underlying and ongoing activity and move it from a chronic risk that all companies face, to a greater or lesser extent, to an acute risk that has the potential to drive stock price.

Culture change is a market risk that increases the impact of behavior that is already happening on stock price. The components that make up culture change can help investors assess when it will happen and how severe the impacts will be. The factors that indicate the level of risk in each of the traditional categories contribute to that analysis of "when" and "how bad."

Three categories of market risks:

- Cultural: What are the shifts in cultural norms and beliefs, including tolerance of gender-based violence.
- Political: How are government policies and the enforcement of those policies shifting?
- Social: What are the social conditions and economic stability that enable people to make choices to leave or take action against companies where violence is tolerated?

Looking at these indicators and their change over time can paint a picture of the extent to which the perception and tolerance of gender-based violence is changing--and, therefore, whether behaviors that are already happening are likely to become an acute risk.

The Tool

To analyze the level of gender-based violence risk to which a company is exposed, we have created a tool that provides guidance on indicators of chronic risk and indicators of culture change that would serve as a catalyst for chronic risk to impact stock price. In each case, we highlight indicators that are available. In many cases, further research is required to identify indicators. The ultimate analysis is a combination of assessing the strength of the chronic risk and what the likelihood is that culture change will catalyze one of those risks into impacting stock price.

Indicators of Enterprise Risk

To determine the investment risk of gender-based violence, we need to assess both the traditional measures of risk that tell us whether gender-based violence is likely to be happening, as well as the market risk, as indicated by culture change.

Factors indicating operational risk

Company practices, policies, and behavior

Indicators:

- Does the company have a sexual harassment policy?
- Does the company train all staff on sexual misconduct?
- Does the company require forced arbitration for disputes related to sexual misconduct?
- Does the company require non-disclosure agreements when sexual misconduct complaints are settled?
- Does the company track incidents of sexual misconduct?
- Does the company provide anonymous platforms for employee reporting?

Demographics of employees

Indicators:

- Do at least 33% of staff identify as women or non-binary?
- Are at least 33% of staff women/non-binary at all levels of the company (e.g., management, administrative and operations staff, etc.)?
- Does the company track turnover rates by gender?
- Does the company collect anonymous data about staff satisfaction? If so, are those data disaggregated by gender?

Demographics of leadership

Indicators:

- Do more than 70% of management identify as cisgender men? Is the gender balance of management at least 70%-30%?
- Do more than 70% of the board identify as cisgender men?

Gender-based violence rates in sector

- Is information readily available about rates of violence in this sector?
    - Known high-prevalence sectors include agriculture, service, hospitality, health care, domestic work, construction, retail manufacturing, and food processing.

Gender-based violence rates in geography

Indicators:

- How high are rates of violence against women in the country?
- How high are rates of violence against LGBTIQ people in the country?
    - Data Source: UN Gender Statistics

Factors indicating enterprise-level reputational risk

Visibility of the company

Indicators:

- What is the company's size? Small ($250M-$2B), medium ($2B-$10B), or large ($10B+)?
- What is the company's public presence? For example, controversy data would provide some indicators.

Visibility of sector

- How high-profile is the sector, based on reported controversy data? *Further research is needed to identify relevant indicators of visibility*

Geographic reach of company

- Does the company have a multi-country presence and/or consumer reach? If so, is its reach global?

Factors indicating enterprise-level regulatory risk

Compliance with country, sector, and industry laws and regulations

Indicators:

- How frequently does the company review its policies for compliance?

Preparedness to adapt to changing regulations

Indicators:

- How frequently does the company review its policies for compliance?
- Does the company have a dedicated human resources person/department?
- Does the company have dedicated legal/compliance staff?

Global reach of company

Indicators:

- In how many countries does the company have a presence?
- Does the company have staff or outside counsel versed in the legal requirements of different geographies?

Indicators of Market Risk

The below factors need to be analyzed against a company's current operational and reputational risks to determine what might be material to stock price. While we do not yet have the information needed to identify indicators and data sources, this is a roadmap for the kind of research needed to create a fully implementable risk assessment tool.

These factors reflect the cultural, political or economic shifts that we can expect increase exposure to the enterprise risks named above. Those risks are always present to differing degrees within companies. The factors named below will allow the investor to anticipate chronic risks to turn into acute risks.

Factors indicating market-level cultural risks

Cultural tolerance towards gender-based violence

Indicators:

- There is no global consensus on how to measure norms change, but research focus on this issue is increasing and various methodologies are available for guidance.
  - The Fletcher School at Tufts University has curated a set of resources for measuring norms change and tracking ongoing research.

