

The business case for gender diversity

Gender equality is a success factor for both women and men. When the talents of women and men are merged into a culture that puts skills, professionalism and profitability first, the result need not be a redistribution of power and resources. Instead, women and men working together can create a win-win situation and a bigger cake to share. Read below about how women in top management help improve profitability, competitiveness and customer focus.

- Correlation between women in management and profits
- Accessing the full talent pool
- Investing in diversity
- Higher awareness of the customers' perspective
- Minimising risks and costs
- Aiming to be the employer of choice

Gender equality is a basic premise of democracy and participation on equal terms, a basic human right that is, furthermore, the law in all the countries in the EU. Many companies and organisations therefore see gender diversity as important to show that they are following the rules and taking their social responsibility.

Another driving force that makes many companies actively concentrate on women managers is the gaining of competitive advantages and improving profitability – a fact that is probably not so well known. An increasing number of studies and examples from companies show the connection between equality and profitability. You can read about some of these below.

Correlation between women in management and profits

There are a number of studies that show a link between the gender distribution in a company's management and its profitability. Researchers at Cranfield University in England have found a shows a consistent and increasingly high correlation between high market value and the presence of women directors. . Researchers study the 100 largest companies on the London Stock Exchange and annually publish the female FTSE index¹, They showed that 18 of the 20 companies with the highest market capitalisation during 2003 had at least one woman director Of the 20 companies with the lowest market capitalisation only eight had woman directors.

The researchers have also investigated the link between good corporate governance and women on the executive management team. A measure has been devised of good corporate governance that is based on eight classic indicators, among them how the board is appointed, constituted and trained. The companies are then ranked. A check of which companies have women on the board shows that companies with good corporate governance have at least one woman on the board.

A long-term study by Roy Adler² of Pepperdine University, USA, shows the link between women on the executive management and profitability in both the short- and the long-term. An extensive 19-year study of 215 Fortune 500 firms shows a strong correlation between a strong record of promoting women into the executive suite and high profitability. Three measures of profitability were used to demonstrate that the 25 Fortune 500 firms with the best record of promoting women to high positions are between 18 and 69 percent more profitable than the median Fortune 500 firms in their industries.

One explanation could be that companies with good profitability can afford to experiment and promote women to senior positions. Another is that companies have better profitability because they have made smarter decisions. One of these smart decisions can be to ensure that there are

¹ VINNICOMBE & SINGH, The 2003 Female FTSE Index, Cranfield School of Management.

² Adler, Roy D: Women in the Executive Suite Correlate to High Profits www.equalpay.nu/docs/en/genderandprofit.pdf



women on the executive team so as to have access to the best brains – and thus continue making intelligent and profitable decisions for the company.

How should we interpret these studies? Researchers are cautious in drawing conclusions about the reasons. Nobody is saying that women are cleverer than men in business. Instead they point to the access to the total reserve of talent, that it is the mix – diversity – that gives better results. Wise executives might well keep this in mind as they consider promoting talented people to the directing team.

Accessing the full talent pool

The main reason for having more women as top managers is that performance will be better when recruitment takes place from the population's total pool of talent and not just half. In today's global economy, successful companies are characterised by high creativity and skills. We often talk about a knowledge economy that is totally dependent on the combined skills of the employees. Doing without women managers and directors means therefore doing without the knowledge, experiences and creativity of half the population. This has to be seen as major waste of resources.

That men should be more suitable as managers, that women have the wrong education or that women are uninterested in a career have been proved to be myths.. A large American study of leadership behaviour found differences in leadership styles and practices between male and female managers. But the differences were subtle and when the overall leadership efficiency is assessed, the genders differences disappeared.³ Studies also show that almost as many women as men want to follow a career⁴. This unexploited management potential probably exists in your company – it is just a question of discovering it!

Investing in diversity

The diversity argument is based on the business having access to a greater spectrum of experience from different networks and areas in a mixed staff structure. Diversity involves gender, ethnic background, language, religion, sexual disposition and personal differences. The most important difference is between the sexes as that cuts straight across all the other groupings. As W2T is about women to the top, we are not focussing on the diversity concept in a wider sense here. Instead the core of the diversity argument is that decisions are of a better quality with women at the top. Not because men and women are so basically different or that women managers would be cleverer, more empathetic or better than male managers. But because women and men bring different experiences and perspectives to the table. Men and women are socialised into different roles and work in different social areas and positions, and therefore add different experiences and values to the decision-making process.

There is research indicating that mixed groups⁵ are more effective than homogeneous ones. Homogeneous groups may make decisions more rapidly. There is however a tendency to withhold information that does not fit in and risk therefore at arriving at the wrong decisions.

