

## **The Business Case for Gender Diversity, 2016**

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**Executive summary:** This is a summary of some of the research that shows that gender diversity leads to organizational success. Over 20 years of research shows that by having more women on boards and in leadership positions can provide the following benefits to organizations:

- Access to more talent
- Reduced cost of turnover
- Improved organizational performance
- Access to new markets
- Enhanced reputation
- Increased employee satisfaction and engagement
- More innovation

The bottom line is this: optimizing female talent and increasing the participation of women at all levels of organizations is not only the “right” thing to do, but is also good for business. Study after study shows that companies with more gender equity – that is, a more equal balance of women and men in leadership roles, on boards and in C-suites – perform better.

### **A summary of research**

#### **1. Companies with a critical mass of female executives perform better than those with no women in top management**

**McKinsey & Company** has been conducting research on the topic of diversity in the workplace annually for many years. Their first report, “Women Matter” (2007), identified a positive relationship between corporate performance and elevated presence of women in the workplace in several Western European countries. For several years since, various annual “Women Matter” studies have shown that those companies with a “critical mass” of female executives perform better than those with no women in top management. A 2009 McKinsey report found correlations between a company’s performance and the proportion of women serving on the executive board; more women translates to less debt and faster rebounds in a crisis. It also found that leadership behaviors “more frequently adopted by women are critical” to navigating “a post-crisis world.” [http://www.mckinsey.com/~media/McKinsey/dotcom/homepage/2012\\_March\\_Women\\_Matter/PDF/WomenMatter%202013%20Report.ashx](http://www.mckinsey.com/~media/McKinsey/dotcom/homepage/2012_March_Women_Matter/PDF/WomenMatter%202013%20Report.ashx)

#### **2. Women’s presence at senior levels improves decision-making, operational and financial results, and other factors**

**The Conference Board of Canada** conducted research and found that gender diversity in senior management is good for organizations. The report “Women in Leadership: Perceptions and Priorities for Change” (2014) noted that women’s presence at senior levels improves decision-making, operational and financial results, and other factors. <http://www.conferenceboard.ca/e-library/abstract.aspx?did=5150>; See also Adler, R (2009) “Profit thy name is ... woman?” Pacific Standard: The Science of Society [www.psmag.com/navigation/business-economics/profit-thy-name-is-woman-3920/](http://www.psmag.com/navigation/business-economics/profit-thy-name-is-woman-3920/)

#### **3. Representation of women on corporate boards improves performance**

**The Conference Board of Canada** found that the representation of women on corporate boards improves financial performance, enables recruitment of top talent and better understanding of clients’ needs, heightens innovation,

and improves board effectiveness. <http://www.conferenceboard.ca/topics/gcsr/wob.aspx>. See also Torchia, M., Calabro, A. & Hume, M. (2011). Women directors on corporate boards: From tokenism to critical mass. *Journal of Business Ethics*, 118 (1), 61-72.

#### 4. Companies with the most female directors outperformed those with the fewest

*Catalyst* tracked the performance of Fortune 500 companies between 2004 and 2008 and found that companies with the most female directors outperformed those with the fewest. They yielded 26% higher return on invested capital and 16% higher return on sales. <http://www.catalyst.org/knowledge/bottom-line-corporate-performance-and-womens-representation-boards>; See also Adams, R. & Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. *Journal of Financial Economics*, 94 (2), 291-309.

#### 5. Gender-diverse boards are good for business and society

*Catalyst* found that gender-diverse boards are good for business and society. Companies with both women and men in the boardroom are better equipped to oversee corporate actions and ensure corporate citizenship standards are not only met, but exceeded, building stronger, more sustainable companies. <http://www.catalyst.org/knowledge/companies-behaving-responsibly-gender-diversity-boards>. See also Boulouta, I. (2013). Hidden connections: The link between board gender diversity and corporate social performance. *Journal of Business Ethics*, 113 (2), 185-197.

*Credit Suisse Research Institute* found that greater gender diversity in companies' management coincides with improved corporate financial performance and higher stock market valuations. A new study found that more women in senior management positions improves companies' financial performance and makes a difference for investors in terms of equity market returns. The study, entitled "The CS Gender 3000: Women in Senior Management" states: "The research, which expands on an initial 2012 study, provides striking evidence: higher returns on equity, higher price/book valuations and higher payout ratios." In simple terms: since the beginning of 2012 until June 2014, large companies with a market capitalization exceeding 10 billion US dollars and with at least one woman on the board have outperformed by 5 percent on a sector neutral basis. More recently, Credit Suisse delivered a report with similar correlations, finding that even the presence of one or more women on a corporate board translated to higher share prices after the economic crisis (2015). <https://www.credit-suisse.com/us/en/articles/articles/news-and-expertise/2014/09/en/womens-impact-on-corporate-performance-letting-the-data-speak.html>

The *Center for Ethical Leadership* (Australia) found that having more women on boards, in senior management and across organisations makes good business sense. This research is a collection of evidence from globally recognised sources supporting why having more women on boards, in senior management and in general benefits organisations. <https://cel.edu.au/our-research/building-a-business-case-for-gender-diversity>

#### 6. Female managers outperform male managers on employee engagement scores

*Gallup* looked at characteristics of great managers based on over four decades of extensive talent research and studied 2.5 million manager-led teams in 195 countries and about 27 million employees. "The State of the American Manager Report" (2012) shows that female managers outperform male managers on employee engagement scores. The report examines the crucial link among talent, engagement and vital business outcomes, including profitability and productivity. <http://www.gallup.com/services/182216/state-american-manager-report.aspx#>. See also: Wooley, A., Malone, T. & Berinato (2011). What makes a team smarter? More women. *Harvard Business Review*, 89 (6) 32-33; and the *Harvard Business Review* <https://hbr.org/2013/09/women-rising-the-unseen-barriers>.

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