Presence and strength of women's movement

Indicators:

- Amount of funding for women's movements
- Backlash against women's movements; patterns show that backlash is often an indicator that the movement is successfully seeding longer-term change

Media attention to gender-based violence

Indicators:

- Presence, strength, diversity, and independence of local media
- Reporting on sexual misconduct in local/regional media
- Reporting on sexual misconduct in regional/global media about the country in question
- Reporting/scrutiny from external sources (such as international watchdogs and agencies) on country's gender-based violence
- Presence and strength of NGO sector focused on violence
- Media attention to #MeToo and/or related movements

Factors indicating Market Level Political Risk

Change in government policies related to violence

Indicators:

- Increase or decrease in the severity of prosecution related to violence
- Changes in laws or policies related to gender-based violence
- Trends in the country's ranking on the United Nations Development Programme's Gender Inequality Index
- Trends in government funding for violence prevention and response (if any)

Shifts in enforcement related to violence

Indicators:

- WomenStats database

Factors indicating Market-Level Social Risk

Structural inequality on gender issues

Indicators:

- Country ranking on gender inequality index
    - United Nations Human Development Programme Gender Inequality Index

---

Trend lines in women's economic empowerment

Indicators:

- Women's economic empowerment
    - Multiple frameworks and methodologies exist for measuring and tracking women's economic empowerment and there are multiple ongoing projects attempting to create a common methodology. Indices include the Social Institutions and Gender Index (SIGI) and methodologies include frameworks by the International Center for Research on Women and the EMERGE initiative.
- Trend lines in women's participation in the labor market, including by sector
    - The ILOSTAT database tracks labor force participation disaggregated by sex

Building Data Sets to Track Culture Shifts

Experts agree that changes in gender norms are crucial to tangible changes in society relating to gender equality, including reducing gender-based violence. And while research is nascent on how changes in gender norms happen, experts also believe that one of the most significant catalysts of progress is the presence and strength of women's movements. But due largely to historical gaps in funding for gender issues—and particularly large gaps in funding movements—methodologies for how to measure women's movements and predict culture changes remain uncertain. While experts have identified a few potential indicators for predicting changes in gender norms, for the most part research comprises of case studies and qualitative learning. As Dr. Emma Fulu, founder of the Equality Institute, puts it, "We don't yet have the ability to talk about culture change with data."

Where does this critical research sit now? Those who study gender norms and the ways in which they connect to gender equality long made the case that we need more consistent methodologies for measuring gender norms and how to predict changes. According to Dr. Fulu, there are not widely accepted ways to measure gender norms, in the sense of consistent questions that are asked and analyzed across populations, but there is increasing acceptance among experts that such questions are critical. Equality Institute recently released a comprehensive analysis of what a trajectory of change that would lead to the elimination of gender-based violence in Australia would looks like. The report identifies factors such as less rigid gender roles and a reduced acceptance of violence as crucial medium-term indicators of progress towards eliminating violence.

There is also increasing recognition that when it comes to seeding changes to gender norms, even more important than laws and policies is the influence of women's movements. Policy change doesn't lead to behavior change; norms change does. But because this awareness is relatively recent, the research on how to define and measure women's movements is in the early stages. Movements are diverse and ever-evolving, and innovations like social media and other digital platforms are rapidly changing how movements work. Researchers are still identifying ways to capture this dynamism and diversity, and funding still lags. Institutions such as AWID have put forth calls for reframing how we think about movements and investing in them. However, because of the nature of the current research on culture change and gender norms, we do not yet have enough information to create definitive indicators for that component of market risk. That said, Dr. Fulu speculates that there are three potential indicators worth tracking. They are:

- The amount of funding for women's movements. While funding is not a direct proxy for effectiveness, underfunded organizations will struggle to carry out their critical work. Funding could be a leading or lagging indicator, but all experts agree it needs to be tracked.
- Backlash to progress on gender equality. Backlash is considered by many sociologists as, counterintuitively, an indicator of the strength of movement. While there are not consistent ways to measure what constitutes backlash, case studies and qualitative data bear out this theory.
- Structural inequality. Some research indicates that inequality can lead to tipping points—where the difference becomes so pronounced that people demand change. Identifying patterns in tipping points for inequality is another area of research that could help to create better ways for predicting future changes.

Moving Forward

While it may seem far removed from the kinds of factors that financial analysts consider when calculating market risk, research on measuring gender norms and how they change is crucial to the kinds of scenarios that analysts model all the time. As acceptance of different situations and behaviors change, so does the calculation of risk. Companies that are ill-prepared to adapt to changes are at greater risk than those that are already incorporating inclusive practices. For example, the recent failure of the UK launch of Chick-fil-A, which is owned by an anti-LGBTIQ donor and has faced protests in the US for years, illustrates the extent to which changing cultural norms change what constitutes reputational risk for an enterprise. Investors that can assess how culture is changing and how that impacts the markets in which they invest will be better prepared to mitigate future enterprise and market risks.

We know that we do not yet have the information it will take to create a reliable framework and methodology for assessing the risk of gender-based violence. What we treat as a company issue is a systemic issue, not solvable at the enterprise level. Finance has a role to play in supporting investment into research that could yield critical data that will enable us both to better predict the evolution of markets—and make decisions that better the lives of marginalized people.