The Swedish Business Development Agency, NUTEK⁶ has found a link between gender diversity and profitability. More than 13,000 companies were studied and three measures of equality were used: promotion, parental leave and representation.

Indicators of gender diversity were compared with productivity. Return on investment of the total capital, net sales value and net profit were used. The study found a link between two of the three variables..

3 Kabacoff, Robert 1998: Gender Differences in Organisational Leadership: A Large Sample Study. 1998 www.mrg.com

4 Leaders in a Global Economy A study of executive women and men, Catalyst 2004 and Boschini: Balans på toppen

5 Ancona D.G and Caldwell D.F 1992, Demography and Design Predictors of New Product Team Productivity" Organization Science 3 pp 321-341.

6 NUTEK 1999. www.equalpay.nu/docs/en/genderandprofit.pdf



The report is five years old so this should be a challenge for researchers to carry on in this field!

Customers' perspective

Mixed teams at all levels are important for producing goods and services that satisfy the customer's needs and expectations. "In consumer businesses, the more a company mirrors its markets demographically, the better positioned it is to sense and respond to evolving market needs"⁷.

Companies have every reason to find out what women customers and users want. It is therefore increasingly dependent on a gender-balanced staff.

Women have an important role as consumers and economic decision-makers. In the USA for example nearly half of all shareholders are women, half of all computers are bought by women⁸.and women are responsible for 83 per cent of all consumer purchases.⁹ In the same way many European companies have women as final customers.

Companies that supply goods and services to other companies or authorities also gender diversity is a competitive factor. Companies participating in W2T report that it is common to make demands for a diversity plan when procuring. Or that contracts have been lost because the sales team has been too male dominated.

Minimising risks and costs

Investors and owners are also showing increased involvement in diversity issues. Discrimination in all its forms is a factor that is taken up in risk assessments. It is becoming more common to request more information in annual reports about companies' equality work and which efforts are being made.

First, there is the risk of litigation. That companies face when failing to meet legal requirements. Apart from the direct cost such as working time, legal costs and any fines, there are major indirect costs such as bad publicity and damages to the trademark.

Women have power in society as decision-makers, owners, voters and consumers. Half of the political bodies that directly or indirectly have an effect on a company's environment are women. Companies that become known as bad employers for women risk a crisis of confidence for their brand name. This can have a negative effect on their survival in an increasingly tougher global economy. Companies that retain outdated structures risk going out of business. A lack of equality can therefore be seen as part of a company's risk management.

The employer of choice

Becoming known as an employer promoting gender diversity can increase the prime source of competitive advantage: people.¹¹ To be competitive, it is crucial to recruit the right people from the start and being able to keep them. Studies of young leaders show that both women and men are critical of management's image today and the conditions that prevail. They want flexible working options and family friendly policies. Companies that do not listen to young managers will be ignored by women and men who demand greater balance in their lives¹².

7 Catalyst 2002. Making Change: Creating a Business Case for Diversity

8 POPCORN & MARIGOLD EVELution:

Understanding Women – Eight Essential Truths that Work in Your Business and Your Life / 2001

9 Barletta, M. 2002. Marketing to Women:

How to Understand, Reach, and Increase Your Share of the World's Largest Market Segment. Dearborn Trade Publishing

10 POPCORN & MARIGOLD EVELution: Understanding Women –

Eight Essential Truths that Work in Your Business and Your Life / 2001

11 The Kingsmill Review: A Review of Women's Employment and Pay, London 2001 pp 36-37

12 Fransén m fl. Arbetsglädje i livet



High turnover and associated costs is a commonly experienced negative effect of the failure to promote gender. The costs are related to leaving, replacement, transition and induction, as well as indirect costs such as loss in customers satisfaction.

A retention study carried out by an international firm of consultants¹³ gives us a picture of this. The company recruited t just as many women as men. The normal career path was then to work 10 to 15 years as a consultant. Those who were talented were invited to become a partner. However the firm only had a handful of women partners and many women left after 10 to 15 years. At this point many of their male colleagues would have made partner but women were often still at a lower level. Women decided to leave felt that they had reached a glass ceiling. They saw men with the same or lower qualifications gliding past on the career ladder.

Another consultant firm in the same situation took initiatives to to retain and develop their female staff and reduced the staff turnover from 25 per cent to 18 and saved \$ 250 million in hiring and training costs. . Furthermore the managers could concentrate on developing the firm's services and products instead of wasting time on retention worries.

13 The Kingsmill Review: A Review of Women's Employment and Pay, London 2001 pp 36-37