

The Big Idea 2015: Inclusive Capitalism = A More Prosperous Capitalism

by **Sallie L. Krawcheck, Chair, Pax Ellevest Management LLC**

Capitalism is the greatest economic model in history. That said, sometimes it breaks, as we've seen. But one of its strengths is that it also can shift and change; and we may be on the verge of one such change, a change that could lead to a more prosperous capitalism.

That change is the coming demographic shift. Boomers are retiring. Stepping into their places are two key groups: millennials and women. The energy around the advancement of these two groups is almost palpable. The millennials are aging into the workforce, an unstoppable force.

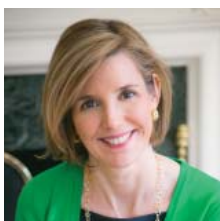
As for women, after years of stalled professional progress, the momentum seems to be in their favor. The national conversation on the benefits of gender diversity—sparked by “*Lean In*,” by Anne-Marie Slaughter, by speculation over Hillary Clinton’s presidential run—is powerful. As a result, women are recognizing the power they have as a group, joining networks such as Ellevest and Women 2.0, in which they share information and knowledge, mentor each other, and help each other advance. Women are starting businesses at a greater rate than men, as technology reduces the cost; this may pick up steam as platforms like Indiegogo, a global fundraising site, promise to make capital raising more inclusive. And company managements are renewing their efforts around diversity, as they recognize that their tired affinity groups won’t be the only answer.

The implications of this shift in the workforce are significant: these groups think differently, act differently and value different things than those who have come before them. As they bring their values into the workplace, our economy begins to shift to a form better termed “*Inclusive Capitalism*.”

KEY TAKEAWAYS

- We may be on the verge of a demographic shift that could lead to a more prosperous capitalism.
- There is an undeniable shift happening in the workforce as baby boomers retire and women and millennials step into their places.
- More women in senior management roles leads to lower gender pay disparities.
- More diverse teams have been associated with higher returns on capital, lower risk, greater long-term focus, and greater client focus.

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What does Inclusive Capitalism look like?

Well, if the research is right, a lot of great things could potentially happen:

The economy grows. Further advancing women in the workforce is not a zero sum game: more economic participation begets more economic demand begets more economic participation. By some accounts, fully engaging women in the U.S. economy expands it by 7 percent to 9 percent, and by more in some parts of the world.¹

The retirement savings funding gap is reduced. More women working, more retirement savings, more Social Security savings, lower funding gap. In addition, there is some evidence that more women in senior management roles leads to lower gender pay disparities; it is estimated that equal pay for equal work could close the Social Security gender gap by a third.²

Less volatile financial markets. Women are more risk-aware than men, with the correlations between testosterone and risk-taking well-documented. So imagine trading floors of the big banks with more women. It's hard to believe that such diversity would have led to a *more* severe financial crisis, right??

Innovation increases. We mythologize lone geniuses. But innovation is also fueled by diverse perspectives: are teams that all have the same background likely to be more innovative, or those that bring in people who think differently, examining issues in different ways? Much like cities are more innovative than small towns, so teams that have different, and clashing, ideas are more innovative.

Companies perform better. In addition to greater innovation, more diverse teams have been associated with **higher returns on capital, lower risk, greater long-term focus, and greater client focus.** The power of diversity is so great that diverse teams outperform “smarter” teams. (See my piece on: *The Secret to Putting Together an Insanely Successful Team*³.)

Employees will push companies toward greater “meaning and purpose.” When we asked the members of Ellevest Network their priorities for accepting a job, the number one answer was “meaning and purpose.” And CatchAFire’s research indicates that 79 percent of millennials seek to work at companies that are socially responsible⁴. No, neither group wants to trade compensation for this, but are instead pushing companies to stretch to do both.

Investors push companies to define their impact on the world around them. As women and millennials increase their wealth, their investments will grow. And so their drive for doing well and doing good will extend past their workplace to their investments (see my post: “*The Big Idea 2014: Investing Will Completely Change*”⁵). And, in fact, values-based investing—in which

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¹Cascio, W.F. 2006. *Managing Human Resources: Productivity, Quality of Work Life, Profits* (7th ed.). Burr Ridge, IL: Irwin/McGraw-Hill. Mitchell, T.R., Holtom, B.C., & Lee, T.W. 2001. How to keep your best employees: Developing an effective retention policy. *Academy of Management Executive*, 15, 96-108.

²Jillian Berman, “Want To Fix Social Security? Start With Giving Women Equal Pay,” *The Huffington Post*, July 17, 2014.

³Sallie Krawcheck, “The Secret to Putting Together an Insanely Successful Team,” LinkedIn Post, May 28, 2013. <https://www.linkedin.com/pulse/20130528114938-174077701-the-secret-to-putting-together-an-insanely-successful-team?trk=mp-reader-card>

⁴Cone Inc. in collaboration with AMP Insights. *The Cone Millennial Cause Study - The Millennial Generation: Pro-Social and Empowered to Change the World.* http://www.conecomm.com/stuff/contentmgr/files/0/b45715685e62ca5c6ceb3e5a09f25bba/files/2006_cone_millennial_cause_study_white_paper.pdf. 2006

⁵Sallie Krawcheck, “Big Idea 2014: Investing Will Completely Change,” LinkedIn Post, December 10, 2013. <https://www.linkedin.com/pulse/20131210000408-174077701-big-idea-2014-investing-will-completely-change>

investors look for both a fair return and a reflection of their values in their investments—is well out-stripping growth in the overall investing industry.

Think about the potential positive impact: according to the Center for Talent Innovation, 77 percent of women want to invest in companies with diverse leadership teams.⁶ As their capital flows to those companies, there can be a self-reinforcing mechanism: more capital to companies with greater diversity, which drives better business results, which gives investors more money to invest, which drives more capital to companies with greater diversity. And this can be replicated for any number of social values.

Families benefit. Yes, I know some folks will have the view that, in this environment, children will suffer without a full-time parent at home. As we approach full economic engagement—and as the desire of women and Millennials for greater work-life integration is felt—smart companies will respond. Today, most larger companies report that they have flexible work programs; yet 60 percent of working women with minor children say they wish they had work flexibility. Hhhhhmmmm.

Smart companies will move to true “flexibility without shame,” in which taking time for outside demands is not viewed as a form of weakness. Instead, I would guess that worker productivity goes up, as the stress of this sometimes-unwinnable juggling act (for women and men) is reduced.

Entire industries are re-shaped. Pediatricians who work early morning and evening hours. Vets who work weekends and make housecalls. A Wall Street that is less about the next complex financial instrument and more about values-based investing. A cable guy who shows up on time. Law firms that no longer bill by the hour. I’m not sure how industries will respond to these changes, but the businesses will morph to meet the needs of this emerging workforce.

This shift in capitalism certainly won’t happen overnight, and there are still things to be frustrated about (women making 78 cents to a man’s dollar, venture capital dollars still overwhelmingly directed to males).⁷ And these deserve our time and attention to fix them.

But it’s the trend that matters most here. As these groups fully engage in the economy, we will move to a more inclusive capitalism, which will be a more prosperous capitalism.

Pax Ellevate Management LLC

The Pax Ellevate Global Women’s Index Fund, managed by Pax Ellevate Management LLC, is the result of a partnership between Pax World Management LLC and Ellevate Asset Management LLC, whose principal is Sallie Krawcheck. Pax and Ellevate came together because they share the same vision about the critical role that gender diversity plays in business success over time, as well as the investment opportunity associated with investing in women. Pax has long been a recognized

⁶Sylvia Ann Hewlett and Andrea Turner Moffitt with Melinda Marshall, “Harnessing the Power of the Purse: Female Investors and Global Opportunities for Growth,” Center for Talent Innovation, 2014.

⁷U.S. Census Bureau, Current Population Reports, P60–249. Income, Poverty, and Health Insurance Coverage in the United States: 2013. Issued September 2014.

leader in investing in women and advocating for greater representation of women on boards. Ms. Krawcheck, one of the most powerful advocates for women in the financial services industry, is Chair of Pax Ellevest Management LLC and a trustee of the Fund.

Pax World Management LLC

Pax World Management LLC, investment adviser to Pax World Funds, is a recognized leader in sustainable investing, the full integration of environmental, social and governance (ESG) factors into investment analysis and decision making. In addition to the Pax Ellevest Global Women's Index Fund, the first mutual fund in the U.S. focused on investing in companies that invest in women, Pax offers a family of six mutual funds, ESG Managers® Portfolios, multi-manager asset allocation portfolios powered by Morningstar Associates, LLC, and separately managed accounts. Across all of its funds, Pax World withholds support from all-male corporate board slates, and working with other institutional investors, actively engages with companies to embrace gender diversity on their boards and advance women in the workplace.

Ellevest Asset Management LLC

Ellevest Asset Management LLC was formed by Sallie Krawcheck and business partner Allyson McDonald to provide investors with a means of directing capital to companies that actively embrace gender diversity and female leadership as a lever for business success. Krawcheck also owns Ellevest Network (formerly 85 Broads), the global professional women's network. Both of these organizations are dedicated to the economic engagement of women worldwide.

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